

**נספח 32**

**הדו"חות הכספיים של  
החברה**

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פישר בכר חן וול אוריון ושות'י

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report \_\_\_\_\_

Commission file number 0-28996



Elbit Imaging Ltd.

**ELBIT IMAGING LTD.**

(Exact name of registrant as specified in its charter)

N/A

(Translation of registrant's name into English)

ISRAEL

(Jurisdiction of incorporation or organization)

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

DUDI MACHLUF

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2 WEITZMAN STREET, TEL AVIV 64239, ISRAEL

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

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

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

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

Securities registered or to be registered pursuant to Section 12(g) of the Act:  
NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:  
NONE

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 24,885,833 ordinary shares, par value NIS 1.00 per share, excluding 3,388,910 treasury shares as of December 31, 2011.

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

YES  NO

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

YES  NO

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

YES  NO

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

YES  NO

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

U.S. GAAP  
 International Financial Reporting Standards as issued by the International Accounting Standards Board  
 Other

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

Item 17  Item 18

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

YES  NO

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#### FORWARD-LOOKING STATEMENTS

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

#### CURRENCY TRANSLATION

For the reader's convenience, financial information for 2011 has been translated from various foreign currencies to the U.S. dollar ("\$" or "U.S. dollar"), as of December 31, 2011, in accordance with the following exchange rates.

Currency	\$1.00 as of December 31, 2011
1 New Israeli Shekel (NIS)	0.2617116
1 Euro	1.2933
1 Great British Pound (GBP)	1.5483
1 Hungarian Forint (HUF)	0.00415
1 Czech Republic Koruna (CZK)	0.05015
1 Romanian Lei (RON)	0.2984
1 Polish Zloty (PLN)	0.2898
1 Indian Rupee (INR)	0.0188
1 Crore (10 million INR)	187,569

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

CONSOLIDATED STATEMENTS OF OPERATIONS IN ACCORDANCE WITH IFRS

(in thousands, except share and per share data)

	FOR THE YEAR ENDED DECEMBER 31					
	2011	2010	2009	2008	2007	
	Convenience translation (\$'000)	(NIS '000)				
<b>Revenues and gains</b>						
Gain from bargain purchase	-	-	397,082	-	-	
Gains from sale of real estate assets	-	-	198,777	-	62,621	
Commercial centers	30,167	115,270	102,895	85,466	524,163	
Gain from fair value adjustment of investment property	26,386	100,818	40,226	3,423	-	
Investment property rental income	66,686	254,806	122,462	-	-	
Hotels operations and management	74,993	286,548	403,822	396,736	384,220	
Sale of medical systems	13,956	53,324	33,631	61,683	38,076	
Gains from changes of shareholding in investees	4,044	15,450	-	31,106	49,122	
Sale of fashion merchandise and other	48,436	185,082	174,817	118,386	102,736	
	<b>264,668</b>	<b>1,011,298</b>	<b>1,473,712</b>	<b>696,800</b>	<b>1,098,317</b>	
<b>Expenses and losses</b>						
Commercial centers	41,776	159,626	156,745	169,253	431,667	
Investment property expenses	29,380	112,262	50,571	-	1,714,253	
Hotels operations and management	63,016	240,784	341,291	353,229	355,049	
Cost and expenses of medical systems operation	26,563	101,498	63,973	67,403	55,469	
Cost of fashion merchandise and other	55,416	211,743	197,574	134,142	118,040	
Research and development expenses	16,449	62,851	58,514	73,959	68,759	
General and administrative expenses	16,189	61,857	65,292	66,153	54,944	
Share in losses of associates, net	1,980	7,568	8,275	14,039	12,952	
Financial expenses	67,358	257,371	364,030	283,546	296,527	
Financial income	(17,161)	(65,571)	(40,927)	(92,725)	(135,278)	
Change in fair value of financial instruments measured at fair value through profit and loss	(72,850)	(278,360)	49,666	70,702	(225,244)	
Write-down, charges and other expenses, net	81,099	309,885	84,664	260,225	68,797	
	<b>309,215</b>	<b>1,181,514</b>	<b>1,399,668</b>	<b>1,399,926</b>	<b>1,101,682</b>	
PROFIT (LOSS) BEFORE INCOME TAXES	(44,547)	(170,216)	74,044	(703,126)	(3,365)	
Income taxes (tax benefits)	22,651	86,550	4,920	(35,571)	24,736	
PROFIT (LOSS) FROM CONTINUING OPERATIONS	(67,198)	(256,766)	69,124	(667,555)	(28,101)	
Profit from discontinued operations, net	2,548	9,737	4,401	16,550	4,934	
PROFIT (LOSS) FOR THE YEAR	<b>(64,650)</b>	<b>(247,029)</b>	<b>73,525</b>	<b>(651,005)</b>	<b>(23,167)</b>	
<b>Attributable to:</b>						
Equity holders of the Company	(69,332)	(264,919)	61,998	(530,942)	(103,170)	
Non-controlling interest	4,682	17,890	11,527	(120,063)	80,003	
	<b>(64,650)</b>	<b>(247,029)</b>	<b>73,525</b>	<b>(651,005)</b>	<b>(23,167)</b>	
<b>Earnings per share - (in NIS)</b>						
Basic earnings (loss) per share:						
From continuing operations	(2.89)	(11.04)	2.28	(21.51)	(4.25)	
From discontinued operations	0.10	0.39	0.17	0.65	0.19	
	<b>(2.79)</b>	<b>(10.65)</b>	<b>2.45</b>	<b>(20.86)</b>	<b>(4.05)</b>	
Diluted earnings (loss) per share:						
From continuing operations	(2.89)	(11.05)	1.96	(21.53)	(4.30)	
From discontinued operations	0.10	0.39	0.17	0.65	0.19	
	<b>(2.79)</b>	<b>(10.66)</b>	<b>2.13</b>	<b>(20.88)</b>	<b>(4.11)</b>	
Dividend declared per share	0	0	0	0	6.60	
					6.30	

SELECTED BALANCE SHEET DATA IN ACCORDANCE WITH IFRS

	DECEMBER 31					
	2011	2011	2010	2009	2008	2007
Convenience translation (\$ '000)				(NIS '000)		
Current Assets	1,584,078	6,052,765	6,572,740	6,777,519	6,076,928	5,808,346
Non Current Assets	1,130,150	4,318,302	4,129,973	2,630,670	2,614,784	2,639,302
<b>Total</b>	<b>2,714,228</b>	<b>10,371,067</b>	<b>10,702,713</b>	<b>9,408,189</b>	<b>8,691,712</b>	<b>8,447,648</b>
Current Liabilities	744,523	2,844,825	2,891,622	2,756,575	2,018,741	935,311
Non Current Liabilities	1,566,965	5,987,372	5,633,570	4,503,443	4,235,188	4,283,335
<b>Shareholders' equity Attributable to:</b>						
Equity holders of the company	94,120	359,630	760,740	946,450	1,373,692	2,035,438
Non-controlling interest	308,620	1,179,240	1,416,781	1,201,721	1,064,091	1,193,564
<b>Total</b>	<b>2,714,228</b>	<b>10,371,067</b>	<b>10,702,713</b>	<b>9,408,189</b>	<b>8,691,712</b>	<b>8,447,648</b>

**B. CAPITALIZATION AND INDEBTEDNESS**

Not Applicable.

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

Not Applicable.

**D. RISK FACTORS**

The following is a list of the material risk factors that may affect our business and our results of operations. We cannot predict nor can we assess the impact, if any, of such risk factors on our business or the extent to which any factor, or a combination of factors, may cause actual results to differ materially from those projected in any forward-looking statement. Furthermore, we cannot assess the occurrence, probability or likelihood of any such risk factor, or a combination of factors, to materialize, nor can we provide assurance that we will not be subject to additional risk factors resulting from local and/or global changes and developments not under our control that might impact our businesses or the markets in which we operate.

**GENERAL RISKS**

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

Adverse economic conditions in markets in which we operate can harm our business. In recent years, global financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. These economic factors include diminished liquidity and tighter credit conditions, leading to decreased credit availability, as well as declines in economic growth and employment levels. The scope and effects of the recent economic instability cannot yet be determined. Partly as a result, entire industries have faced and may be facing extreme contraction and even the prospect of collapse. In addition, recent concerns regarding the possibility of sovereign debt defaults by European Union member countries, such as Greece, which is facing possible default of its sovereign debt obligations, as well as Spain, Italy and the United States, the sovereign debt obligations of which were recently downgraded, has disrupted financial markets throughout the world, and may lead to weaker consumer demand in the European Union, the United States, and other parts of the world. These risks may be elevated with respect to our interactions with third parties with substantial operations in countries where current economic conditions are the most severe, particularly where such third parties are themselves exposed to sovereign risk from business interactions directly with fiscally-challenged government payers.

The credit crisis could have a number of follow-on effects on our business, including a possible: (i) slow-down in our business, resulting from lower consumer expenditure, inability of consumers to pay for products and services, insolvency of consumers or insolvency of key partners, (ii) negative impact on our liquidity, financial condition and share price, which may impact our ability to raise capital in the market, obtain financing and other sources of funding in the future on terms favorable to us, and engage with co-investors for additional investments in the U.S. retail real estate market, (iii) decrease in asset values that are deemed to be other than temporary, which may result in impairment losses and possible noncompliance with certain financial covenants in credit and loan agreements to which we are a party (such as those relating to loan-to-value parameters and the value of collateral (including real estate or securities), and (iv) imposition of regulatory limitations on financial institutions with respect to their ability to provide financing to companies such as us and/or projects such as those in which we are engaged, while creating a credit crunch. If such financial and economic uncertainty continues, it may materially adversely affect our results of operations and may increase the difficulty for us to accurately forecast and plan future business.

Macro or micro-economic changes as described above, may affect our compliance with covenants we took upon ourselves in financing agreements, including but not limited to, as a result of the decrease in the value of our collateral (LTV) (including the decrease in the value of real estate or securities which are pledged to banks). For additional information on pledged assets as stated above, please see Item 5.B "Liquidity and Capital Resources".

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

The sectors in which we compete are capital intensive. We require substantial up-front expenditures for land acquisition, development and construction costs, investment in the U.S. real property market, investments in research and development, investment in our retail brands as well as for the ongoing maintenance of our hotels or operation of our commercial centers. In addition, following construction, additional financing is necessary to maintain the centers in good condition until they are sold. Accordingly, we require substantial amounts of cash and financing for our operations. We cannot be certain that such external financing would be available on favorable terms, on a timely basis or at all. Furthermore, any changes in the global economy, real estate or business environments in which we operate, any negative trend in the capital markets, and/or decrease in our credit rating or the credit rating of our securities, might have a material adverse effect on our ability to raise capital.

We and our 62.52% subsidiary, Plaza Centers N.V. (LSE: PLAZ) (WSE: PLAZ/PLAZACNTR) ("PC") (56.91% on a fully diluted basis), issue debentures to the public in Israel from time to time which are traded on the Tel Aviv Stock Exchange in substantial amounts in order to finance our operations. We and PC depend on our ability to refinance these existing Israeli traded debentures. We have recently experienced a significant decline in trading prices (and corresponding rise in yield returns) of the Israeli traded debentures of PC and us, which has severely impaired, and may continue to impair, our ability to raise additional financing or to refinance our existing debentures through issuances of new Israeli traded debentures at attractive terms or at all. Also, during 2008, and to some extent during 2009, 2010 and 2011, the world markets experienced a financial crisis, which resulted in lower liquidity in the capital markets and lower liquidity in bank financing for real property projects. The financial crisis also affected our ability to obtain financing in Central and Eastern Europe ("CEE") and India for our commercial shopping centers and residential projects in those countries. Lower liquidity may result in difficulties to raise additional debt or less favorable interest rates for such debt. In addition, construction loan agreements generally permit the drawdown of the loan funds against the achievement of pre-determined construction and space leasing or selling milestones. If we fail to achieve these milestones (including as a result of the global financial crisis and the significant decrease in the number and volume of transactions in general), the availability of the loan funds may be delayed, thereby causing a further delay in the construction schedule. If we are not successful in obtaining financing to fund our planned projects and other expenditures, our ability to develop existing projects and to undertake additional development projects may be limited and our future profits and results of operations could be materially adversely affected. Our inability to obtain financing may affect our ability to construct or acquire additional land plots, shopping centers and hotels, and we may experience delays in planned renovation or maintenance of our hotels and commercial centers, or in completion of the construction of our trading property that could have a material adverse effect on our results of operations. Our inability to obtain financing may also affect our ability to refinance our existing debt, which may have a material adverse affect on our results of operations and cash flow.

In addition, our quarterly and annual operating results have, and may in the future, fluctuate significantly. These fluctuations may be caused by various factors, particularly due to significant sales of our properties and the frequency of such transactions as well as changes in valuations of shopping centers in the United States and the effect on certain financial investments that are measured at fair value through profit and loss ("FVTPL") that are subject to market price. As a result of our disposition and acquisition or development of centers, we may experience significant fluctuations in our annual and quarterly results. If we were in need of cash and financing for our operations at a time when our results were low, this may also have an impact on our ability to fund or successfully obtain financing to fund our planned projects and other expenditures.

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

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

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

**As a result of our substantial indebtedness:**

- we could be more vulnerable to general adverse economic and industry conditions;
- we may find it more difficult to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements;
- we will be required to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our debt, reducing the available cash flow to fund other projects;
- we may have limited flexibility in planning for, or reacting to, changes in our business and in the industry;
- we may have a competitive disadvantage relative to other companies in our business segments with less debt;
- we may face difficulties in establishing strategic or other long-term business joint ventures; and
- we may face difficulties in refinancing our debentures traded on the Tel Aviv Stock Exchange if our or PC's Israeli traded debentures continue to experience a decline in trading prices.

We cannot guarantee that we will be able to generate enough cash flow from operations or that we will be able to obtain sufficient capital to service our debt or fund our planned capital expenditures. In addition, we may need to refinance some or all of our indebtedness on or before maturity. We cannot guarantee that we will be able to refinance our indebtedness on commercially reasonable terms or at all. Subject to the right market conditions, we have the ability under our debt instruments to incur substantial additional indebtedness and any additional indebtedness we incur could exacerbate the risks described above.

Our debentures and PC's debentures were subject to several rating downgrades during 2011. Our debentures were rated, as of November 2011, by Midroog Ltd. an affiliate of Moody's Investors Services at a "baa1/Negative" credit rating and as of November 2011 by Maalot, the Israel Securities Rating Company Ltd. an affiliate of Standard and Poors at an "iIBBB+/Negative" credit rating. PC's debentures traded on the TASE were rated, as of August 2011, by Midroog Ltd. an affiliate of Moody's Investors Services at an "A3/Negative" credit rating and as of November 2011 by Maalot, the Israel Securities Rating Company Ltd. an affiliate of Standard and Poors at an "iIBBB+/Negative" credit rating. As a result of the rating downgrades of our debentures and PC's debentures and any further rating downgrade or suspension or withdrawal of the rating assigned by a rating agency to our debentures or PC's debentures, we may experience increased difficulty in raising debt financing in the future or in refinancing our indebtedness and difficulties in transacting other business, which might limit our operational flexibility.

**Our financial instruments (mainly our loans and debentures) and our derivative financial instruments are subject to fluctuation in interest rates, currency exchange rates, changes in the consumer price index and/or changes in fair value, which may have a negative impact on our earnings, balance sheet and cash flows.**

Floating interest rates on debt facilities expose us to increases in market interest rates and subsequent increases in interest costs. To the extent that we at any time are unhedged or insufficiently hedged against interest rate fluctuations, our earnings and balance sheet position may be negatively impacted. In addition, certain debt agreements may include default interest under certain circumstances, which may be higher than the original interest rate set out in the debt agreement. If a lender successfully asserts its right to invoke a default interest clause, this will increase our effective interest costs in respect of facilities with that lender.

We are impacted by exchange rates and fluctuations thereof. We are likely to face risks from fluctuations in the value of the functional currencies of our subsidiaries against the linkage currency of the applicable financial instruments. To the extent that we at any time are unhedged or insufficiently hedged against currency exchange rates, our earnings and balance sheet position may be negatively impacted.

The principal and interest of most of our debt instruments is determined by reference to the Israeli consumer price index (the "CPI"), which may entail significant risks not associated with similar investments in a conventional fixed or floating rate debt security. The historical value of the CPI is not indicative of future CPI performance and its value is affected by, and sometimes depends on, a number of interrelated factors, including direct government intervention and economic, financial, regulatory, and political events, over which we have no control. An increase in the CPI will result in additional financing expenses to our profits and losses and will have a negative impact on our cash flows.

Certain of our financial instruments and derivative financial instruments are measured by fair value. Any change to the fair value of such instrument will affect our profits and losses and may have a material effect on our results.

**The fair value of our real estate assets (including commercial shopping centers, hotels, residential projects, U.S. yielding real estate investments and others) may be harmed by certain factors, which may entail impairment losses not previously recorded which, in turn, will affect our financial results.**

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

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

In addition, the fair value of our real estate assets is highly dependent on the yield rates attributable to these assets. Therefore, any change in the yield rate or interest rate of any of our real estate assets may cause a significant decrease to the fair value of such assets, thereby resulting in potential impairment losses not previously recorded in our financial results.

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

All of our business is subject to numerous national and local government regulations, including those relating to acquisition of real estate properties, building and zoning requirements, fire safety control, access for the disabled, environmental law and health board reviews and standards. In addition, we are subject to laws governing our relationships with employees, including minimum wage requirements, overtime, working conditions, and work permit requirements, and in some localities to collective labor agreements. A determination that we (or any of our tenants, where applicable) are not in compliance with these regulations could result in the imposition of fines, an award of damages to private litigants and significant expenses in bringing our operations into compliance with such laws and regulations. In addition, our ability to dismiss unneeded staff may be hampered by local labor laws and courts which traditionally favor employees in disputes with former employers.

**Operating globally exposes us to additional and unpredictable risks.**

We conduct our businesses throughout the world and constantly seek new opportunities in various regions of the world. Our future results could be materially adversely affected by a variety of factors relating to international transactions, including changes in exchange rates, general economic conditions, regulatory requirements, tax structures or changes in tax laws or practices, and longer payment cycles in the countries in our geographic areas of operations. International operations may be limited or disrupted by the imposition of governmental controls and regulations, political instability, hostilities, natural disasters and difficulties in managing international operations. We cannot assure you that one or more of these factors will not have a material adverse effect on our international operations and, consequently, on our business, financial condition and results of operations. A failure to effectively manage the expansion of our business could have a negative impact on our business. To accommodate our global expansion, we are continuously implementing new or expanded business systems, procedures and controls. There can be no assurance that the implementation of such systems, procedures, controls and other internal systems can be completed successfully.

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

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

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

Certain legal proceedings have been initiated against us, including litigation in connection with the change of control of us and our former subsidiary Elscint Ltd. ("Elscint," which was merged into us in 2010) in May 1999 and the acquisition of the hotel businesses by Elscint in September 1999, as well as motions to certify certain of such claims as class actions and litigation by an individual who claims to have rights to a percentage in us and certain of our subsidiaries. For details refer to note 23B(3) in our annual consolidated financial statements. A determination against us in some or all of these proceedings, mainly those related to class actions, may materially adversely affect our results of operations and cash flow.

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

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

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

As of March 31, 2012, Mordechay Zisser, our Executive President and a director, held, directly and indirectly, approximately 49.04% of our issued share capital. For additional information, see "Item 7.A. Major Shareholders." As a result of such holdings, Mr. Zisser has the ability, in effect, to elect the members of our board of directors and to effectively control the outcome of shareholder votes, subject to limitations under the Companies Law. Certain of these shares are pledged as security to lending banks. Change and/or transfer of control in us, either voluntarily as a result from a willful event or as a result from a compulsory foreclosure event with respect to shares that are pledged as security to lending banks, may result in a violation of contractual undertakings made by us towards third parties and/or vest third parties with rights to cancel agreements concluded by these third parties and us, including immediate prepayment of loans and/or credits taken by us. A dispute has arisen between Bank Hapoalim Ltd. (the "Bank") and our controlling shareholder, Europe-Israel (M.M.S.) Ltd. ("Europe-Israel") which is controlled by Mr. Zisser (and together with Europe-Israel – the "Controlling Shareholder") concerning loans and credits of the Controlling Shareholder to the Bank that were secured, *inter alia*, through pledging some of our shares held by the Controlling Shareholder. Following the above, it should be noted that we are not a party to the negotiations and/or communications between the disputing parties and are not familiar with their contents, however, the aforementioned dispute, if not resolved, may negatively impact our relationship with the Bank.

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

We depend on the continued services of the members of our senior management team, including in particular that of Mr. Mordechay Zisser, our Executive President and a director. Any loss of the services of Mr. Mordechay Zisser or any other member of our senior management team could result in the loss of expertise necessary for us to succeed, which could cause harm to our operating results and cash flow and impair our ability to meet our objectives. See "Item 6.B. Directors, Senior Management and Employees - Compensation of Directors and Officers – Services of Mr. Mordechay Zisser."

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

We have experienced at times in the past, and may in the future experience, significant fluctuations in our quarterly and annual operating results which may cause the market price of our shares and debentures to decline. These fluctuations may be caused by various factors including, among other things, significant sales of our properties, the frequency of such transactions as well as changes in valuations of shopping centers in the United States and the effect on certain financial investments that are measured at fair value through profit and loss (FVTPL) that are subject to market price. We periodically review our business to identify opportunities for the acquisition, development or sale of new commercial centers, hotels or other businesses. As a result of our disposition and acquisition or development of centers, we may experience significant fluctuations in our annual and quarterly results. As a result, we believe that period-to-period comparisons of our historical results of operations may not necessarily be meaningful and that investors should not rely on them as an indication of our future performance. It is likely that in some future periods, our operating results may be below expectations of public market analysts or investors.

**We may be restricted from receiving dividends from PC until 2013, which may harm our liquidity.**

Following PC's announcement on September 14, 2011 to make an interim cash dividend payment and the subsequent undertaking to its bondholders with respect to future distributions (see "Item 5. Operating and Financial Review and Prospects – Overview" below), we will be restricted in the amount of distributions we may receive from PC during 2012 and 2013. This will reduce one of our cash resources and may affect our liquidity during such periods.

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

**Suitable locations are critical to the success of a shopping and entertainment center; however, there is no guarantee that we will be able to obtain such suitable locations, which may adversely affect our business and results of operations.**

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

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

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

**We may lease developed shopping and entertainment centers or other developments at below expected rental rates or sell at a price which is below what was expected or at a delayed date, which would materially harm our business.**

Our current strategy is to dispose of a shopping and entertainment center upon completion. If rental leases decrease below our expectations or if circumstances arise beyond our control, such as market prices, market demand and negative trends, we may have to sell a shopping and entertainment center at a price below our projections. In addition, we could be in the position where there will be no demand at acceptable prices and we will be required to hold, operate and maintain the shopping center until the financial environment improves and allows its disposal. This will cause a considerable delay in the sale of the asset and will require us to devote (or acquire by way of outsourcing) the resources required for its operation and maintenance.

**Competition is becoming more aggressive in certain countries in which we operate, which may adversely affect our results of operations.**

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

If we find and acquire a location that is suitable for the development of a shopping and entertainment center, the suitability of that location may be adversely affected by external factors such as a competing shopping center opening in the same area, demographic trends and urban development and changes which may impact the character of the target or potential customers of the shopping center, and other factors that may impact the shopping center's operations. In the event that the suitability of a location is adversely affected, the development of our shopping and entertainment center may be delayed or abandoned. In such circumstances, there is no guarantee that we will be able to use the site for an alternative development or be able to sell the site.

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

We may acquire development sites or existing shopping and entertainment centers that have existing tenants. In so doing, we may acquire lease liabilities and obligations in connection with such acquisitions. As a consequence, our earnings may be affected to the extent that we are obliged to give continued occupancy to tenants with lease payments below market rates for the refurbished or redeveloped center. In addition, we may incur costs in obtaining vacant possession of a site where there are existing tenants who have protected occupancy rights. We may be required to make additional *ex gratia* payments to such tenants in order to obtain vacant possession before the contractual expiration of such tenants' lease terms. Such payments may result in budget overruns for the project. We may also be obliged to relocate existing tenants, which could delay the development of the site and add to the cost of development. Any of the above costs may also apply should we desire to improve the mixture of tenants, while replacing current lessees, as even if the new mixture is expected to generate more revenues in the long run (which also may not be realized), the above costs will occur in an immediate manner.

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

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

**RISKS RELATED TO UNITED STATES REAL PROPERTY**

**RISKS RELATED TO THE U.S. INVESTMENT FUND**

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

Although we have operated in the United States for nearly two years and are currently selling most of our portfolio there, we have a limited operating history upon which investors can evaluate our anticipated performance in our investments in real property in the United States. Further, some of our principals have a limited history in managing investments in the U.S. real estate market. We cannot assure that our investments will be successful, that our investment objectives will be realized, that we will be able to find attractive investments or that any benefits or advantages to investors will be available or accomplished.

**We intend for our U.S. investment platform to be highly leveraged and may as a result incur high financing risks.**

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

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

**We intend to use REITs for our investments in the United States. Failure of a portfolio company to qualify as a REIT could adversely affect its operations and ability to make distributions.**

We intend to operate certain of our portfolio companies in a manner designed to permit it to qualify as a real estate investment trust (a "REIT") for U.S. federal income tax purposes, commencing with the taxable year in which an election to be taxable as a REIT is made. A portfolio company's qualification as a REIT will depend on its satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code") for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within a portfolio company's control. The complexity of these provisions and of the applicable regulations that have been promulgated under the Code is greater in the case of a REIT that holds its assets through operating entities, as our portfolio companies may hold. Moreover, no assurance can be given that legislation, new regulations, administrative interpretations or court decisions will not change the tax laws with respect to qualification as a REIT or the U.S. federal income tax consequences of that qualification.

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

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

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

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

General financial and other risks that apply to the United States real estate investment portfolio may impact the U.S. real estate investment fund, EPN Real Estate Fund, LP (the "Fund").

General financial and other risks that are outlined below under "Risks Related to Our U.S. Real Estate Investment Portfolio" with respect to our U.S. real estate investment portfolio, would naturally impact the Fund which holds that portfolio and hence, such risks might have an adverse affect on the Fund.

**RISKS RELATED TO OUR U.S. REAL ESTATE INVESTMENT PORTFOLIO**

Our U.S. real estate investment portfolios consist mainly of community shopping centers throughout the major regions of the United States. As such, many of the risk factors mentioned elsewhere in this annual report in connection with our shopping and entertainment centers business in Europe and elsewhere apply to our U.S. real estate investment portfolios as well. These include the risk factors included in the section entitled "Risk Factors – General Risks" and the risk factors entitled:

- "We are dependent on attracting third parties to enter into lease agreements, and in particular on anchor tenants";
- "Some of our shopping and entertainment centers are co-owned and control of such investments are shared with third parties";
- "The failure to comply with government regulation may adversely affect our business and results of operations"; and
- "The fair value of our real estate assets may be harmed by certain factors, which may entail impairment losses not previously recorded which, in turn, will affect our financial results."

**The pending sale of EPN Group's Properties involves a variety of risks.**

In January 2012, the EPN Group entered into an agreement to sell 47 shopping centers located throughout the United States (the "Properties") that were previously held by EDT Retail Trust (formerly Macquarie DDR Trust) ("EDT"), 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. The transaction is expected to close in June 2012. See "Item 4.B Business Overview – United States Real Property - Real Estate Investment Portfolio - EDT Retail Trust" below for further details. The closing of this sale is subject to various conditions, including obtaining consents from the lenders to allow the purchaser to assume certain of the existing debt of the entities owning the Properties and satisfaction of certain other customary closing conditions, such as obtaining tenant estoppels, accuracy of certain representations and warranties given in the agreement at signing, delivery of title, etc., all in accordance with the terms and conditions of the purchase and sale agreement. In addition, the buyer may terminate the agreement in the event that any material portion of the Properties is damaged, destroyed, condemned or subject to eminent domain proceedings resulting in aggregate costs or impairment in excess of \$40 million. If any of the conditions precedent in the agreement are not fulfilled or if the above described material casualty event occurs, we may not be able to complete the sale of the Properties and we would be exposed to a variety of risks, such as:

- our business may be harmed and our ability to sell the Properties in the future may be impaired. In addition, we will be forced to evaluate other alternatives, which may be less favorable to us than the proposed sale;
- we will run the risk of disruption of our business without any commensurate benefit. The diversion of management attention from the day-to-day business of the Properties to undertake the necessary actions to achieve the closing of the transaction may detrimentally affect our business. Our executive officers and other employees will have expended extensive time and effort and will have experienced significant distractions from their work during the pendency of the transaction without any commensurate benefit, which may have a material and adverse effect on our results of operations;
- According to our 2012 business plan, the proposed sale of the Properties constitutes a significant source of cash for us and PC in the coming years. If we fail to complete the transaction, we and PC would have to find alternative sources of cash in order to pay our outstanding debts and achieve our business goals. In addition, failure to complete the sale might cause loss of confidence in our traded securities (shares and debentures) by our investors which in turn could cause additional difficulties in raising cash in the capital markets which might affect our business and operations in the coming years; and
- we may lose the ability to present a successful track-record, which might have a negative impact on our ability to raise funds and to engage with co-investors for additional investments in the U.S. retail real estate market.

**Ongoing economic conditions are adversely affecting the general retail environment.**

Our portfolio's concentration in the U.S. retail real estate market means that we are subject to the risks that affect the retail environment generally, including the levels of consumer spending, seasonality, the willingness of retailers to lease space in our shopping centers, tenant bankruptcies, changes in economic conditions, consumer confidence and terrorist activities. Our portfolio derives its cash flow from operations primarily from retail tenants, many of whom are currently under considerable economic stress. A significant deterioration in our portfolio's cash flow from operations could require us to curtail planned capital expenditures or seek alternative sources of financing.

In addition, there is the risk that the current adverse economic and credit conditions that are negatively impacting us will worsen or will take longer to improve than anticipated. In particular, a further decline or weaker recovery in property markets in the United States, further decline or slower recovery in global general economic conditions or adverse currency movements may have an adverse impact on our portfolio's net income, leverage, ability to reinstate distributions and net tangible assets.

**Inability to refinance acquired properties which are subject to existing loans, might impact our financial results, yield or the attractiveness of the properties so acquired.**

Part of the portfolios or properties acquired by us are subject to existing loans and financing that could have been granted on terms and conditions that are not favorable to the borrower compared to the now existing market terms, or that were subject to distressed conditions. We intend to refinance those loans to improve their financial terms and increase potential returns to investors. The refinancing activities will also allow us to leverage our investments in order to increase our buying power and make additional investments (although this will increase our exposure to financial risks as described under "We Intend for Our U.S. Investment Platform To Be Highly Leveraged and May as a Result Incur High Financing Risks" above). In addition, existing loans could have short maturities or adjacent maturity dates vis-à-vis other loans, which, in the aggregate, could have a burdensome effect on our U.S. activities or require further investment or injection of equity due to the need to finance or repay few loans in a relatively short period. There is no assurance we will be able to refinance those unfavorable loans or improve their terms.

**Our properties operate in a competitive environment, which may affect our income and asset values.**

The companies in our portfolio operate in a competitive environment for assets, income, debt and capital. Our properties compete with other retail properties and other forms of retailing such as catalogs and e-commerce websites. Competition may come from regional malls, outlet centers, community/lifestyle centers, and other shopping centers, both existing as well as future development projects. The presence of competitive alternatives affects our ability to lease space and the level of rents we can obtain. Renovations and expansions at competing sites could also negatively affect our properties. The existence of such competition may affect our ability to maintain our income and asset values, as well as raise the necessary debt and capital to operate our capital management program.

**Property management and leasing are provided by third party providers that may at times have other business interest that are inconsistent with ours.**

Certain third parties that provide management and leasing services for our U.S. investment platform may provide similar services for other real estate properties or portfolios or may hold properties of their own in close vicinity to ours. In these capacities, such third parties may make decisions for other persons during the same period that are contrary to the interests of our portfolio of companies. Our third party service providers may use their knowledge of our portfolio in advising other persons that may be in competition with us to attract tenants or other clientele. There can be no assurance that these third party service providers will always act in a manner that is to our benefit.

**We depend on service providers to provide property management services to our properties.**

We rely on property management companies to provide management and leasing services for our U.S. investment platform. If we cannot enter into property management arrangements or maintain the existing property management agreements for the properties purchased on terms acceptable to us or at all, we will incur additional costs which will have an adverse effect on our business. By relying on service providers, we become subject to a number of risks relating to these entities, such as quality of performance, varied work ethics, low performance, breach or non-performance of agreements and the financial stability of the service providers.

**We are subject to inherent risks associated with real estate purchase transactions.**

Our investment activity is based on the acquisition of existing portfolios or properties. As such, those acquisition transactions bear inherent risks usually associated with such transactions, such as, but not limited to, breach of representations by the seller, title defects, environmental problems, incomplete or misleading information with respect to the financial results of the shopping center, lease income, lease periods, disputes with tenants, and border disputes. Although we conduct due diligence investigations, we might not identify critical items or findings, or may be provided with insufficient, incomplete, inaccurate or wrong information that might lead to wrong conclusions or findings that could have an adverse affect on the transaction. We usually include indemnity clauses in our purchase agreements, however, in practice such indemnification is limited in amount and may not necessarily cover all the potential exposure.

**Some of the potential losses of our portfolio investments may not be covered by insurance.**

There are some types of losses, including lease and other contract claims that generally are not insured. If an uninsured loss or a loss in excess of insured limits occurs, the companies in our portfolio could lose all or a portion of the capital they invested in a property, as well as the anticipated future revenue from the property. If this happens, such company may still remain obligated for any mortgage debt or other financial obligations related to the property. Furthermore, any lack of financial strength and/or inability of its insurers to meet their indemnity obligations if called upon may adversely affect our portfolio companies.

## RISKS RELATING TO THE HOTEL BUSINESS

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

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

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

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

We operate most of our hotels in geographic locations where other hotels are or may be located. We expect to compete for guests and development sites with national chains, large franchisees and independent operators. Many of these competitors have greater financial resources and better brand name recognition than we do, and may have more established relationships with prospective franchisers, representatives in the construction industry and other parties engaged in the lodging industry. The number of competitive lodging facilities in a particular area could have a material adverse effect on our hotel occupancy and rates and, therefore, revenues and results of our hotels. We believe that competition within the lodging market may increase in the foreseeable future. New or existing competitors may significantly reduce their rates or offer greater convenience, services or amenities or significantly expand or improve hotels in the markets in which we currently or may subsequently compete, thereby materially adversely affecting our business and results of operations.

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

Our hotels in Belgium and our Radisson hotel complex in Bucharest are either directly or indirectly operated under long-term management agreements with the Rezidor Hotel Group ("Rezidor"). Any significant decline in the reputation of Rezidor or in its ability to ensure the performance of our hotels at anticipated levels could adversely affect our results of operations. If our agreement with Rezidor is terminated, we cannot be certain that we would be able to obtain alternative management services of the same standard on similar or better terms.

The long-term management arrangements entail additional risks, including the possibility that: (i) Rezidor might, at any time, have economic or other business interests that are inconsistent with ours or with the management of the specific hotels; (ii) Rezidor may be in breach of the agreements or in a position to take action contrary to the agreements, or frustrate the execution of acts which we believe to be in the interests of any particular hotel; and (iii) Rezidor might become bankrupt or insolvent.

Disputes or disagreements with Rezidor could result in interruption to the business operations of the hotels in question, and impact the financial condition and results of operations of our hotels division which may be materially adversely affected.

**Our agreements with Rezidor impose obligations on us that may force us to incur significant costs.**

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

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

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

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

**RISKS RELATING TO RESIDENTIAL PROJECTS**

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

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

- employment levels;
- availability of financing for homebuyers;
- interest rates;
- consumer confidence;
- levels of new and existing homes for sale;

- demographic trends;
- urban development and changes;
- housing demand;
- local laws and regulations; and
- acts of terror, floods or earthquakes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We rely on subcontractors for all of our construction and development activities. If we cannot enter into subcontracting arrangements on terms acceptable to us or at all, we will incur additional costs which will have an adverse effect on our business. The competition for the services of quality contractors and subcontractors may cause delays in construction, thus exposing us to a loss of our competitive advantage. Subcontracting arrangements may be on less favorable terms than would otherwise be available, which may result in increased development and construction costs. By relying on subcontractors, we become subject to a number of risks relating to these entities, such as quality of performance, varied work ethics, performance delays, construction defects, breach or non-performance of agreements and the financial stability of the subcontractors. A shortage of workers (or materials) would have a detrimental effect on us and our subcontractors and, as a result, on our ability to conclude construction phases on time and within budget. We generally require our subcontractors to provide bank guarantees in our favor to financially secure their performance. In the event the subcontractor fails to perform, the bank guarantees provide for a monetary payment to us. The guarantees do not, however, obligate the subcontractors to complete the project and may not adequately cover our costs of completing the project or our lost profits during the period while alternative means of completing the project are sought.

**We may depend on business partners to jointly construct projects under certain joint venture/joint development projects, which may lead to increased development and construction costs and the loss of our competitive advantage. Some of our projects are co-owned and control of such investments are shared with third parties.**

In certain projects we rely on local joint venture partners to work with us in developing the project, which, in certain cases, may be awarded the performance of construction work, obtaining of permits, marketing and sales or any combination of the above. In such projects, we rely on our partner to perform its scope of work under the joint venture or joint development agreement. If our partner does not perform for any reason (either due to default, bankruptcy or other reasons), or if we cannot enter into agreements with the partner to perform these tasks on terms acceptable to us or at all, we will incur additional costs, or enter into a deadlock, which will have an adverse effect on our business. Such occurrences may cause delays in construction, thus exposing us to a loss of our competitive advantage. By relying on partners, we become subject to a number of risks relating to these entities, such as quality of performance, varied work ethics, performance delays, construction defects, breach or non-performance of agreements and the financial stability of the partner.

Some of our projects are held through joint venture arrangements with third parties with whom we share ownership and control of such assets. As a result, these arrangements entail risks in addition to those associated with projects in which we own a controlling interest, including the possibility that: (i) our joint venture partner might, at any time, have economic or other business interests that are inconsistent with ours; (ii) our joint venture partner may be in a position to take action contrary to our instructions or requests, or contrary to our policies or objectives, or frustrate the execution of acts which we believe to be in the interests of any particular project; (iii) our joint venture partner may have different objectives than us, including with respect to the appropriate timing and pricing of any sale or refinancing of a development and whether to enter into agreements with potential contractors, tenants or purchasers; (iv) our joint venture partner might become bankrupt or insolvent; and (v) we may be required to provide financing to make up any shortfall due to our joint venture partner failing to provide such equity finance or to furnish collaterals to the financing third parties.

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

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

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

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

- The inability to obtain financing for development at attractive terms or at all;

- delays in obtaining zoning (or land classification, as the case may be for each jurisdiction) and other approvals;
- the unavailability of materials and labor;
- the abilities of subcontractors to complete work competently and on schedule;
- the surface and subsurface condition of the land underlying the project;
- environmental uncertainties;
- extraordinary circumstances or "acts of god"; and
- ordinary risks of construction that may hinder or delay the successful completion of a particular project.

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

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

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

We cannot be certain that present or future development or renovation will be successful. If we are not successful in future projects, it will have a material adverse effect on our business. For successful growth, we must be able to develop or acquire real property on attractive terms and integrate such properties into our existing operations. We cannot be certain that newly acquired (or constructed or refurbished) real property will perform as we expect or that we will be able to realize projected cost savings for acquired properties.

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

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

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

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

**Real estate investments are relatively illiquid.**

Substantially all of our portfolio's total consolidated assets consist of investments in real properties. Because real estate investments are relatively illiquid, our ability to quickly sell one or more properties in the portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand for space, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms we set, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. In addition, current economic and capital market conditions might make it more difficult for us to sell properties or might adversely affect the price we receive for properties that we do sell, as prospective buyers might experience increased costs of debt financing or other difficulties in obtaining debt financing.

In addition, the number of prospective buyers interested in purchasing real estate properties may be limited. Therefore, if we want to sell one or more of the properties in our portfolio, we may not be able to dispose of the property in the desired time period and may receive less consideration than we originally invested in the property.

Before a property can be sold, we may be required to make expenditures to correct defects or to make improvements. We cannot assure investors that we will have funds available to correct those defects or to make those improvements, and if we cannot do so, we might not be able to sell the property, or might be required to sell the property on unfavorable terms. In acquiring a property, we might agree to provisions that materially restrict us from selling that property for a period of time or impose other restrictions, such as limitations on the amount of debt that can be placed or repaid on that property. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could adversely affect our financial condition and results of operations.

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

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

**Environmental discoveries may have a significant impact on the budget, schedule, viability and marketability of our assets.**

We may encounter unforeseen construction delays or compliance defaults due to factors beyond our control such as delays or defaults caused by previously unknown soil contamination or the discovery of archeological findings which may have a significant impact on development budget and schedules and which may, in turn, have a detrimental effect on the viability or marketability of the development or cause legal liability in connection with a portfolio asset. We may be liable for the costs of removal, investigation or remedy of hazardous or toxic substances located on or in a site owned or leased by us, regardless of whether we were responsible for the presence of such hazardous or toxic substances. The costs of any required removal, investigation or remedy of such substances may be substantial and/or may result in significant budget overruns and critical delays in construction schedules. The presence of such substances, or the failure to remedy such substances properly, may also adversely affect our ability to sell or lease such property or to obtain financing using the real estate as security. Additionally, any future sale of such property will be generally subject to indemnities to be provided by us to the purchaser against such environmental liabilities. Accordingly, we may continue to face potential environmental liabilities with respect to a particular property even after such property has been sold. Laws and regulations may also impose liability for the release of certain materials into the air or water from a property, and such release can form the basis for liability to third persons for personal injury or other damages. Other laws and regulations can limit the development of, and impose liability for, the disturbance of wetlands or the habitats of threatened or endangered species. Any environmental issue may significantly increase the cost of a development and/or cause delays, which could have a material adverse effect on the profitability of that development and our results of operations and cash flows.

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

#### **RISKS RELATING TO OUR MEDICAL COMPANIES**

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

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

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

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

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

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

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

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

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

**If the ExAblate is subject to a product recall, InSightec will not be able to generate sufficient sales to support its business.**

If the ExAblate does not comply with regulatory standards or if it is subject to reports of damaging effects to patients, it may be subject to a mandatory recall by the relevant authorities and sales may be stopped until it can clear regulatory approvals once again. A recall may harm the reputation of InSightec and its products and its ability to generate additional sales of the ExAblate may be adversely affected.

**InSightec is dependent on further capital investments.**

Until InSightec will achieve broad market acceptance of the ExAblate and be able to generate sufficient sales to support its business, it will need to obtain additional capital investments to support its business in general and, in particular, its significant research and development costs and expenses. The current volume of sales and backlog of InSightec will not suffice to maintain its current cash burn-rate and expenditure levels, and InSightec's inability to obtain additional funding sources, particularly capital investments, might have a material adverse effect on its business and/or ability to continue its operations.

**InSightec is dependent on General Electric.**

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

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

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

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

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

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

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

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

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

Elbit Fashion Ltd. ("Elbit Fashion"), our wholly owned subsidiary, depends on franchises and supply of products from an individual supplier, Punto Fa S.L., which is the owner of the MANGO-MNG™ brand ("Punto Fa"). If such franchisor ends its relationship with Elbit Fashion or enter into liquidation, Elbit Fashion's business in Israel with respect to the products supplied by such supplier will be terminated. In addition, Elbit Fashion relies on the supply of its products from such supplier and may face a shortage of inventory if there is a worldwide excess demand for a specific brand's products. If either of these events occurs, our results of operations may be adversely affected.

**Our fashion retail brand operates only in Israel and is therefore exposed to Israeli market risks.**

Elbit Fashion operates only in Israel and therefore may be affected by risks associated with the Israeli market without the ability to mitigate such risks through operation in other regions not exposed to the same risks, influences and trends. For further details, see "Risks Relating to Israel" below.

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

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

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

Neither our supplier (Punto Fa) nor Elbit Fashion may be successful in anticipating and responding to fashion trends in the future. Customer tastes and fashion trends change rapidly. Our success depends in part on the ability of our supplier's to effectively anticipate and respond to changing fashion tastes and consumer demands and to translate market trends into appropriate, saleable product offerings far in advance. If they are unable to successfully anticipate, identify or react to changing styles or trends and misjudge the market or any new product lines, or if our supplier offers products that, although appropriate in the international market, do not account for particular Israeli taste and fashion preferences (as Israel is a small and negligible market from a worldwide perspective), or if we fail to choose from design products from our suppliers inventory that appeal to our customers' changing fashion preferences, Elbit Fashion's sales will decline and we may be faced with a significant amount of unsold inventory. As a result, we may be forced to increase our marketing promotions or price markdowns, which could have an adverse effect on our business. Our brand name may also suffer if customers believe merchandise misjudgments indicate that Mango no longer offer the latest or relevant fashions.

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

Elbit Fashion is subject to Israeli customs duty since all of its products are imported. An increase in customs rates on Elbit Fashion's products could adversely affect Elbit Fashion's ability to compete against local manufacturers or with products from countries which enjoy more favorable customs rates in Israel. On the other hand, a reduction in customs rates may encourage entrance penetration of new competitors to the market. In addition, since most, if not all, of Elbit Fashion's products are imported, custom and harbor strikes and delays could adversely affect Elbit Fashion's ability to meet customer demands in a timely manner and adversely affect Elbit Fashion's financial results.

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

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

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

Furthermore, Elbit Fashion has a single brand operation with the "Mango" brand and, hence, is exposed to risks associated with this brand and its success. During the recent past, the Israeli fashion apparel market has been characterized by mergers and acquisitions and expansion of retailers and franchisees to become multi-branded operators, enjoying the economics of scale, including, among other things, a better ability to obtain financing, strong bargaining power vis-à-vis shopping centers' owners (such as in regards to obtaining better locations and reduced lease rates for their stores), reduced overhead costs per each brand, and increased ability to mitigate and absorb seasonal or temporary decrease in sales volume in one brand by compensating through sales of another brand. This might lead to a loss of Mango's market share to such competitors and could materially adversely affect Elbit Fashion's revenues and profitability and ability to compete successfully against such competitors.

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

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

**Elbit Fashion is subject to certain contractual obligations with its fashion supplier.**

Elbit Fashion is contractually obligated to purchase certain minimum quantities of stock from its suppliers and to maintain a certain spread of stores in which to sell the brands of its suppliers. A breach of these contractual obligations, or expenditures in complying with these obligations could affect Elbit Fashion's profitability, operational results and its financial condition.

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

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

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

Elbit Fashion buys its entire inventory that it markets and sells from an international supplier. The purchase price of this inventory is in Euro while the selling price of such inventories in Israel is in NIS. Therefore, a devaluation of the NIS against the Euro will cause an increase in Elbit Fashion's cost of goods sold expressed in NIS, and Elbit Fashion may not be able to pass the increased costs to its customers. This would likely adversely affect Elbit Fashion's profitability, operational results and its financial conditions.

**RISKS RELATING TO OUR OTHER ACTIVITIES**

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

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

**RISKS RELATING TO ISRAEL**

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

We are incorporated under Israeli law and our principal offices are located in Israel. In addition, our operations in our other lines of business, such as Elbit Fashion and venture capital investments operate in Israel. Political, economic and security conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, various armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since October 2000, there has been a high level of violence between Israel and the Palestinians. In addition, acts of terrorism, armed conflicts or political instability in the region could negatively affect local business conditions and harm our results of operations. We cannot predict the effect on the region of any diplomatic initiatives or political developments involving Israel or the Palestinians or other countries in the Middle East. Recent political events in various countries in the Middle East have shaken the stability of those countries. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon. This situation may potentially escalate in the future to violent events which may affect Israel and us.

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

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

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

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

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

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

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

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

Provisions of Israeli corporate law may have the effect of delaying, preventing or making more difficult a merger with, or acquisition of, us. The Israeli Companies Law, 5759-1999 (the "Companies Law") generally provides that a merger be approved by the board of directors and a majority of the shares present and voting on the proposed merger. For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares not held by the other party to the merger (or by any person who holds 25% or more of the shares or the right to appoint 25% or more of the directors of the other party or its general manager) have voted against the merger. Upon the request of any creditor of a party to the proposed merger, a court may delay or prevent the merger if it concludes that there is a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the surviving company. Finally, a merger may not be completed unless at least (i) 50 days have passed since the filing of a merger proposal signed by both parties with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each merging company.

The Companies Law also provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company, unless there is already another 25% or greater shareholder of the company. Similarly, an acquisition of shares must be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% or greater shareholder of the company, unless there is already a 45% or greater shareholder of the company. In any event, if as a result of an acquisition of shares the acquirer will hold more than 90% of a company's shares, the acquisition must be made by means of a tender offer for all of the shares. Shareholders may request appraisal rights in connection with a tender offer for a period of six months following the consummation of the tender offer, but the acquirer will be entitled to stipulate that tendering shareholders forfeit their appraisal rights.

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

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

**RISKS RELATING TO EASTERN EUROPE**

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

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

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

Certain Post-Communist Eastern Europe countries initiated legislation that cancels and nullifies transactions involving real estate that were subject to confiscation, condemnation or eminent domain proceeding by the former communist regime. While we make every effort to conduct thorough and reliable due diligence investigations, in some countries where former communist regimes carried out extensive land expropriations in the past, we may be faced with restitution claims by former land owners in respect of project sites acquired by it. If upheld, these claims would jeopardize the integrity of our title to the land and our ability to develop the land.

#### RISKS RELATING TO INDIA

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

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

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

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

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

**There is no assurance that our skills and experience can be applied successfully in our operations in India.**

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

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

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

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

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

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

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

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

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

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

For a summary of our recent acquisitions, dispositions and other activities and of our capital expenditures and divestitures during the years 2009, 2010 and 2011 and that are currently in progress, see "Item 5. Operating and Financial Review and Prospects - Overview."

## B. BUSINESS OVERVIEW

We operate in the following principal fields of business:

- **Commercial and Entertainment Centers** - Initiation, construction and sale of shopping 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;
- **U.S. Real Property** - Investment in commercial real property in the United States;
- **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;
- **Fashion Apparel** - Distribution and marketing of fashion apparel and accessories in Israel; and
- **Other Activities** - (a) venture capital investments and (b) potential investments in hospitals and farm and dairy plants in India. We have presently decided to suspend our investment activities in hospitals and farm and dairy plants in India until we are satisfied that the economy has recovered sufficiently to resume such activities.

### **Shopping and Entertainment Centers**

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

As at the date of this annual report, our shopping and entertainment segment of operations includes a total of seven operating projects and 27 projects in various stages of planning, development and construction, including 14 shopping and entertainment centers, 14 mixed-use projects and one office building. Our projects are located in Bulgaria, the Czech Republic, Greece, Hungary, India, Latvia, Poland, Romania and Serbia.

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

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

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

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

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

The entertainment facilities typically include a multiplex cinema complex of between four and 12 theaters, depending on the size of the center, and, where appropriate, an IMAX auditorium. The entertainment areas also include gaming areas comprising of video game arcades, bowling alleys, electronic gaming machines, billiards, discotheques, bars and children's playgrounds. PC's subsidiary Mulan B.V. operates our "Fantasy Park" gaming areas and Cinema City International N.V. operates most of the multiplex cinemas. Each entertainment area also includes a food court offering a wide range of food outlets, coffee shops and restaurants.

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

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

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

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

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

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

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

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

During the last few months of 2008 there was extraordinary turbulence in economic and financial markets worldwide which impacted considerably on activity in real estate markets worldwide, with the lack of availability of financing being a key factor behind the dramatic slowdown in investment transactions. Although debt market conditions slightly improved in 2009 and the slowdown was still felt in 2010 and 2011 to a certain degree, and the repercussions of the global recession are still very strong and PC's management estimates that they will continue to have an impact on current and potential tenants for some time. With this in mind, PC will continue to take a targeted approach to its development pipeline, concentrating on projects where it sees the strongest retail demand and in countries which have shown relative resilience during the economic crisis. The two projects that PC has started construction on in the second half of 2010, in Torun, Poland and Kragujevac, Serbia, reflect this strategy as demonstrated by the level of pre-leases PC has achieved prior to construction and its ability to secure development finance on these sites.

PC proceeds selectively with its target development program in CEE and in India, and holds and manages completed assets as income-generating investments until the sale yields are sufficient, whilst continuing to identify opportunities to expand its activities into new regions.

During 2010 PC commenced the construction of two developments in Torun in Poland and Kragujevac in Serbia. Torun was completed and opened in November 2011 and Kragujevac was completed and opened in March 2012. The remainder of PC's development pipeline projects are in various stages of design, awaiting to receive permits or under construction. Commencement of these projects will depend, amongst other things, on the availability of external financing. Our projects in the shopping and entertainment centers business are divided into four principal project categories: (i) operating projects; (ii) shopping and entertainment centers under development; (iii) mixed-use projects with predominant retail characteristics, under development; and (iv) other projects (offices and other yielding real estate projects). Set forth below is information with respect to the projects in each category.

#### *Operating Projects*

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

In March 2009, PC opened the Riga Plaza in Latvia. This shopping and entertainment center is located on the west bank of the Daugava River, and is comprised of a three-floor shopping and entertainment center with a GLA of approximately 49,000 square meters and over 1,500 parking spaces. It houses over 140 stores, anchored by a supermarket on the ground floor, an eight-screen multiplex cinema and a 2,000 square meter bowling and entertainment area.

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

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

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

##### *Zgorzelec Plaza - Zgorzelec, Poland*

In March 2010, PC opened the Zgorzelec Plaza in Zgorzelec, Poland, a town in south-western Poland. This shopping and entertainment center has a GLA of approximately 13,000 square meters. It houses over 60 stores, anchored by a supermarket and brand name fashion retailers and has 300 parking spaces. This center is 100% owned by PC. Certain management services of the Zgorzelec Plaza are conducted by a third party management company.

*Suwalki Plaza - Suwalki, Poland*

In May 2010, PC opened the Suwalki Plaza in Suwalki, Poland, a town in north-eastern Poland. This shopping and entertainment center has three floors, with a GLA of approximately 20,000 square meters and 450 parking spaces. It houses over 65 stores, anchored by brand name fashion retailers, a three screen cinema, fantasy park bowling and entertainment center and a delicatessen. This center is 100% owned by PC. Management of the Suwalki Plaza is conducted by a subsidiary of PC.

*Torun Plaza – Torun, Poland*

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 shopping 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. This center is 100% owned by PC. Certain management services of the Torun Plaza are conducted by a third party management company.

*Kragujevac Plaza - Kragujevac, Serbia*

In March 2012, PC opened the Kragujevac Plaza in Kragujevac, Serbia, the fourth largest city in Serbia and the capital of the Sumadja Region in central Serbia. This shopping and entertainment center comprises 22,000 square meters of gross lettable area spread over two floors with approximately 700 parking spaces. The center contains the only cinema and bowling facilities in the area and Circus Playground, as well as over 95 shops with international and local brands. This center is 100% owned by PC.

*Koregaon Park Plaza – Pune, India*

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 shopping 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.

*Shopping and Entertainment Centers under Development*

Name of Project	Location	Title	PC Share % <sup>1</sup>	Approximate Land Area (m <sup>2</sup> )	Approximate Gross Lettable Area (m <sup>2</sup> )	Estimated Completion	Status
Lodz Plaza	Lodz, Poland	Perpetual Usufruct	100	50,000	45,000	2014	Planning and development stage
Csiki Plaza	Miercurea Ciuc, Romania	Ownership	100	33,000	14,000		Planning and development stage
Uj Udvar <sup>2</sup>	Budapest, Hungary	Ownership	35	8,700	16,000		Operating, currently working - on refurbishment plans
Timisoara Plaza	Timisoara, Romania	Ownership	100	32,000	38,000	2014	Planning and development stage
Kielce Plaza	Kielce, Poland	Perpetual Usufruct	100	30,000	33,000	2014-2015	Planning and development stage
Leszno Plaza	Leszno, Poland	Perpetual Usufruct	100	17,000	16,000	2015-2016	Planning and development stage
Sport Star Plaza	Belgrade, Serbia	Land use rights	100	30,000	45,000	2014	Planning and development stage
Shumen Plaza	Shumen, Bulgaria	Ownership	100	17,000	20,000	2014-2015	Planning and development stage
Slatina Plaza	Slatina, Romania	Ownership	100	20,000	17,000	2014-2015	Planning and development stage
Constanta Plaza	Constanta, Romania	Ownership	100	26,000	18,000	2014	Planning and development stage
Hunedoara Plaza	Hunedoara, Romania	Ownership	100	41,000	13,000	2014	Planning and development stage
Targu Mures Plaza	Targu Mures, Romania	Ownership	100	31,000	30,000	2014-2015	Planning and development stage
Pireas Helios Plaza	Athens, Greece	Ownership	100	15,000	26,000	2014	Planning and development stage

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

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

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

Country	Estimated cost of completion	Percentage Pre-leased *
Poland	€137 million (approximately \$178 million)	-
Romania	€158 million (approximately \$206 million)	-
Hungary	€18 million (approximately \$23 million)	-
Serbia	€66 million (approximately \$86 million)	-
Bulgaria	€26 million (approximately \$34 million)	-
Greece	€57 million (approximately \$74 million)	-

- In respect of those projects that are under construction.

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

Name of Project	Location	Title	PC Share %	Approximate Land Area (m <sup>2</sup> )	Approximate Gross Lettable Area (m <sup>2</sup> )	Estimated Completion	Status
The Dream Island	Budapest, Hungary	Ownership / land use rights	43.5 <sup>1</sup>	320,000	350,000 <sup>2,3</sup>	2014-2016	Planning and development stage. An exclusive casino license has been awarded.
Casa Radio	Bucharest, Romania	Leasing for 49 years	75 <sup>4</sup>	102,000	600,000 <sup>2,5</sup>	2014-2016	Planning and development stage
Iasi Plaza	Iasi, Romania	Ownership	100	46,500	62,000	2015	Planning and development stage
Belgrade Plaza	Belgrade, Serbia	Ownership	100	9,000	70,000 <sup>2</sup>	2015	Planning and development stage
Sofia Plaza Business Center	Sofia, Bulgaria	Ownership	51	79,500	44,000	2015	Planning and development stage
Kharadi	Kharadi, Pune, India	Ownership	50 <sup>6</sup>	56,000	250,000 <sup>2,7</sup>	2012-2015	Phase one completed; Phase two planning and development stage

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

2 GBA.

3 This project is expected to include approximately 2,300 hotel rooms in several hotels of different categories, a 3,500 seat convention center, a 1,500 seat opera house, a 3,500 seat multi-purpose theater, a marina with anchorage capacity for 300 vessels, a retail area with approximately 50,000 square meters of GLA including a prestigious 'Designer avenue', a Roman cultural museum, and parking facilities for approximately 5,500 vehicles, as well as a casino of 40,000 square meters.

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

5 The project will consist of a complex with a planned GBA of approximately 600,000 square meters (including parking), and will include a shopping and entertainment center of approximately GLA of 100,000 square meters, with a hypermarket of approximately 6,500 square meters, a hotel of 35,000 square meters (320 rooms), an apartment hotel of 18,000 square meters, a ferris wheel, a conference center of 14,000 square meters and 140,000 square meters of offices.

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

7 This project is expected to include an office complex comprised of four office buildings with an estimated GBA of approximately 160,000 square meters (including underground parking). The construction of the first phase of Kharadi, a 28,000 square meters GLA office building known as "Matrix One", was completed.

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

Country	Estimated cost of completion	Percentage Pre-leased *
Hungary	€816 million (approximately \$1,060 million)	-
Romania	€778 million (approximately \$1,006 million)	-
Serbia	€88 million (approximately \$115 million)	-
Bulgaria	€52 million (approximately \$67 million)	-
India	€74 million (approximately \$96 million)	-

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

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

*Arena Plaza Extension, Budapest, Hungary*

The Arena Plaza extension is a planned office addition of approximately 40,000 square meters GLA to the Arena Plaza in Budapest, Hungary (a shopping and entertainment center of 66,000 square meters sold to aAIM in 2007). The project is in the preliminary phase and is scheduled to open in 2015.

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

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

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

- Brasov - PC owns a 25% share in an office development project known as the Primavera Tower Brasov with a planned GLA of approximately 10,800 square meters. It is anticipated that the project will be completed in 2016.
- Ploiesti - PC owns a 25% share in an office development project known as the Primavera Tower Ploiesti, with an expected GLA of approximately 10,500 square meters. It is anticipated that the project will be completed in 2015.

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

Country	Estimated cost of completion	Percentage Pre-leased *
Hungary	€42 million (approximately \$55 million)	-
Romania	€47 million (approximately \$61 million)	-

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

#### United States Real Property

##### **U.S. Real Property Joint Venture**

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

Under the agreement each party committed to invest at least \$100 million (for a combined total of at least \$200 million) in a U.S. investment platform. The Sponsors established the Fund to seek third party investors to co-invest with the Sponsors in investments in the U.S. retail and commercial real estate sectors. The agreement provides that the parties will identify and locate potential investments during a two-year period in which the Sponsors will acquire assets or enter into joint ventures with owners of relevant assets or portfolios, with the objective of selling the acquired assets or holding them until the end of the term of the Fund, which was intended within a five-to-seven-year period of the initial closing of the Fund.

In June 2010, the Fund raised \$31 million in capital commitments from Menora Mivtachim Insurance Ltd. and certain of its affiliates ("Menora"). The first investment vehicle of the U.S. investment platform is EPN GP LLC ("EPN"), in which each of Elbit Plaza USA indirectly holds and Eastgate directly holds a 43.29% ownership interest, and the remaining 13.42% ownership interest is held by the Fund. The second investment vehicle of the U.S. investment platform is EPN EDT Holdings II LLC (and collectively with EPN and their affiliates, the "EPN Group"), in which each of Elbit Plaza USA indirectly holds and Eastgate directly holds a 47.29% ownership interest, and the remaining 5.43% ownership interest is held by the Fund (each of Elbit Plaza USA and Eastgate indirectly holds through EPN Fund GP LLC, an additional ownership interest in the Fund).

**Real Estate Investment Portfolio - EDT Retail Trust**

In June 2010, EPN completed an investment of approximately \$116 million in EDT, then an Australian publicly traded trust. Following completion of that transaction, EPN became EDT's largest unitholder, holding an approximately 47.8% ownership interest in EDT. At the same time, EPN also acquired from Macquarie Bank its 50% ownership interest in the responsible entity that provided management services to EDT (while the remaining 50% ownership interest remained vested with Developers Diversified Realty Corporation (now DDR Corp.)). In March 2011, EPN EDT Holdings II LLC commenced an off-market takeover bid for all of the units in EDT not already held by EPN, which was successfully completed in August 2011. Upon completion of that transaction, the EPN Group became the holder of 100% of the outstanding units of EDT, at an additional cost of approximately \$242 million, and EDT was delisted from trading on the Sydney Stock Exchange, transferred the U.S. REITs it held to the Fund, and was voluntarily liquidated.

The Fund currently holds and operates 49 retail properties, which altogether total approximately 11.1 million square feet of leasable area with a leased rate of approximately 88% and over 730 leases generating annual net operating income (NOI) of approximately \$105 million as of December 31, 2011. EDT valued these portfolios at approximately \$1.47 billion as of December 31, 2011, with total secured debt of approximately \$947 million. The portfolios consist mainly of community shopping centers throughout major regions of the United States, with assets located in 20 states.

Assets in the portfolios are typically "open-air" complexes, with a number of retail "boxes" housing tenants and open-air parking lots. This format has proven to be a popular retail concept in the United States. The centers are often located near major highways and thoroughfares and have been specifically designed to offer consumers convenience and accessibility. Assets in the portfolios are modestly fitted, have straightforward construction and design and generally have a single entrance and checkout. The simplicity in design results in lower operating and ongoing costs relative to traditional enclosed shopping mall formats. Retailers are attracted to the low costs associated with the format, which has gained popularity among discount and value oriented retailers.

The portfolios remain focused on the community shopping center format and on attracting national tenants that provide value and convenience to consumers. These retailers, including discount tenants, continue to attract customers in the current economic environment. EDT's rental revenue remains relatively stable with over 80% of its annual base rent derived from large and junior anchor retailers which predominantly have a national presence and are secured by relatively long-term leases.

Leases with tenants generally run for a term of five to ten years, with an option to extend. The weighted average lease expiration for the portfolios is five years. EDT focuses on attracting and retaining strong performing retailers which provide a value proposition to consumers and have a national presence. EDT has successfully leased or renewed long-term leases with high quality retailers including Best Buy, Dick's Sporting Goods, Jo-Ann Fabrics, Michaels, Nordstrom Rack and TJ Maxx.

The total portfolio average annualized base rent per occupied square foot, as of December 31, 2011, was \$12.37. The portfolio has over 440 tenants with the largest tenant representing 6.0% of the portfolio's annual base rent. No single lease represents more than 1.87% of annual base rent, further highlighting the portfolio's diversified income base. The following table provides details about the top ten tenants in the portfolio as of December 31, 2011:

Tenant	Approximate Gross Lelatable Area (ft <sup>2</sup> )	Number of Leases
TJX Companies	655,400	17
PetsMart	379,900	17
Kohl's	811,100	9
Dick's Sporting Goods	304,100	6
Best Buy	282,100	6
Bed Bath & Beyond	275,000	9
Jo-Ann Stores	288,900	9
Wal-Mart	304,900	4
Gap	144,700	8
Office Max	243,500	10
<b>Total:</b>	<b>3,989,600</b>	<b>82</b>

The following table sets forth certain information with respect to the portfolio's assets as of December 31, 2011.

Property <sup>(1)</sup>	Location	Total GLA (sq.ft., '000)	Title	WALE <sup>(2)</sup> (years)	Anchors and Major Tenants
Connecticut Commons	Hartford, CT	566.5	Ownership	6.5	Lowe's, Lowe's Cineplex, Kohl's, Dick's Sporting Goods, Marshall's
Riverdale Village Outer	Coon Rapids, MN	497.7	Ownership	5.1	Sears, Kohl's, Best Buy, Dick's Sporting Goods, Bed Bath & Beyond
Brown Deer Center	Brown Deer, WI	261.7	Ownership	4.6	Kohl's, TJ Maxx, Office Max, Michaels, Old Navy
Shoppers World of Brookfield	Brookfield, WI	182.7	Ownership	4.0	Burlington Coat Factory, Marshall's, TJ Maxx, Office Max
Marketplace at Brown Deer	Brown Deer, WI	143.4	Ownership	3.2	Pick N Save, Anna's Linens, McDonald's
Lake Brandon Village	Brandon, FL	114	Ownership	6.2	Sports Authority, buybuyBaby, PetSmart
The Plazas at Great Northern	North Olmstead, OH	628.2	Ownership	3.7	Home Depot, Marc's, Jo-Ann Fabric, Best Buy, Bed Bath & Beyond
Belden Park Crossings	Canton, OH	478.1	Ownership	3.3	Kohl's, Dick's Sporting Goods, Value City Furniture, Jo-Ann Fabric, HJ Gregg
Merriam Town Center	Merriam, KS	351.2	Ownership	4.7	Cinemark, Hen House, Dick's Sporting Goods, Marshall's, PetSmart

Property <sup>(1)</sup>	Location	Total GLA (sq.ft., '000)	Title	WALE <sup>(2)</sup> (years)	Anchors and Major Tenants
Riverdale Village Inner	Coon Rapids, MN	280.4	Ownership	5.3	JC Penny, Borders, Petsmart, ULTA
Midway Marketplace	St Paul, MN	324.4	Ownership	7.2	Herbergers, Wal-Mart, Cub Foods, LA Fitness
Township Marketplace	Monaca, PA	298.6	Ownership	5.5	Lowe's, Cinemark, Michaels, Petsmart
Cool Springs Pointe	Brentwood, TN	201.4	Ownership	3.1	Best Buy, Ross Dress For Less, DSW, Golf Galaxy, Old Navy
Lake Walden Square	Plant City, FL	261.9	Ownership	3.9	Sweetbay, Premiere Cinema's
Winter Park Palms	Winter Park, FL	112.3	Ownership	2.3	Publix
Piedmont Plaza	Apopka, FL	148.1	Ownership	6.1	Bealls
Union Consumer Square	Buffalo, NY	386.5	Ownership	6.6	Sam's Club, Marshall's, Office Max, Bed Bath & Beyond, Jo-Ann Fabric
Spring Creek	Fayetteville, AR	262.8	Ownership	5.1	Best Buy, Bed Bath & Beyond, TJ Maxx, Old Navy, Jo-Ann Fabric
River Hills	Asheville, NC	191	Ownership	5.4	Carmike Cinema, Dick's Sporting Goods, Office Max, Michaels
Walden Consumer Square	Buffalo, NY	256.5	Ownership	3.6	Target, Price Rite, Office Depot, Michaels, Petsmart
Steele Crossings	Fayetteville, AR	136.9	Ownership	4.9	Kohl's, Petsmart
Towne Center	Nashville, TN	107.9	Ownership	3.4	Toys R Us, TJ Maxx, Jo-Ann Fabric, Party City
Erie Marketplace	Erie, PA	113	Ownership	1.9	Marshall's, Bed Bath & Beyond, Babies R Us

Property(1)	Location	Total GLA (sq.ft., '000)	Title	WALE <sup>(2)</sup> (years)	Anchors and Major Tenants
Premier Place	Buffalo, NY	141.6	Ownership	7.6	Stein Mart, The Premier Group, Hallmark Cards
Union Road Plaza	Buffalo, NY	170.5	Ownership	2.9	Dick's Sporting Goods
Batavia Commons	Batavia, NY	49.4	Ownership	2.7	Dollar Tree, Advance Auto Parts, Ashley Furniture
Walden Place	Buffalo, NY	68	Ownership	4.6	Ollies Bargain Outlet, Destination Maternity
Borders	Buffalo, NY	26.5	Ownership	0.0	Borders
BJ's Plaza	Batavia, NY	95.8	Ownership	4.7	BJ's Wholesale Club, Sears Hardware
Harbison Court	Columbia, SC	255.6	Ownership	3.4	Ross Dress for Less, Marshall's, Barnes & Noble, Office Depot
Lakepointe Crossing	Plant City, FL	315	Ownership	3.4	Academy Sports, Mardell's Bookstore
Pioneer Hills	Aurora, CO	139.5	Ownership	3.4	Bed Bath & Beyond, Office Depot, PetSmart
MacArthur Marketplace	Irving, TX	248.8	Ownership	5.1	Hollywood Theather, Kohl's, PetSmart, Office Max
Grandville Marketplace	Grand Rapids, MI	216.8	Ownership	3.8	Hobby Lobby, Office Max, PetSmart, Cost Plus, Party City
Parker Pavilions	Parker, CO	96.2	Ownership	3.7	Office Depot, PetSmart
The Marketplace at Town Center	Mesquite, TX	178.9	Ownership	4.6	PetSmart, Ross Dress For Less, Michael's
FlatAcres MarketCenter	Parker, CO	133	Ownership	5.9	Sports Authority, Bed Bath & Beyond, Michael's, Famous Footwear
McKinney Marketplace	McKinney, TX	119	Ownership	6.7	Kohl's
Turner Hill Marketplace	Lithonia, GA	125	Ownership	4.4	Toys R Us, Best Buy, Bed Bath & Beyond

Property <sup>(1)</sup>	Location	Total GLA (sq.ft., '000)	Title	WALE <sup>(2)</sup> (years)	Anchors and Major Tenants
Overland Pointe Marketplace	Overland Park, KS	80	Ownership	3.0	Babies R Us, Golf Galaxy
Frisco Marketplace	Frisco, TX	107.5	Ownership	6.8	Kohl's
Shops at Turner Hill	Lithonia, GA	38.7	Ownership	2.9	Panera Bread, Beautiful Smiles, Supreme Fish Delight, Caribbean Grill, Cuts and Coffee
Shoppers' World	Brookfield, WI	778.5	Ownership	3.7	AMC Theater, Kohl's, Best Buy, Marshall's, Toys R Us
Woodfield Village Green	Chicago, IL	509	Ownership	4.7	Nordstrom Rack, Marshall's, Michaels, Saks Off Fifth, PetSmart
Fairfax Towne Center	Washington D.C.	253.3	Ownership	4.8	Safeway, Regal, Bed Bath & beyond, TJ Maxx, Jo-Ann Fabric
Carillon Place	Naples, FL	267.8	Ownership	3.8	Wal-Mart Neighborhood Market, TJ Maxx, Ross Dress For Less, Office Max, Beall's Outlet
Riverchase Promenade	Birmingham, AL	120.1	Ownership	4.5	Jo-Ann Fabric, Hancock Fabric, David's Bridal
Jo-Ann Plaza	Clarence, NY	92.7	Ownership	3.0	Jo-Ann Fabrics, Big Lots, Office Max
Roswell Crossings (3)	Roswell, GA	202	Ownership	4.0	Office Max, PetSmart, Trader Joe's

(1) All figures represent 100% of each property in which EDT holds an interest.

(2) "WALE" means weighted average lease expiry, weighted by the annual base rent (i.e., the total amount of annual contractual rent payable by tenants).

(3) This asset was acquired within the framework of a transaction signed on December 23, 2010, and subsequently amended, to purchase certain retail shopping centers located in the states of Georgia, Oregon and Florida from certain affiliates of Charter Hall Retail REIT. Consequently, EPN acquired one of the assets located in Athens, Georgia, for a purchase price of approximately \$21.5 million and assumed bank loans of approximately \$14 million.

In January 2012, the EPN Group entered into an agreement to sell 47 shopping centers (out of 49) located throughout the United States that were previously held by EDT (the "Properties"), to BRE DDR Retail Holdings LLC, a joint venture between Blackstone Real Estate Partners VII L.P. and/or its affiliates and DDR Corp. (formerly known as Developers Diversified Realty Corporation) and/or its affiliates, for a purchase price of \$1.43 billion. Total property level debt to be repaid by the EPN Group or assumed by BRE DDR Retail Holdings LLC was approximately \$934 million as of the date of the agreement. The transaction is expected to close in June 2012, and is subject, inter-alia, to approval of the applicable lenders to the assignment and assumption of the above mentioned assumed debt, and satisfaction of certain other closing conditions.

Following the sale of the Properties, the EPN Group will continue to hold two properties in the United States, Lakepointe Crossing and Roswell Crossings, that are valued at approximately \$43 million with total non-recourse secured debt of approximately \$14 million.

***Establishing New Fund in the United States***

At this time we are working on establishing a new fund in the United States, for which we will draw upon our track record of experience in the United States. Our business concept and strategy in this field is to focus on acquisition of stable, dominant, institutional quality (primarily A, A-) U.S. retail properties, from capital-seeking owners and lenders. We intend to hold the assets for a period of three to five years, until U.S. assets are traded again at their historical yields and values. During this period our U.S. investment platform will engage in active asset management, so 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 U.S. investment platform to sell its assets as a portfolio 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.

**Hotels**

***General***

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

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

***Ownership Structure of Hotels***

Our ownership percentage in our hotels varies, and the interests in those hotels that are not owned by us are owned by various unrelated third parties.

***Management of Hotels***

Rezidor manages two of our hotels in Belgium and our Radisson Blu hotel complex in Romania.

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

We are entitled to terminate the management agreements with Rezidor (excluding the Radisson Blu Bucharest Hotel agreement), subject to payment of a termination fee to Rezidor.

***Business Concept and Strategy***

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

***Location:*** Our hotels are generally situated in close proximity to major railway links into cities, such as the central railway station in Antwerp (situated opposite our Radisson Blu Astrid Antwerp Hotel and next to the Park Inn Antwerp). The Antwerp station accommodates the services of the high-speed Train de Grand Vitesse (the "TGV").

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

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

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

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

#### **Operating Hotels**

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

Name and Rate of Hotel	Title	Our Share As of December 31, 2011	Approximate Constructed Area (square feet)	Total Rooms and description	Average Occupancy Rates During 2011 (%)	Additional information
<b>Radisson Blu Astrid Antwerp</b> Antwerp, Belgium Four Star Deluxe	Freehold	100%	223,000	247 rooms including business class suites & 19 new luxury apartments	73%	Includes an oceanarium attraction, 18 conference rooms, a bar, a restaurant and a fully equipped health club with a pool
<b>Radisson Blu Bucharest</b> Bucharest, Romania Five Star Hotel and ApartHotel (formerly Centerville)	Freehold	77%	900,000	424 rooms suites, executive suites and one exclusive royal suite and 292 apartments	71%	The complex of both hotels includes several restaurants, a spa and a world class health academy, casino, shopping area and supermarket services
<b>Park Inn</b> Antwerp, Belgium Three star boutique	Freehold	100%	32,250	59 rooms going from standard to junior suite with terrace	85%	Includes a restaurant, a lounge and a fitness room

Average room rate for 2011, for our hotels in Belgium was: €112 (approximately \$145); and average room rate for 2011, for our hotels in Romania was: €83 (approximately \$107).

Revenue per Available Room ("RevPar") for 2011, for our hotels in Belgium totaled: €84 (approximately \$109); and RevPar for 2011, for our hotels in Romania totaled: €59 (approximately \$76).

#### **Recent Acquisitions and Dispositions of Hotels**

On December 31, 2010, we sold to a wholly-owned subsidiary of PPHE Hotel Group Limited ("PPHE", formerly known as Park Plaza Hotels Limited) all of our holdings in three companies that own three hotels in London, England, for a total consideration of £21 million, representing a total estimated asset value for the hotels of £230 million. The consideration is being 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.

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. The acquisition was executed through a partnership jointly and equally controlled by us and PPHE. The hotel offers 342 rooms and over 1,800 square meters of flexible meeting space. The hotel operates under the "Park Plaza" brand name.

In March 2012, we entered into a share purchase agreement with PPHE for the sale of our holdings in certain subsidiaries (the "Purchased Companies") which own 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 are jointly owned by us and PPHE and are managed by PPHE. The transfer of title in the shares of the Purchased Companies to PPHE and the due date for the payment of the consideration, are scheduled to occur following the satisfaction of certain conditions, which are expected to be fulfilled by no later than May 30, 2012 ("Transfer Date"). The transfer of risk and benefit deriving from the hotels and the Purchased Companies to PPHE was made as of March 30, 2012. The transaction reflects an asset value of €169 million (approximately \$219 million) for all four hotels. The total net consideration payable to us is €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 will be eliminated from our consolidated balance sheet. The consideration will be paid in the following manner: (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 to €1.5 million (approximately \$2 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 gain which will be recognized in our financial statements as a result of the transaction is estimated at approximately NIS 180 million (approximately \$47 million).

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

##### ***Plot in Tiberius, Israel***

In July 2007 we entered into an agreement with the Israel Land Administration, according to which we leased a plot of approximately 44,600 square meters in Tiberius, Israel for a term of 49 years (through 2056) with an option to extend the lease term for an additional 49 years. The total consideration paid amounted to NIS 30.6 million. We intend to build a luxury hotel on the site. Under the agreement, we undertook to complete the construction work of the hotel within a period not exceeding 36 months (July 2010). During 2010 we received an extension of an additional three years until July 2013 to complete the construction of the hotel. Also under the agreement, we provided the Israel Land Administration with two bank guarantees in the aggregate amount of NIS 10 million, linked to the Israeli Consumer Price Index in order to secure our undertakings under the lease agreement. The agreement may be terminated upon a breach of its terms.

Pursuant to our policy with respect to projects under construction, the development and construction work on this project will not commence until satisfactory financing to fund the construction and development is obtained, whether through bank loans, by receiving advance payments on units sold or by introducing new investment partners to participate in the project.

#### ***Medical Companies***

On November 24, 2010, we closed a transaction to restructure our holdings in the medical companies InSightec Ltd. ("InSightec") and Gamida Cell Ltd. ("Gamida"), under Elbit Medical Technologies Ltd. (formerly Enter Holdings 1 Ltd.), an Israeli company traded on the TASE ("Elbit Medical"). In consideration for our shares of InSightec representing 65.9% of InSightec's outstanding share capital as of that date and our shares of Gamida representing 31.6% of Gamida's outstanding share capital as of that date, we were issued Elbit Medical shares 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 aforesaid shares constituted 97.9% of Elbit Medical's share capital (on a fully diluted basis) at that time.

In addition, on December 8, 2010, Elbit Medical issued shares in a private placement in the aggregate amount of NIS 19 million, including a two year option to invest an additional aggregate amount of NIS 19 million, all at a pre-money valuation of Elbit Medical of NIS 800 million (on a fully diluted basis, without taking into account the value of the aforementioned options). Following the completion of this private placement, we hold 93.47% of Elbit Medical's share capital (on a fully diluted basis).

On March 13, 2011, we entered into a credit facility with Elbit Medical (which has since been amended), pursuant to which we have provided Elbit Medical with a credit line up to an aggregate amount of NIS 39 million. The amounts drawn down from the credit facility will not bear any interest but will be linked to the Israeli consumer price index. The credit line is available to Elbit Medical until April 2013. To date, Elbit Medical has drawn down NIS 39 million from the credit facility amount. The maturity date of the loan (as amended) is April 1, 2013.

#### InSightec Ltd.

We indirectly hold, through Elbit Medical, approximately 65.90% of the outstanding share capital (53.05% on a fully diluted basis) of InSightec, a company that operates in the image guided treatment field.

Other shareholders of InSightec include GE and MediTech Advisers LLC ("MTA"). Employees, directors, officers and other investors hold the remaining shares of InSightec. The fully diluted holdings in InSightec are calculated including certain convertible loans to purchase InSightec's Preferred B-1 shares convertible into ordinary shares.

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

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

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

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

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

On March 9, 2010, we entered into a credit facility with InSightec (which has since been amended), pursuant to which we have provided InSightec with a credit line up to an aggregate amount of NIS 58.9 million. The annual interest on amounts drawn down from the credit facility is 6.7% and is linked to the Israeli consumer price index. To date, InSightec has drawn down NIS 58.2 million from the credit facility amount. The maturity date of the loan (as amended) is April 1, 2013.

In August 2011 we extended our commitment to provide InSightec with financial support by providing a "financial support letter" up to an aggregate amount of \$20 million, as required, on terms to be agreed upon between the parties according to market conditions, in order to enable InSightec to continue its operations until the period ending on April 1, 2013. Subject to the approval of Elbit Medical's board of directors, this financial support letter can be assigned to and assumed by Elbit Medical. As of March 31, 2012, InSightec has drawn down approximately \$5.4 million dollars from this financial support commitment and accordingly the remaining amount that may be drawn down from the financial support letter is \$14.6 million.

On February 23, 2012, InSightec and InSightec's wholly owned subsidiary concluded a series of agreements with GE through its healthcare division ("GEHC") pursuant to which GEHC will provide financing to InSightec in the form of convertible notes up to a total of \$13,750,000, 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.

#### **Business description**

InSightec develops and markets the ExAblate - the first FDA-approved system for magnetic resonance imaging guided focused ultrasound treatment equipment ("MRgFUS"). InSightec's objective is to transform the surgical environment for the treatment of a limited number of forms of benign and malignant tumors by replacing invasive and minimally invasive surgical procedures with an incision-less surgical treatment solution. The system is designed to deliver safe and effective non-invasive treatments while reducing the risk of disease, potential complications, as well as the direct and indirect costs associated with surgery. In October 2004, InSightec received FDA approval to market the ExAblate in the United States for the treatment of uterine fibroids, a type of benign tumor of the uterus. Prior to that, in October 2002, InSightec received authorization to affix the CE marking (marketing approval in the EEA) to the ExAblate, enabling it to market the system for the treatment of uterine fibroids in the European Economic Area and certain Asian countries. InSightec also has regulatory approval to market the ExAblate for the treatment of uterine fibroids in Canada, Russia, Brazil, Mexico, Korea, Taiwan, Australia, New Zealand and Singapore, as well as for the treatment of breast cancer in Korea. In May 2007, InSightec also received CE marking for the pain palliation of bone metastases. In January 2008, InSightec received approval from the Israeli Ministry of Health for the treatment of bone metastases. In April 2009, the U.S. FDA approved expanded guidelines for the uterine fibroid application and in January 2010 InSightec received approval from Japan's Ministry of Health, Labor and Welfare for the marketing of ExAblate for uterine fibroids. ExAblate is currently the only non-invasive treatment for uterine fibroids approved for use in Japan. InSightec is also in various stages of development and clinical research for the application of its MRgFUS technology to the treatment of other types of benign and malignant tumors. These additional applications are being developed to take advantage of the modular design of the ExAblate, which enables it to function as a common platform for multiple MRgFUS-based surgical applications. Currently, InSightec has an installed base of more than 80 units in academic hospitals, community hospitals, MRI clinics and physician-formed joint ventures. Currently, the ExAblate is operable only with certain MRI systems manufactured by GE.

InSightec's MRgFUS technology integrates the therapeutic effects of focused ultrasound energy with the precision guidance and treatment outcome monitoring provided by MRI systems. Ultrasound is a form of energy that can pass harmlessly through skin, muscle, fat and other soft tissue, and is widely used in diagnostic applications. The ExAblate uses a phased-array transducer that generates a high intensity, focused beam of ultrasound energy, or a sonication, aimed at a small volume of targeted tissue. The focused ultrasound energy provides an incision-less therapeutic effect by raising the temperature of the targeted tissue mass high enough to ablate, or destroy it, while minimizing the risk of damage to overlaying and surrounding tissue.

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

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

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

In January 2012 a team at the University of Virginia Medical Center completed a feasibility study testing the use of ExAblate Neuro for the treatment of essential tremor in fifteen adult patients.

#### ***Distribution and Marketing***

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

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

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

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

In addition, InSightec aims to become the market leader in MRgFUS systems and to achieve a significant improvement in the quality and efficacy of the treatment while demonstrating cost effectiveness. To that effect, InSightec is developing the ExAblate® Neuro, a unique system targeted at non-invasive treatment of brain tumors and central nervous system targets. As of January 2012, seven systems were installed, two in Europe, one in Canada, one in Korea and three in the United States. In addition, research and development activities have been initiated towards implementing new product derivatives for treating bone and prostate cancer tumors. These new systems exploit InSightec's new and proprietary dense acoustic array technology for better tumor control and treatment flexibility.

#### **Gamida Cell Ltd.**

We indirectly hold, through Elbit Medical, approximately 31.64% of the outstanding share capital (29.2% on a fully diluted basis) of Gamida.

Other shareholders of Gamida include Clal Biotechnology Industries, Israel Healthcare Venture, Teva Pharmaceuticals, Amgen, Denali Ventures and Auriga Ventures.

In March 2012 Gamida announced an internal investment round by its existing shareholders, aiming to raise up to \$10 million. We intend to invest approximately \$3 million in the round, in order to preserve our ownership percentage in Gamida.

Gamida is a leader in stem cell expansion technologies and therapeutic products. Its lead product, StemEx® is currently being tested in a phase III international registration clinical trial for hematological malignancies. The enrollment and infusion of all 100 patients in this study was accomplished in February 2012. The marketing approval of StemEx is expected in 2013. StemEx is being developed by a joint venture established in 2005 between Gamida and Teva, in which Gamida owns 50%. The joint venture owns all global rights for the commercialization of StemEx. In July 2008, Gamida signed a licensing agreement with Amgen for the use of a number of proprietary cytokines in the manufacturing of StemEx.

Gamida is developing a pipeline of cell therapeutics in the areas of cancer, hematological diseases, autoimmune diseases, and regenerative medicine. Gamida's therapeutic products are allogeneic and contain adult stem cells selected from non-controversial sources, such as umbilical cord blood. These stem cells are then enriched in culture using Gamida's proprietary expansion technologies. Gamida was successful in translating these technologies into robust manufacturing processes under GMP, which are cost effective and efficient for commercial production. Gamida's technologies and products are protected by more than 20 patents worldwide and numerous patent applications.

Based on an extensive understanding of stem cell expansion and bone marrow transplantation accumulated through the development of StemEx, Gamida is now developing NiCord™, which is intended for patients with malignant and non-malignant hematological diseases as well as autoimmune diseases. Gamida is currently enrolling patients in a pilot clinical study of NiCord in the United States, under an Investigational New Drug (IND) Application.

#### **Residential Projects**

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

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

In August 2008 we signed a joint venture agreement with PC for the development of major mixed-use projects in India (except for projects which are only or mainly shopping and entertainment centers, which will be developed only by PC and are excluded from the framework of this joint venture). Under this agreement, PC acquired from us a 47.5% stake in our subsidiary Elbit Plaza India Real Estate Holdings Limited ("EPI"). We, directly and through EPI, own two mixed-use projects in India in conjunction with local Indian partners, namely the Bangalore and the Chennai projects, and have engaged with certain third parties with the intent to develop an additional project on the Kochi Island. EPI will also look for further development opportunities for large scale mixed-use projects in India, predominantly led by either residential, office or hotel developments (the "EPI Agreement"). Under the EPI Agreement, we are to hold in trust 50% of our rights in the Kochi Island project in favor of PC. We undertook to transfer our right and holdings in the Kochi project to EPI within 12 months following the execution of the EPI Agreement, or alternatively transfer 50% of such rights directly to PC. We furnished PC with a guarantee for the fulfillment of this undertaking. This undertaking and guarantee have since been extended until August 25, 2012.

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

Following the execution of the EPI Agreement, PC and us each hold 50% of the voting rights (excluding the voting rights relating to the Series B shares constituting 5% of the currently issued and outstanding share capital of EPI, which are held by our former Executive Vice Chairman, so long as the resolution tabled for vote may impact its rights) in EPI and 47.5% of the equity. The additional 5% of the equity rights that are held by our former Executive Vice Chairman were allotted to him in accordance with the agreement executed by us and our former Executive Vice Chairman in January 2008. For additional information, see "Item 6.B. Directors, Senior Management and Employees - Compensation of Directors and Officers - Agreements with our Former Executive Vice Chairman."

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

The EPI Agreement terminated, by mutual consent, a previous sourcing agreement signed and executed between us and PC in October 2006, under which we undertook to offer PC potential real estate development sites sourced by us in India, suitable for shopping and entertainment center development projects as well as mixed-use projects (the "Sourcing Agreement"). Our undertakings in the Sourcing Agreement were reflected in the EPI Agreement.

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

**Residential Projects**

As at the date of this annual report, our Residential Project segment of operations includes a total of 12 projects in various stages of planning, development and construction, including eight residential projects and four mixed-use real property projects which are predominantly residential. Our projects are located in the Czech Republic, Poland, Romania and India.

Name of Project	Location	Title	Share %	Approximate Land Area (m <sup>2</sup> )	Approximate Gross Built Area (m <sup>2</sup> )	Estimated Completion	
Prague III *	Prague, Czech Republic	Ownership	100	46,500	61,600	-*	
Roztoky	Prague, Czech Republic	Ownership	100	39,000	14,000	2013-2014	
Łódź	Łódź, Poland	Ownership	100	33,500	80,000	-	
Fountain Park	Bucharest, Romania	Ownership	12.5	14,000	16,600	2012-2013	
Plaza BAS Joint Venture	Acacia Park	Ploiesti, Romania	Ownership	25	12,500	32,000	2011-2013
Green Land	Ploiesti, Romania	Ownership	25	18,400	25,800	2013-2014	
Poiana Brasov	Brasov, Romania	Ownership	25	73,000	138,000	2014-2016	
Pine Tree Glade	Brasov, Romania	Ownership	25	28,300	40,000	2013-2014	

\* Currently operates as a logistics and commercial center and an office building with GLA of approximately 44,300 square meters.

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

- With respect to the projects developed in Romania - €230 million (approximately \$297 million);
- With respect to the projects developed in Poland - €210 million (approximately \$272 million); and
- With respect to the projects developed in the Czech Republic - €130 million (approximately \$168 million).

*Mixed-Use / Residential Projects*

Name of Project	Location	Title	Share %	Approximate Land Area (m <sup>2</sup> )	Approximate Gross Built Area (m <sup>2</sup> )	Estimated Project Phase Completion
<b>Bangalore Project</b>	Bangalore, Karnataka State, India	Freehold and Development Rights	1, 2, 3	667,600 at first phase (of which rights to 218,500 obtained so far) <sup>5</sup>	320,000	2012-2018
<b>Chennai</b>	Chennai, Tamil Nadu State, India	Ownership	80 <sup>1, 2</sup>	365,000 (of which rights to 296,000 obtained so far) 166,000 (of which rights to 52,600 obtained so far)	1,060,000	2013-2018
<b>Kochi</b>	Kochi, Kerala State, India	Freehold and Development Rights	50 <sup>1, 2</sup>	575,000	Preliminary stage - under planning	
<b>Trivandrum</b>	Trivandrum, Kerala State, India	Ownership	50 <sup>1, 3, 4</sup>	43,500	Planning stage	

- 1 For information regarding the EPI Agreement, a joint venture agreement signed with PC in respect to our India operations, see " - joint venture with PC to Develop Mixed-Use Projects in India" above.
- 2 For information regarding the rights of Mr. Abraham (Rami) Goren, our former Executive Vice Chairman of the board of directors, in the projects, see "Item 6.B. Directors, Senior Management and Employees - Compensation of Directors and Officers - Agreements with our Former Executive Vice Chairman."
- 3 Effective holding in the project is subject to certain conditions as described below under "- Bangalore, Karnataka State, India."
- 4 Negotiating with local developer. Definitive agreement expected to be signed in the near future.
- 5 The original scope of the project was reduced from approximately 440 acres to approximately 165 acres. The above data relates to the project as revised pursuant to a framework agreement dated July 22, 2010.

Total additional costs of construction required for completion of all of the above projects in India is estimated at INR 52,800 million (approximately \$991 million).

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

*Bangalore, Karnataka State, India*

In March, 2008 EPI entered into an amended and reinstated share subscription and framework agreement with a local third party and a wholly owned Indian subsidiary of EPI ("SPV"), for the joint development of a large scale mixed-use project located in Bangalore, Karnataka, India which will include villas (bungalows) and high-rise buildings, office complexes, a major retail facility, hotel complex, a hospital along with services and amenities, a golf course, club houses and more. Under the agreements, EPI and the local partner will acquire, through the SPV, up to 440 acres of land in Bangalore, India (the "Project Land"). As of December 31, 2011, the SPV has secured rights over approximately 54 acres and the total aggregate consideration paid was approximately INR 2,843 million (approximately \$53.4 million).

In addition, the SPV has paid the Partner advances of approximately INR 2,536 million (approximately \$47.6 million) on account of future acquisitions by the SPV of a further 51.6 acres.

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.

Under the new framework agreement, the scope of the new project will be decreased in the first phase to approximately 165 acres instead of the original 440 acres and the third party seller undertook to complete the acquisitions of the additional land in order to obtain the rights over all 165 acres of the project. EPI will remain the holder of 100% of the shareholdings and the voting rights in the SPV. Neither EPI nor the SPV will be required to pay any additional amounts in respect of the land acquisitions or with respect to the project. The project will be executed jointly by the third party seller and the SPV. The seller (or any of its affiliates) will also serve as the general contractor and marketing manager of the project. The seller is also committed to minimum sale prices, maximum construction costs and a detailed timeline and budget with respect to the development of the project. The seller undertook to complete the acquisitions of the additional land in order to obtain the rights over said 165 acres.

Under the new framework agreement, we will receive distributions of approximately 70% of the profits from the project (including from any sale by the seller or any transaction with respect to the original land which does not form part of the 165 acres), until EPI achieves a return on its investment in the amount of INR 5,780 million (approximately \$108.5 million) plus an Internal Return Rate ("IRR") of 20% per annum calculated from September 30, 2009. Following this date, EPI will not be entitled to receive any additional profits from the project and it will transfer the entire shareholdings in the SPV to the seller for no consideration. The seller also has a call option, subject to applicable law and regulations, to acquire the entire shareholdings of the SPV, at any time, in consideration for EPI's investment plus an IRR of 20% per annum calculated on the relevant date.

The new framework agreement will enter into effect upon execution of certain ancillary agreements described therein as well as satisfaction of certain other conditions. The original framework agreement may be reinstated upon the occurrence of certain events as specified in the new framework agreement.

The first phase of the project will comprise of 165 acres consisting of exclusive plotted housing units such as villas and row-houses and ancillary amenities such as club houses, swimming pools and sport facilities.

In January 2011, our local Indian partner, Mantri Developers Pvt. Ltd., ("MDPL") submitted the development plans pertaining to 84 acres included in the scope of the new project to the local planning authority, the Bangalore Development Authority ("BDA"). In October 2011, the BDA furnished the MDPL with its reply, stating that the development plans cannot be considered due to a future state plan to acquire the lands on which the new project is proposed to be situated (among other lands in the same area) and allot it to the public under a special plan. The government had not yet published any notice in this respect, as required by law in order to validate such a plan. In January 2012, the MDPL 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 granted the MDPL's petition by ordering the BDA to consider the development plans submitted by the MDPL, while ignoring any future state plan to acquire the lands on which the new project is proposed to be situated. We are currently waiting for the court's formal approval.

*Chennai, Tamil Nadu State, India*

In December 2007 EPI, executed agreements for the establishment of a special purpose vehicle ("Chennai SPV Company") together with one of the leading real estate developers in Chennai. Subject to the fulfilment of certain conditions, the Chennai SPV Company will 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 these agreements, EPI is to hold 80% of the equity and voting rights in the Chennai SPV Company, while the Local Partner will retain the remaining 20%.

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

Due to changes in market conditions, EPI and the Chennai SPV Company later decided to limit the extent of the project to 93 acres.

The total investment which we anticipate will be made by us by virtue of our 80% interest in this project is in the aggregate amount of INR 2,842 million (approximately \$53.4 million), assuming that the entire area of 93 acres is acquired by the Chennai SPV Company.

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

As at the date of this annual report, EPI has completed the purchase of approximately 75 acres out of the total 93 acres for consideration of approximately INR 2,367 million (approximately \$44.4 million). An additional amount of INR 564 million (approximately \$10.6 million) was paid in advance in order to secure the acquisition of an additional 18 acres.

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

We intend to develop a mixed-use project on this land, which will consist of exclusive residential units (in both high rise buildings and villas), ancillary amenities such as club houses, swimming pools and sport facilities, a local retail facility and an office complex with a built area of approximately 1,060,000 square meters, all subject to approval of the building permits by the competent authorities. It is anticipated that construction of this project, which will be executed in stages, will last approximately five years.

*Kochi, Kerala State, India*

We have invested in a real estate project located in Kochi, a site located on a backwater island adjacent to the administrative, commercial and retail hub of the city of Kochi, in the Kerala State of India, for the construction and development on an area of land measuring 41 acres, of a project comprised of high end condominiums, a luxury hotel, office space, retail area and a European style marina, with approximately 575,000 square meters GBA.

As part of this project, in September 2006, we, together with an Indian corporation ("Project SPV") wholly owned by a third party (the "Third-Party Shareholder"), entered into an agreement (as subsequently amended in January 2007) for the purchase by us and the Project SPV of an area of land measuring 13 acres (approximately 52,600 square meters) ("Property A") for a total consideration of INR 1,495 million (approximately \$28.1 million), payable subject to fulfillment of certain obligations and conditions by the seller in respect of Property A, principally the obtaining all permissions required for construction thereon and making good and marketable title with regard to Property A.

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

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

In September 2006, we, the Third-Party Shareholder and the Project SPV entered into a share subscription agreement according to which we transferred to the Project SPV all of our right in Property A in consideration for the allotment to us of 50% of the equity and voting rights in the Project SPV. The allotment of shares has not yet been executed because is subject to the fulfillment of certain regulatory conditions, in respect of the land and the securing of sanctioned plans.

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

**Fashion Apparel**

Our fashion business is operated through our wholly owned subsidiary Elbit Fashion.

In April 2012, we completed the sale of all our shares in Elbit Trade & Retail Ltd. and all the interests in G.B. Brands, Limited Partnership, which was the franchisee of the Gap™ and Banana Republic™ brands, to Gottex Models Ltd. ("Gottex"), for a purchase price of approximately NIS 57.9 million (including the payment for the inventory purchased by Gottex and certain working capital items included in the closing initial balance sheet), which amount is subject to adjustment based upon Elbit Trade & Retail Ltd.'s financial statements as of the closing date.

On March 22, 2012, we entered into a termination agreement with G-Star International B.V. to end our exclusive license to distribute G-Star™ products in Israel within the time period set forth in the agreement.

Following the assignment of the franchise agreement to it from Elbit Trade & Retail Ltd., Elbit Fashion is the exclusive Israeli distributor and retailer of the internationally renowned retail brand name MANGO-MNG™. The exclusive distribution rights for Mango products in Israel were granted to us by Punto Fa for a ten-year period ending in 2015. Under the agreement with Punto Fa, Elbit Fashion has agreed to guarantee annual minimum purchases at rates and subject to terms and conditions specified in the agreement. Elbit Fashion has also entered into an agreement with Punto Fa pursuant to which Punto Fa provides certain marketing, public relations and store-support services to Elbit Fashion. Elbit Fashion currently operates 26 Mango stores in Israel, with an additional store currently under construction.

#### Other Activities

Our other activities consist of (a) various venture capital investments and (b) investments in hospitals and farm and dairy plants in India.

We have presently decided to suspend our investment activities in hospitals and farm and dairy plants in India until we are satisfied that the economy has recovered sufficiently to resume such activities.

#### *Venture Capital Investments*

Set forth below is information with respect to our venture capital investments.

<b>Company Name</b>	<b>Areas of expertise</b>	<b>% of investment as of April 2012</b>
Olive Software Inc.	Development and marketing of products that enable a transparent link between the newspapers' traditional printing systems and the world of e-publishing. These products enable newspapers and magazines to automatically present their printed edition on the Internet, while supporting e-commerce applications, personalization and interactive advertising. Also develops and markets digital archive services for newspapers and libraries.	19.41% of the issued and outstanding share capital. 16.34% on a fully diluted basis.
Varcode Ltd.	Developing labels for improving logistical chain ("cold chain") of manufacturers. Varcode uses its FreshCode products to monitor anomalies and improve the shelf life of perishables.	55.94% of the issued and outstanding share capital. 54.47% on a fully diluted basis. (*)

(\*) In addition (i) we have guaranteed a \$250,000 bridge loan that was extended by a third party to Varcode Ltd. ("Varcode") the due date of which is August 30, 2012 (provided however that lender may accelerate the due date by a 30-day notice) and (ii) extended ourselves to Varcode a \$290,000 bridge loan, the due date of which is the date in which the aforementioned bridge loan is due.

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

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

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>Convenience Translation in U.S. Dollars for 2011</b>
Israel	183,552	171,275	132,021	48,038
Western Europe	171,359	484,617	293,921	44,847
Central and Eastern Europe	246,860	232,044	241,866	64,606
United States	350,788	568,413	19,122	91,805
Others	58,740	17,363	9,870	15,372
<b>Total Revenues</b>	<b>1,011,298</b>	<b>1,473,712</b>	<b>696,800</b>	<b>264,668</b>

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

	2011	2010	2009	Convenience Translation in U.S. Dollars for 2011
<b>Shopping and Entertainment centers</b>				
U.S. Real Property	111,726	102,895	102,937	29,240
Hotels	355,625	162,688	-	93,071
Medical Companies	286,548	602,599	396,736	74,993
Residential Projects	53,324	33,631	75,318	13,955
Fashion Apparel	3,544	-	-	927
Other	183,552	174,817	118,386	48,038
Total Revenues	<u>1,011,298</u>	<u>1,473,712</u>	<u>696,800</u>	<u>264,668</u>
<b>Gain from bargain purchase – U.S. Real Property</b>				
Gain from changes of shareholding in investee	15,450	397,082	-	4,044
<b>Total</b>	<u>1,011,298</u>	<u>1,473,712</u>	<u>696,800</u>	<u>264,668</u>

#### Seasonality

##### *United States Real Property*

The U.S. shopping center business is, to some extent, seasonal in nature with tenants typically achieving the highest levels of sales during the fourth quarter due to the holiday season, which generally results in higher percentage rent income in the fourth quarter. Additionally, shopping centers earn most of their "temporary" rents (rents from short-term tenants) during the holiday period. Thus, occupancy levels and revenue production are generally the highest in the fourth quarter of each year. Results of operations realized in any one quarter may not be indicative of the results likely to be experienced over the course of our fiscal year.

##### *Hotels*

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

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

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

#### *Fashion Apparel*

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

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

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

Pursuant to our agreements with Rezidor, our hotels are managed under the names: "Radisson Blu" and "Park Inn." We have also registered our CenterVille operations as a trademark in Romania. In November 2010 we entered into an agreement with Rezidor pursuant to which the CenterVille apartment hotel, which is located next to the Radisson Blu Bucharest Hotel, will be managed by Rezidor so that both hotels will be operated as one complex, under the "Radisson Blu" brand.

InSightec's intellectual property includes ownership of 107 patents, out of which 40 are registered in the United States, 55 in various European countries, six in Japan and six in China. In addition, InSightec has submitted 60 patent applications, which remain pending and in process.

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

In our fashion and retail operation, our products are traded under the trademark: MANGO-MNG™ - pursuant to a license granted by Punto-FA.

#### **Competition**

##### *Shopping and entertainment centers*

We have been active in emerging markets since 1996, when we opened the first western-style shopping and entertainment center in Hungary and began to implement our vision of offering western-style retail and entertainment facilities to a growing middle class and an increasingly affluent consumer base. Over the past 16 years, we have expanded our operations in Central Europe and eastward into Poland, Greece, the Czech Republic, Latvia, Serbia, Romania, Bulgaria and India, and have proven our ability to anticipate and adapt to market trends and deliver innovative large-scale projects.

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

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

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

In Pune, India, our main competitors in shopping and entertainment centers are Phoenix Market City (which is a 1 million square foot mall) and Inorbit Mall (which is a 275,000 square foot mall). We will also have competition from small malls such as Central and Mariplex Gold located in Kalyani Nagar and from a mall located in Bund Garden Road.

#### *United States Real Property*

The U.S. retail industry is dynamic and competitive. The shopping centers in our U.S. investment platform compete with numerous merchandise distribution channels including regional malls, outlet centers, community/lifestyle centers, and other shopping centers in the United States and abroad. Internet retailing sites and catalogs also provide retailers with distribution options beyond existing brick and mortar retail properties. The existence of competitive alternatives could have a material adverse effect on our ability to lease space and on the level of rents we can obtain. This results in competition for both the tenants to occupy the properties that we develop and manage as well as for the acquisition of prime sites (including land for development and operating properties). We believe that there are numerous factors that make our properties highly desirable to retailers including:

- the quality, location and diversity of our properties;
- our management and operational expertise; and
- our extensive experience and relationships with retailers and lenders.

EDT competes with a number of private and publicly traded retail real estate companies in the U.S. who offer competitive space to both larger and smaller retailers. Competitors vary widely within each individual market where the company owns assets. There are a number of large owners and operators in the grocery anchor and power center retail real estate business which include by way of example Kimco Realty Corporation, Federal Realty Investment Trust, Developers Diversified Realty, Regency Centers Corporation, Equity One Inc., Inland Real Estate Group of Companies, Inc. and Weingarten Realty Investors.

In addition, there are also a number of regional mall owners and operators who secondarily compete with EDT in leasing space and these include Simon Property Group, General Growth Properties, Westfield Group, and Macerich as examples. While many of the above companies operate on a national or regional platform, they do not necessarily operate in every market where EDT Retail owns and operates assets.

#### *Hotels*

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

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

Many of these other companies are larger than us. However, we believe that our hotels nevertheless offer quality and value for competitive prices. In addition, our cooperation with Rezidor, using the Radisson Blu and Park Inn brands assists us in gaining recognition, as Rezidor is one of the fastest growing management companies in Europe.

#### *Medical Companies - InSightec*

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

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

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

In recent years, GE's main competitors in magnetic resonance imaging, Philips and Siemens, have developed MRgFUS devices. Philips designs and manufactures their own system whereas Siemens has partnered with Chongqing Haifu, a Chinese manufacturer of therapeutic ultrasound systems. In 2010 Philips announced that their MRgHIFU Sonalleve device for treatment of uterine fibroids received a CE Mark and is available commercially in Europe and other countries that recognize the CE regulation. In 2011 ECR Philips also announced that Sonalleve has been cleared for treating painful bone metastases. As of January 2012, Philips has installed at least 22 systems worldwide. Some sites are participating in an FDA Phase III study for the treatment of uterine fibroids. This validates the uterine fibroid application for which InSightec's ExAblate received FDA approval in 2004. Siemens and Chongqing Haifu have treated 23 patients in a Chinese study, and one paper has been published on this data. Siemens/Chongqing has no systems installed outside of China and as of 2011 it is not clear whether this partnership still exists.

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

In the area of treating brain disorders (tumors, CNS, stroke, mediated drug delivery) using MRgFUS, InSightec faces potential competition from the French company Supersonic Imagine. The company has been developing a product similar in capabilities to InSightec's ExAblate Neuro device. The Supersonic Imagine device is still in a pre-clinical development stage.

At present, to our knowledge, the Chinese ULSgFUS companies have focused their marketing efforts in Asia. Chongqing Haifu has placed systems in the United Kingdom (1), Spain (1), Russia (1) and Italy (1) and obtained a CE mark for treating liver and kidney cancer. The French (EDAP TMS) and U.S. (Focus Surgery Inc. and USHIFU Inc.) FUS companies focus on ultrasound-guided treatment of prostate cancer disease. To the extent InSightec enters the U.S. or European markets for the treatment of prostate cancer it may face competition from both of these companies.

#### *Residential Projects*

In Bangalore, India, the main current competitors in residential projects are Prestige Group, Adarsh Developers, Chaitanya, Total Environment and Alliance Group as well as other small scale developers.

In Chennai, India, the main competitors in residential projects are "Eden Park" developed by L&T, "Upscale" developed by Hiranandani, "Adora" developed by Akshaya Home, "Opaline" developed by Olympia, "Synergy" developed by Mantri and "Swan lake" developed by Purvankara as well as other small scale developers.

#### *Fashion Apparel*

Elbit Fashion operates in a competitive market characterized by a large and increasing number of international and local brand stores and independent stores in Israel. Elbit Fashion's direct competitors include brand stores such as H&M, Zara, Castro, Fox, H&O, Honigman, Renuar and Golf which are located in the vast majority of the shopping centers in Israel. Increased competition could result in pricing pressure or loss of market share and adversely affect Elbit Fashion's revenues and profitability. Elbit Fashion's competition strategy includes: investing in branding, maintaining a compatible pricing strategy, expanding the existing customer loyalty program, spreading the chain of stores, making them accessible to the Israeli consumer, offering leading innovativeness in fashion apparel trends and providing a unique buying experience and service.

#### *Governmental Regulation*

##### *Shopping and entertainment centers*

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

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

In India, the term "real estate" has not been formally defined. A reference to this term is found in the National Industrial Classification Code, 1987 ("NIC Code") under Group 820, which deals with the purchase, sale, letting and operating of real estate such as residential and non-residential buildings, developing and sub-dividing real estate into lots, lessor of real property, real estate agents, brokers and managers engaged in renting, buying and selling, managing and appraising real estate on a contract or fee basis. The FDI Policy (as defined below) refers to the term "real estate business," which includes dealing in land and immovable property with a view to earning profit or income therefrom. Foreign direct investment ("FDI") in the real estate sector in India is governed by provisions of the Foreign Exchange Management Regulation and the consolidated FDI policy issued by the Department of Industrial Policy and Promotion of the Indian Ministry of Commerce and Industry, through various Press Notes ("FDI Policy"). The last release with respect to the FDI Policy was a Consolidated FDI Policy circular issued by the Department of Industrial Policy and Promotion (DIPP) of the Indian Ministry of Commerce and Industry, made with effect from April 1, 2010. FDI in real estate business is restricted under the FDI Policy, as stipulated in Press Note 2 (2005 Series) and Press Note 2 (2009 Series) and the Consolidated FDI Policy issued by the Department of Industrial Policy and Promotion of the Indian Ministry of Commerce and Industry. Under the FDI Policy, FDI is allowed up to 100% under the automatic route in townships, housing, built-up infrastructure and construction-development projects (which includes, but is not restricted to, housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure), subject to restrictions pertaining, inter alia, to the following matters: (a) minimum area to be developed under each project; (b) minimum capitalization for each project; (c) non-repatriation of original investment (lock-in period); (d) project completion schedule; (e) conformance with local laws and applicable standards; (f) obtaining necessary approvals; and (g) supervision by the state government/ municipal/local body concerned.

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

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

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

There is an increasing awareness of environmental issues in CEE and India. This may be of critical importance in areas where soil pollution may be prevalent. If a property that we acquire turns out to be polluted, such a finding will adversely affect our ability to construct, develop and operate a shopping and entertainment center, a hotel or a residential project on such property. This may have a significant impact on development budget and schedules and may have a detrimental effect on the viability or marketability of the development or cause legal liability in connection with a portfolio asset. We may be liable for the costs of removal, investigation or remedy of hazardous or toxic substances located on or in a site owned or leased by us, regardless of whether we were responsible for the presence of such hazardous or toxic substances. The costs of any required removal, investigation or remedy of such substances may be substantial and/or may result in significant budget overruns and critical delays in construction schedules. The presence of such substances, or the failure to remedy such substances properly, may also adversely affect our ability to sell or lease such property or to obtain financing using the real estate as security.

#### *Residential Projects*

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

#### ***Hotels***

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

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

In most of the countries in which we operate hotels, we are required to comply with various regulations in connection with employees, in particular working hours' regulations. For example: the hotel and restaurant industry in The Netherlands has a collective labor agreement which provides a grading system for employees in the hotel and restaurant industry. For each grade there is a minimum wage mandated. Among other things, the provisions of the collective labor agreement obligate the employer to provide money for employees for a number of funds. Also, the total obligations of companies that might arise from the termination of employees cannot be predicted.

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

#### ***Medical Companies - InSightec***

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

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

In June 1993, directive 93/42/EEC for medical devices was adopted by the EEC. In June 1998, this directive replaced the local regulation and ensured free transfer of qualified medical equipment among member states. Medical devices that meet the established standards, receive certification represented by the symbol "CE". There are two types of certifications that are granted: (1) general certification of a company and (2) certification for a specific product. InSightec decided to comply with Medical Device Directive 93/42/EEC ("MDD") and with the international standard ISO 13485 entitled "Medical Devices - Quality management systems - requirements for regulatory purposes". InSightec obtained a certification of compliance with the standard in March 2004, and is subject to annual audits by the European Notified Body to renew the certification in accordance with all applicable updates of the standard and the MDD.

#### ***Fashion Apparel***

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

C. ORGANIZATIONAL STRUCTURE

Europe-Israel holds approximately 48.56% of our ordinary shares. See "Item 7.A. Major Shareholders" below. Europe-Israel is wholly owned by Control Centers Ltd., a privately held Israeli company, which is controlled by Mr. Mordechay Zisser, who serves as our Executive President and a director. Our significant subsidiaries and companies in which we have a significant interest as of the date of this annual report are as follows:

NAME OF COMPANY	ABBREVIATED NAME	COUNTRY OF ORGANIZATION	DIRECT/INDIRECT OWNERSHIP PERCENTAGE
BEA Hotels N.V.	BEA	The Netherlands	100%
Elbit Medical Technologies Ltd.	Elbit Medical	Israel	89.97% (1)
InSightec Ltd.	InSightec	Israel	65.99% (2)
Gamida Cell Ltd.	Gamida	Israel	31.6% (3)
Elbit Plaza India Real Estate Holdings Limited	EPI	Cyprus	50% (4)(5)
Elbit Plaza USA, L.P.	Elbit Plaza USA	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	EPN (together with EPN EDT Holding II, LLC)	USA	43.3% (9)
EPN EDT Holding II, LLC	EPN (together with EPN GP, LLC)	USA	47.3% (9)
Elbit Fashion Ltd	Elbit Fashion	Israel	100%
Elbit Ultrasound (Luxembourg) B.V. / S.a.r.l.	EUBV	Luxembourg	100%
Plaza Centers N.V.	PC	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. For additional information, see "Item 4.B Business Overview - United States Real Property."
- (10) Approximately 56.90% on a fully diluted basis.

D. PROPERTY, PLANTS AND EQUIPMENT

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

We lease approximately 1,900 square meters of space, including storage area (not including parking places of 50 square meters) for management and administration purposes in an office building in Tel-Aviv, Israel, until September 2016 with an option to extend the lease for a 10-year period. Aggregate rental fees (including management fees and index linkage pursuant to the lease agreement, and excluding VAT) paid by us in 2011, with respect to such lease were approximately NIS 2,416,800 (approximately \$632,505).

In addition, we lease approximately 240 square meters (not including parking) in an office building in Herzliya, Israel, for an annual rental fee of NIS 187,076 (approximately \$48,960).

We lease approximately 51.2 square meters (569 square feet) of space for management and administration purposes in Skokie, Illinois, USA, until September 30, 2013, with no option to extend the lease. Aggregate rental fees paid by us in 2011 with respect to such lease were approximately \$38,000.

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

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

Elbit Fashion leases approximately 550 square meters of office space in Tel Aviv, Israel, for its management and administration activities (not including stores) until June 2013, with an option to extend the lease for a 10-year period. Monthly rental and management fees payable by Elbit Fashion are NIS 48,000 (approximately \$12,562).

Elbit Plaza India Management Services Pvt. Ltd. and HOM India Management Services Pvt. Ltd. lease on a 50-50% basis approximately 752 square meters of office space in Bangalore, Karnataka, India, for its management and administration activities. The term of the lease is until August 30, 2014, with an option to extend the lease for an additional three-year period. Monthly rental and management fees payable by EPI are INR 567,000 (approximately \$10,640) and INR 24,300 (approximately \$456), respectively.

InSightec leases its main office and research and development facilities, located in Tirat Carmel, Israel, pursuant to a lease that expires in September 2013, with an option to renew the lease for up to 30 months. Pursuant to such agreement, InSightec occupies approximately 6,011 square meters in Tirat Carmel and Or-Yehuda. Total annual rental expenses under these leases are approximately \$1.2 million. InSightec also leases offices in Dallas, Texas for an annual rental fee of approximately \$140,000, and offices in Japan, Tokyo for an annual rental fee of approximately \$36,000.

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

Not applicable.

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

##### Overview

We operate in the following principal fields of business:

- Commercial and Entertainment Centers - Initiation, construction and sale of shopping 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;
- U.S. Real Property - Investment in commercial real property in the United States;

- 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;
- Fashion Apparel - Distribution and marketing of fashion apparel and accessories in Israel; and
- Other Activities - (a) venture capital investments and (b) potential investments in hospitals and farm and dairy plants in India. We have presently decided to suspend our investment activities in hospitals and farm and dairy plants in India until we are satisfied that the economy has recovered sufficiently to resume such activities.

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

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

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

The following acquisitions and other activities affected our operational results for 2009, 2010, 2011 and 2012 (to date) and may continue to affect our operational results in the coming years. For additional information, see Item 4.B "Business Overview."

## 2012

- 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 (the "Purchased Companies") which own 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 are jointly owned by us and PPHE and are managed by PPHE. The transfer of title in the shares of the Purchased Companies to PPHE and the due date for the payment of the consideration, are scheduled to occur following the satisfaction of certain conditions, which are expected to be fulfilled by no later than May 30, 2012 ("Transfer Date"). The transfer of risk and benefit deriving from the hotels and the Purchased Companies to PPHE was made as of March 30, 2012. The transaction reflects an asset value of €169 million (approximately \$219 million) for all four hotels. The total net consideration payable to us is €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 will be eliminated from our consolidated balance sheet. The consideration will be paid in the following manner: (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 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 gain which will be recognized in our financial statements as a result of the transaction is estimated at approximately NIS 180 million (approximately \$47 million).

In September 2011 Victoria Monument B.V. (our jointly owned Dutch entity with PPHE) ("Victoria Monument") entered into a term loan credit facility agreement with the London branch of Bank Hapoalim B.M. ("Bank Hapoalim"), pursuant to which Bank Hapoalim extended a loan to Victoria Monument for the purpose of constructing the arthotel Amsterdam in the amount up to €26,000,000, which included an amount outstanding under a prior facility agreement between Victoria Monument and Bank Hapoalim dated December 14, 2006, in the amount of €14,000,000. Victoria Monument, together with this facility agreement were assigned to PPHE as part of the transaction described above.

- In April 2012, we completed the sale of all our shares in Elbit Trade & Retail Ltd. and all the interests in G.B. Brands, Limited Partnership, which was the franchisee of the Gap™ and Banana Republic™ brands, to Gottex Models Ltd. ("Gottex"), for a purchase price of approximately NIS 57.9 million (including the payment for the inventory purchased by Gottex and certain working capital items included in the closing initial balance sheet), which amount is subject to adjustment based upon Elbit Trade & Retail Ltd.'s financial statements as of the closing date.
- In December 2011, the board of directors of PC 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. To date, during 2012, PC has purchased an additional total of NIS 38 million par value of its debentures (with adjusted value of NIS 46 million), for a total consideration of NIS 36 million (approximately \$9.4 million), reflecting a gain of approximately NIS 10 million (approximately \$2.6 million).
- In March 2012, PC opened the Kragujevac Plaza in Kragujevac, Serbia, the fourth largest city in Serbia and the capital of the Sumadžia Region in central Serbia. This shopping 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 shopping 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.
- On February 23, 2012, InSightec and InSightec's wholly owned subsidiary concluded a series of agreements with GEHC pursuant to which GEHC will provide financing to InSightec in the form of convertible notes up to a total of \$13,750,000, 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.

- In January 2012, the EPN Group entered into an agreement to sell 47 shopping centers (out of 49) located throughout the United States that were previously held by EDT (the "Properties"), to BRE DDR Retail Holdings LLC, a joint venture between Blackstone Real Estate Partners VII L.P. and/or its affiliates and DDR Corp. (formerly known as Developers Diversified Realty Corporation) and/or its affiliates, for a purchase price of \$1.43 billion. Total property level debt to be repaid by the EPN Group or assumed by BRE DDR Retail Holdings LLC was approximately \$934 million as of the date of the agreement. The transaction is expected to close in June 2012, and is subject, inter alia, to approval of the applicable lenders to the assignment and assumption of the above mentioned assumed debt, and satisfaction of certain other closing conditions. See "Item 4.B Business Overview – United States Real Property - Real Estate Investment Portfolio - EDT Retail Trust."

#### 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 shopping 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. For additional information, see "Item 4.B. Business Overview – Recent Acquisitions and Dispositions of Hotels."
- 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. For additional information, see "Item 4.B. Business Overview – United States Real Property – Real Estate Investment Portfolio - Charter Hall Retail REIT."
- 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). For additional information, see "Item 4.B. Business Overview – Medical Companies."
- 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. For additional information, see "Item 4.B. Business Overview – Residential Projects – Mixed-Use / Residential Projects – Bangalore, Karnataka State, India."

- 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. For additional information, see "Item 4.B. Business Overview – United States Real Property – Real Estate Investment Portfolio - EDT Retail Trust."
- In June 2010, the Fund raised \$31 million in capital commitments from Menora and certain of its affiliates. For additional information, see "Item 4.B. Business Overview – United States Real Property – U.S. Real Property Joint Venture."
- 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). The hotel operates under the "Park Plaza" brand name.
- On February 9, 2010, Elbit Plaza USA entered into the framework and co-investment agreement with Eastgate. For additional information, see "Item 4.B. Business Overview – United States Real Property – U.S. Real Property Joint Venture."
- 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.

#### 2009

- In 2009 we issued additional unsecured non-convertible Series F Notes to investors in Israel in an aggregate principal amount of approximately NIS 141.6 million for gross proceeds of approximately NIS 155.1 million.
- In 2009 we issued Series I Convertible Notes to investors in Israel in an aggregate principal amount of approximately NIS 112 million for net proceeds of approximately NIS 118.8 million.
- In 2009 PC issued additional unsecured non-convertible Series B Notes to investors in Israel in an aggregate principal amount of approximately NIS 144.5 million for net proceeds of approximately NIS 152 million.

- On October 9, 2009, we sold 4,794,292 ordinary shares of PC to a number of Polish institutional investors, for an aggregate consideration of approximately £6.7 million. As result of this transaction, we generated a net cash flow of approximately £3.8 million. In addition, PC sold 14,500,000 of its shares to such Polish institutional investors, for an aggregate consideration of approximately £20.5 million. As a result of this transaction, PC generated a net cash flow of approximately £12.8 million. These shares were originally purchased by PC as part of its share repurchase program announced in October 2008 which was executed between October 2008 and January 2009.
- On June 19, 2009, we completed a private placement of approximately \$7.6 million principal amount of our Series A Notes. These notes mature in 2014, are linked to the Israeli consumer price index and make semi-annual payments of principal and interest at the rate of 6% per annum, linked to the Israeli consumer price index.
- During 2009, we invested an aggregate amount of \$15 million in InSightec, for which we were issued Series B Preferred Shares of InSightec. In addition, all the outstanding Series A Preferred shares of InSightec were converted into Series B Preferred shares, all convertible notes of InSightec were converted into Series B Preferred shares and all contingent warrants granted by InSightec were converted into ordinary shares.
- In February 2009, Elbit Trade & Retail Ltd. signed a franchise agreement with GAP Inc. to open and operate GAP and Banana Republic stores in Israel.
- During 2009 we opened one additional G-Star store and one GAP store. Our aggregate investment in such stores totaled approximately NIS 8 million.
- In 2009 PC completed the development of two shopping centers, the Liberec Plaza in the Czech Republic and the Riga Plaza in Latvia, and opened them to the public.
- During 2009 we invested an aggregate of \$1.5 million in our venture capital companies.

**Critical judgment in applying accounting policies and use of estimates**

**General**

In the application of our accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, 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 our accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts recognized in our consolidated financial statements.

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

**Use of estimates**

*Impairment/write down of real estate properties*

The recognition of an impairment/write down to our real estate assets is subject to a considerable degree of 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 our consolidated financial statements.

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

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

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. Actual results could be significantly different than the estimates and could have a material effect on the financial results.

Determination of the operational cash flow expected to be generated from the real estate asset is based on reasonable and supportable assumptions as well as on historical results adjusted to reflect our best estimate of future market and economic conditions that management believes will exist during the remaining useful life of the assets. Such determination is subject to significant uncertainties. In preparing these projections, we make assumptions, the majority of which relate to market share of the real estate asset, benchmark operating figures such as occupancy rates and average room rates (in respect of hotels) rental and management fee rates (in respect of shopping and entertainment centers), selling prices 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 authorization from local authorities. It may occur that building permits will expire and will cause us 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 we expect to derive from the assets. Such rate is generally estimated from the rate implied in current market transactions for similar assets.

#### *Litigation and other contingent liabilities*

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

#### *Accounting for income taxes*

The calculation of our tax liabilities involves uncertainties in the application and/or interpretation of complex tax laws, tax regulations and tax treaties, in respect of various jurisdictions in which we operate and which vary from time to time. In addition, tax authorities may interpret certain tax issues in a manner other than that which we have adopted. Should such contrary interpretive principles be adopted upon adjudication of such cases, our tax burden may be significantly increased. In calculating our deferred taxes, we are required to evaluate (i) the probability of the realization of our deferred income tax assets against future taxable income and (ii) the anticipated tax rates in which our deferred taxes would be utilized. See also note 23B5 to our annual consolidated financial statements.

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

Penalties and guarantees are part of our ongoing construction activities, and result from obligations we have towards third parties, such as banks and municipalities. Our management is required to provide estimations regarding risks evolving from such potential guarantees or penalties that we may have to settle. In addition, our operations in the construction area are subject to valid authorizations and building permits from local authorities. Under certain circumstances we are required to determine whether the building permits we obtained have not yet expired. It may occur that building permits have expired which might impose on us additional costs and expenses, or delays and even abandonment of projects under construction.

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

We are involved in derivative transactions (mainly PC's swaps transactions, the Eastgate warrant and PPHE call option for the PPHE shares sold under the UK and Dutch hotels sale transactions (see note 9A(iv) and note 20 ii to our annual consolidated financial statements) and share based payment arrangements adopted by us (see note 25 to our annual consolidated financial statements). 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 valuation techniques which require management to make judgments and assumptions regarding the following variables in respect of each instrument:

- Derivative transactions with respect to PC's swap transactions: mainly the interest rate yield curves of the adjusted NIS and EURO.
- With respect to Eastgate's warrant and the PPHE call option: the expected volatility of PPHE and our shares 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 option plans adopted by our 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.

#### *Fair value of investment property*

As of December 31, 2011, we determined the fair value of investment properties substantially based on the asset's fair value as reflected in the January 2012 agreement for the sale of 47 properties which followed a proposed purchase price offer presented to us towards the end of December 2011, the fair value of which as of December 31, 2011, represents 90% of the total fair value of our portfolio (See also note 31C to our annual consolidated financial statements). For the remaining assets we used the same methodology as in December 2010, which is described below.

As of December 31, 2010, we 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 willing buyer and a willing seller, without duress and an appropriate time to market the property to maximize price;
- Information obtained from valuers, sales and leasing agents, market research reports, vendors and potential purchasers;
- Capitalization rates used to value the asset, market rental levels and lease expirations;
- Changes in interest rates;
- Asset replacement values;
- Discounted cash flow models;

- Available sales evidence; and
- Comparisons to valuation professionals performing valuation assignments across the market.

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

We endeavor to determine an objective fair value to the extent possible, however, the process of evaluating the fair value of investment property also involves subjective factors, derived from, among other things, the past experience of our 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.

Fair value of investment property 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 us, based on our experience and experts.

The table below illustrates the key valuation assumptions used in the determination of the investment properties fair value as of December 31, 2011.

Weighted average capitalization rate	8.5%
Weighted average lease expiry (years)	5.0(*)
Vacancy	11.2%

(\*) Weighted by ABR (Annual Base Rate).

The above key assumptions have been taken from the latest valuations for all the investment properties that were performed as of December 31, 2011.

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

##### *Capitalization of financing costs*

We capitalize 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 a considerable degree of judgment and estimations. Another critical judgment is required to capitalize non-specific borrowing costs to qualified assets, in cases in which our relevant entity that raised the borrowing is not the one that owns the qualified asset.

Further, additional critical judgment is required to suspend capitalization of borrowing costs during periods in which a disruption of development activities occurs, if such disruption continues over a significant period of time.

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

As of December 31, 2011, we had investments in the amount of NIS 188 million in financial notes (the "Notes"), as compared to NIS 180 million as of December 31, 2010 (see note 9A.(ii) to our annual consolidated financial statements). We considered our capital management policy and our liquidity requirement for operational activities, and decided that we have the positive intent and ability to hold these Notes to maturity. Accordingly, the investment in the Notes is presented in our financial statements as held to maturity.

We examined if there was objective evidence for impairment loss of the Notes which mainly included a decrease in the quoted market value of the Notes (which was provided to us by the issuing bank as of the balance sheet date) by approximately 29% (NIS 55 million) below their cost. Following this examination, we concluded that, as of the balance sheet date, there is no objective evidence which should lead to impairment of these Notes.

*Effective control*

Our management is of the opinion that we have de facto control over EDT, by having the power to govern the financial and operating policies of EDT. Based on this, we present our indirect investment in EDT on a proportional consolidation basis of 43.3% (45% as of December 31, 2011). See note 3 to our annual consolidated financial statements.

*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 to our annual consolidated financial statements are met. The determination whether or not these criteria have been met, for each sale transaction, requires significant judgment by our management. Particularly, 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 us and whether we have transferred to the buyer the significant risks and rewards associated with the assets 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. Other considerations taken into account are our management's 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.

*Control in InSightec*

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

*Classification of investment property as held for use*

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 group) 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.

With respect to the transaction to sell our investment properties in the U.S., entered into in January 2012 (see note 31 C to our annual consolidated financial statements), our management is of the opinion that while some of the conditions to qualify for classifying our 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) current recession in the real estate markets, both in the U.S. and global 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 are classified as held for use.

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

For information on recently issued accounting standards under IFRS, see note 2AG to our annual consolidated financial statements.

#### **A. Operating Results**

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

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

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

Our policy for commercial centers in the United States is to hold and to generate gain profit from rental of spaces in such commercial centers. If market conditions will be favorable we may sell from time to time part of these assets and generate capital gains from such sale. These assets are presented at fair value in our consolidated financial statements and the changes in the fair value are charged directly to the profit and loss account.

Until we became the controlling unit holder of EDT, which holds commercial real properties in the United States, we accounted for investment property at cost less accumulated depreciation and impairment. We believe that transferring to the fair value model is more appropriate due to the closing of the EDT transaction mentioned above, which resulted in us including substantial yielding properties in our annual consolidated financial statements for the first time. We believe that this treatment is more consistent with the accounting treatment in the yielding assets industry.

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

The majority of our businesses, which operate in various countries, report their operational results in their respective functional currency which differs from the NIS (our reporting and functional currency). We translate our subsidiaries' result of operations into NIS based on the average exchange rate of the functional currency against the NIS. Therefore, a devaluation of the NIS against each functional currency would cause an increase in our reported revenues and the costs related to such revenues in NIS while an increase in the valuation of the NIS against each functional currency would cause a decrease in our revenues and costs related to such revenues in NIS.

**Statements of income**

The following table presents our statements of income for each of the three years ended December 31, 2011, 2010 and 2009:

	December 31			Convenience Translation (in \$ thousands)
	2011	2010	2009	
(in NIS thousands) (except for per-share data)				
<b>Revenues and gains</b>				
Gain from bargain purchase	-	397,082	-	-
Gains from sale of real estate assets	-	198,777	-	-
Gains from change of shareholding in subsidiaries	15,450	-	31,106	4,044
Commercial centers operation	115,270	102,895	85,466	30,167
Gain from fair value adjustment of investment property	100,818	40,226	1,423	26,386
Investment property rental income	254,806	122,462	-	66,686
Hotels operations and management	286,548	403,822	396,736	74,993
Sale of medical systems	53,324	33,631	61,683	13,956
Sale of fashion merchandise and other	185,082	174,817	118,386	48,436
	<u>1,011,298</u>	<u>1,473,712</u>	<u>696,800</u>	<u>264,668</u>
<b>Expenses and losses</b>				
Commercial centers	159,626	156,745	169,253	41,776
Investment property expenses	112,262	50,571	-	29,380
Hotels operations and management	240,784	341,291	353,229	63,016
Cost and expenses of medical systems operation	101,498	63,973	67,403	26,563
Cost of fashion merchandise and other	211,743	197,574	134,142	55,416
Research and development expenses	62,851	58,514	73,959	16,449
General and administrative expenses	61,857	65,292	66,153	16,189
Share in losses of associates, net	7,568	8,275	14,039	1,980
Financial expenses	257,371	364,030	283,546	67,358
Financial income	(65,571)	(40,927)	(92,725)	(17,161)
Change in fair value of financial instruments measured at fair value through profit and loss	(278,360)	49,666	70,702	(72,850)
Impairment, charges and other expenses, net	<u>309,885</u>	<u>84,664</u>	<u>260,225</u>	<u>81,099</u>
	<u>1,181,514</u>	<u>1,399,668</u>	<u>1,399,926</u>	<u>309,215</u>
<b>Profit (loss) before income taxes</b>				
Income taxes (tax benefit)	(170,216)	74,044	(703,126)	(44,547)
	<u>86,550</u>	<u>4,920</u>	<u>(35,571)</u>	<u>22,651</u>
<b>Profit (loss) from continuing operations</b>				
Profit from discontinued operation, net	(256,766)	69,124	(667,555)	(67,198)
	<u>9,737</u>	<u>4,401</u>	<u>16,550</u>	<u>2,548</u>
<b>Profit (loss) for the year</b>				
	<u>(247,029)</u>	<u>73,525</u>	<u>(651,005)</u>	<u>(64,650)</u>
<b>Attributable to:</b>				
Equity holders of the Company	(264,919)	61,998	(530,942)	(69,332)
Non-controlling interest	17,890	11,527	(120,061)	4,682
	<u>(247,029)</u>	<u>73,525</u>	<u>(651,005)</u>	<u>(64,650)</u>
<b>Earnings per share - (in NIS)</b>				
Basic earnings per share:				
from continuing operation	(11.04)	2.28	(21.51)	(2.89)
from discontinued operation	0.39	0.17	0.65	0.1
	<u>(10.65)</u>	<u>2.45</u>	<u>(20.86)</u>	<u>(2.79)</u>
Diluted earnings per share:				
from continuing operation	(11.05)	1.96	(21.53)	(2.89)
from discontinued operation	0.39	0.17	0.65	0.1
	<u>(10.66)</u>	<u>2.13</u>	<u>(20.88)</u>	<u>(2.79)</u>

*2011 compared to 2010*

*Revenues and Gains*

Total revenues and gains in 2011 amounted to NIS 1,011 million (\$265 million) compared to NIS 1,474 million in 2010. The decrease is mainly attributable to:

- (I) Non-recurring gain from a "bargain purchase" in 2011 decreased to nil compared to NIS 397 million in 2010. The gain results from the acquisition of 48% in EDT during June 2010. This gain represented the difference between the fair value of EDT's net identifiable assets and the aggregate value of the consideration paid.
- (II) 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.
- (III) 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.
- (IV) Gain from fair value adjustment of investment property increased to NIS 101 million (\$26 million) in 2011 compared to NIS 40 million in 2010. This increase mainly reflects the revaluation of EDT's assets for a twelve-month period in 2011 compared to half a year in 2010.
- (V) Revenues from investment property rental income increased to NIS 255 million (\$67 million) in 2011 compared to NIS 122 million in 2010. The increase was mainly attributable to the operation of the yielding properties in the U.S. throughout the year compared to the half-year operation of the centers in 2010 and slightly to the growth in occupancy throughout the year.
- (VI) 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.
- (VII) Revenues from the sale of medical systems (InSightec) increased to NIS 53 million (\$14 million) in 2011 compared to NIS 34 million in 2010. The increase was mainly attributable to the number of systems sold in 2011 compared to 2010.

(VIII) 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.

*Expenses and losses*

Our expenses and losses in 2011 amounted to NIS 1,182 million (\$309 million) compared to NIS 1,400 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 investment property increased to NIS 112 million (\$29 million) in 2011 compared to NIS 51 million in 2010. The increase resulted from the increase in the revenues as aforementioned.
- (III) 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.
- (IV) Cost and expenses of medical systems increased to NIS 101 million (\$26 million) in 2011 compared to NIS 64 million in 2010. The increase was mainly attributable to the settlement of legal claims and related expenses during 2011.
- (V) 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.
- (VI) Expenses of research and development increased to NIS 63 million (\$16 million) in 2011 compared to NIS 59 million in 2010. The increase was mainly attributable to InSightec's activity.
- (VII) 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.
- (VIII) Financial expenses, net decreased to NIS 257 million (\$67 million) in 2011 compared to NIS 364 million in 2010. Such amount includes (a) interest and CPI linked borrowings in the amount of NIS 577 million compared to NIS 465 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 is the amount of NIS 577 million in 2011 compared to NIS 465 million in 2010 is mainly attributable to: (i) an increase in interest expenses on loans in the net amount of NIS 42 million mainly due to an increase in bank loans attributed to the USA operation which was purchased only in June 2010, 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).
- (IX) 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.

(X) Income from changes in fair value of financial instruments amounted to NIS 278 million (\$73 million) in 2011 compared to loss of NIS 50 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;
- (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;

(XI) Impairment and other expenses, net, increased to NIS 310 million (\$81 million) in 2011 compared to NIS 85 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 170 million (\$45 million) compared to profit in the amount of NIS 74 million in 2010.

Tax expenses amounted to NIS 87 million (\$23 million) in 2011 compared to NIS 5 million in 2010. The increase in tax expenses is attributable mainly to timing differences related to our operations in the U.S. and 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 257 million (\$67 million) in 2011 compared to income of NIS 69 million in 2010.

Profit from discontinued operations, net, amounted to NIS 10 million (\$2.5 million) in 2011 compared to NIS 4 million in 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) was 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.

*2010 compared to 2009*

*Revenues and Gains*

Total revenues and gains increased to NIS 1,474 million in 2010 compared to NIS 697 million in 2009. Set forth below is an analysis of our revenues and gains:

- (I) Gain from a "bargain purchase" of EDT in the amount of NIS 397 million, executed by EPN, which is 43% held by Elbit Plaza USA. The gain was recorded as a result of the acquisition of a 48% stake in EDT in June 2010. Such gain represents the difference between the fair value of the net identifiable assets of EDT and the aggregate value of consideration paid.
- (II) Gain from the sale of our three hotels in London, U.K., in the amount of NIS 199 million, executed in December 2010.
- (III) Changes in our shareholdings in our subsidiaries in 2010 amounted to nil compared to NIS 31 million in 2009. The gain in 2009 was attributable to the following transactions:
  - (i) at the end of 2008 and the beginning of 2009, we and PC purchased PC's shares from PC's minority shareholders. As result of these transactions, we recorded in 2008 and 2009 gains from the increase in shareholding of PC in the amount of NIS 49.1 million and NIS 63.6 million, respectively. In the fourth quarter of 2009, we and PC sold the shares and as a result we recorded a loss of NIS 44 million, which offset part of the gain we recorded in the beginning of 2009; and

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

As of January 1, 2010, a new accounting principle entered into effect according to which a change in the shareholding of a subsidiary as a result of a sale of shares by us which does not cause a change in control in the subsidiary will not be charged to the profit and loss account but rather will be directly attributable to shareholder equity. Accordingly, the sale of PC shares in 2010 by us described below, did not affect our profit and loss accounts.

(IV) Revenues from shopping and entertainment centers increased to NIS 103 million in 2010 compared to NIS 85 million in 2009. This revenue was derived from:

- (i) Revenues from the sale of trading property in the amount of NIS 4 million in 2010 compared to no such revenue in 2009. The revenues generated in 2010 were attributable to the sale of a plot of land in the Czech Republic; and
- (ii) Revenues from the operation of shopping and entertainment centers in the amount of NIS 99 million in 2010 compared to NIS 85 million in 2009. The revenues in 2010 were attributable mainly to the operation of four shopping and entertainment centers in 2010 as compared to two in 2009.

(V) Gain from fair value adjustment of investment property amounted to NIS 40 million in 2010 compared to NIS 3 million in 2009. The gain in 2010 represented the revaluation of EDT's assets since its acquisition in June 2010.

(VI) Revenues from investment property rental income amounted to NIS 122 million in 2010 compared to no such revenues in 2009. The revenues were attributable to the operation of EDT in the second half of 2010.

(VII) Revenues from hotel operations and management increased to NIS 404 million in 2010 compared to NIS 397 million in 2009. This increase was mainly attributable to the improvement in revenues from our hotels in the United Kingdom, Belgium, Romania and our new hotel in Schiphol, Holland, and was offset by the devaluation of the Euro and the British Pound (the functional currencies in which our hotels operate) against the NIS during 2010.

(VIII) Revenues from the sale of medical systems decreased to NIS 34 million in 2010 compared to NIS 62 million in 2009. This decrease was mainly attributable to the number of systems sold in 2010 compared to 2009.

(IX) Revenues from the sale of fashion retail increased to NIS 175 million (\$49 million) in 2010 compared to NIS 118 million in 2009. The increase was mainly attributable to:

- (i) the opening of the four new GAP stores in 2010 as compared to one store opened at the end of 2009; and
- (ii) an increase in sales of Mango's existing stores during 2010 as compared to 2009.

#### *Expenses and losses*

Our expenses and losses amounted to NIS 1,400 million in 2010 compared to NIS 1,400 million in 2009. Set forth below is an analysis of our expenses and losses:

(I) Expenses of commercial centers decreased to NIS 157 million in 2010 compared to NIS 169 million in 2009. The net decrease was attributable to:

- (i) An increase to NIS 5 million (\$1.4 million) in cost of trading property sold in 2010 as compared to NIS 2 million in 2009. Such increase in 2010 was attributable to the sale of a plot of land in the Czech Republic as compared to no sales of commercial centers in 2009;

- (ii) A decrease of NIS 2 million in the direct costs from operation mainly attributable to a decrease of 9.4% of the average exchange rate of the Euro against the NIS; offset by an increase in the direct cost expenses (measured in Euro) from operation of four commercial centers in 2010 as compared to two in 2009; and
- (iii) A decrease in other expenses in the amount of NIS 13 million, of which NIS 15 million was attributable mainly to a decrease in general and administrative expenses attributable to the commercial centers operations as a result of the economic environment in the market; offset by an increase in the marketing expenses related with the opening of two new commercial centers in 2010.
- (II) Cost of hotel operations and management decreased to NIS 341 million in 2010 compared to NIS 353 million in 2009. This decrease was mainly attributable to the devaluation of the Euro and the British Pound against the NIS.
- (III) Cost of investment property expenses was NIS 51 million (\$14 million) in 2010 compared to no such cost in 2009. These costs resulted from EDT's activity in the second half of 2010 as mentioned above.
- (IV) Cost and expenses of medical systems decreased to NIS 64 million in 2010 compared to NIS 67 million in 2009. This decrease was mainly attributable to a decrease in sales of "ExAblate" systems as mentioned above.
- (V) Cost of fashion merchandise increased to NIS 198 million (\$56 million) in 2010 compared to NIS 134 million in 2009. The increase was mainly attributable to the increase in operation related with the opening of four GAP stores in 2010.
- (VI) Research and development expenses, net decreased to NIS 58 million in 2010 compared to NIS 74 million in 2009. This decrease was attributable to grants from the Israeli Office of the Chief Scientist in the amount of NIS 7.6 million in 2010.
- (VII) General and administrative expenses, net decreased to NIS 65 million in 2010 compared to NIS 66 million in 2009.
- (VIII) Financial expenses increased to NIS 364 million in 2010 compared to NIS 284 million in 2009. Such increase was attributable mainly to the following:
  - (i) Total interest expenses in respect of our bank loans and notes issued (including linkage differences in respect of bonds which are linked to the Israeli consumer price index) amounted to NIS 465 million in 2010 compared to NIS 430 million in 2009. From these amounts we have capitalized financial costs to our real estate under construction and development in the amount of NIS 164 million and NIS 155 million in 2010 and 2009, respectively. Such increase was attributable to an increase of NIS 55 million in interest expenses as a result of an increase in the principal amount of our and PC's debentures issued during 2010; offset by a 2.28% decrease in the Israeli consumer price index, to which our notes are linked, in 2010, compared to a 3.82% increase in 2009, which resulted in a decrease of NIS 20 million; and an increase in capitalized financial costs in the amount of NIS 9 million;
  - (ii) we recorded a loss from exchange rate differences in respect of our borrowings in the amount of NIS 55 million in 2010 compared to NIS 2 million in 2009. Such increase in the amount of NIS 53 million was attributable mainly to exchange expenses recorded on PC's NIS debentures listed on the TASE, while PC's functional currency is Euro; and
  - (iii) other financial expenses increased to NIS 8 million in 2010 compared to NIS 7 million in 2009.

(IX) Financial income decreased to NIS 41 million in 2010 compared to NIS 93 million in 2009. Such decrease is attributable mainly to the following:

- (i) A decrease of NIS 26 million related to interest income from bank deposits from NIS 85 million in 2009 to NIS 59 million in 2010. Such decrease was attributable mainly to a decrease in deposits, financial structures and cash balances; and
- (ii) We recorded a loss from exchange rate differences of NIS 18 million in 2010 compared to a gain from exchange rate differences of NIS 7 million in 2009. The loss in 2010 was 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 NIS. The gain in 2009 was mainly attributable to exchange differences from PC's deposits in different currencies other than the Euro, the functional currency of PC (such as the Polish Zloty, Czech Koruna and the U.S. dollar).

(X) Loss from changes in fair value of financial instruments decreased to NIS 50 million in 2010 compared to loss of NIS 71 million in 2009. 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 notes)) amounted to NIS 256 million in 2010 compared to a loss of NIS 240 million in 2009;
- (ii) Profit from change in fair value of swap transactions executed by PC in respect of its notes amounted to NIS 168 million in 2010 compared to NIS 73 million in 2009;
- (iii) Loss from change in fair value of embedded derivatives related to our hotel segment was NIS 4 million in 2010 compared to profit of NIS 17 million in 2009; and
- (iv) Profit from marketable securities amounted to NIS 19 million in 2010 compared to a profit of NIS 53 million in 2009.

(XI) Impairment, charges and other expenses, net, totaled NIS 85 million in 2010 compared to NIS 260 million in 2009. The expenses in 2010 mainly include the following:

- (i) Impairment of PC trading property in the amount of NIS 44 million which was affected by the real estate market conditions in Eastern Europe which was expressed by an increase in the sales yields and the expectations for decreases in rental income;
- (ii) Trading registration expenses in the amount of NIS 10 million related to our publicly traded subsidiary, Elbit Medical, on the Tel Aviv Stock Exchange;
- (iii) Expenses in the amount of NIS 9 million related to deferred expense charged to the profit and loss in respect of our dairy and farm activity in India as well as with our retail activity in Israel; and
- (iv) Project initiation expenses related to our activities in India in the amount of NIS 41 million.

Offset by:

- (i) Gain in the amount of NIS 8 million in connection with purchase of loans from a third party as part of the EDT transaction; and
- (ii) Reverse of impairment expenses recorded in previous years related to our hotel in Belgium in the amount of NIS 14 million.

As a result of the foregoing factors, we recognized income before income tax in the total amount of NIS 74 million in 2010 compared to a loss of NIS 703 million in 2009.

Income taxes totaled NIS 5 million in 2010 compared to tax benefits of NIS 36 million in 2009.

The above resulted in income from continuing operations totaling NIS 69 million in 2010 compared to a loss of NIS 668 million in 2009.

Profit from discontinued operations, net, totaled NIS 4 million in 2010 compared to profit of NIS 17 million in 2009. Our discontinued operations consist mainly of medical imaging operations and the sub-assemblies and component segment which were sold in previous years. This profit resulted mainly from the collection of receivables previously written off, income from royalties on patents rights and exchange rate differences attributable to monetary assets and liabilities pertaining to discontinued operations.

The above resulted in profits of NIS 74 million in 2010, of which NIS 62 million is attributable to our equity holders and NIS 12 million was attributable to the non-controlling interest. The loss in 2009 included NIS 531 million attributable to our equity holders and NIS 120 million attributable to the non-controlling interest.

## B. Liquidity and Capital Resources

### General

Our capital resources include the following: (a) proceeds from sales of trading property and real estate assets subject to market conditions; (b) lines of credit obtained from banks and financial institutions and other lending institutions; (c) public issuances of unsecured non-convertible and convertible notes by us and PC; (d) funds raised through our U.S. real estate joint venture (see "Item 4.B. Business Overview – United States Real Property – U.S. Real Property Joint Venture"; and (e) available cash and cash equivalents. See " - Overview" above for information on the major transactions and events carried out by us in 2009, 2010 and 2011, which resulted in material changes in our liquidity and capital resources. Such resources are used for the following purposes:

- (i) Equity investments in our shopping and entertainment centers, our hotels and our residential projects, which are constructed by our wholly owned and jointly controlled subsidiaries (special purpose entities that are formed for the construction of our real estate projects (a "Project Company"). We generally finance approximately 30%-35% of such projects through equity investments in the Project Companies, while the remaining 65%-70% is generally financed through a credit facility secured by a mortgage on the project constructed by the respective Project Company, registered in favor of the financial institution that provides such financing. The equity investments in the Project Companies are typically provided by us through shareholder loans that are subordinated to the credit facilities provided to the Project Company;
- (ii) Equity investments by our U.S. investment platform. During this period our U.S. investment platform will engage in active asset management, so 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 U.S. investment platform to sell its assets as a portfolio or individually, to realize the highest value for its investors.
- (iii) Additional investments in InSightec, if necessary. InSightec's capital resources are obtained primarily from additional investments in equity or in convertible notes by its shareholders (including through public offerings of debt and equity of Elbit Medical) or loans granted by its shareholders and from its revenues from sales of medical systems. Such amounts are used for research and development activities aimed at obtaining FDA approvals for further treatments and other general corporate expenses such as cost of revenues, marketing and selling and general and administrative expenses;
- (iv) Additional investment in Elbit Fashion, which have generally been executed in the form of shareholder loans. Part of such amounts are used for opening of new stores and other general corporate needs of Elbit Fashion;
- (v) Additional investment in our associates (mainly venture capital investments);
- (vi) Interest and principal payments on our notes and loans; and
- (vii) Payment of general and administrative expenses.

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

In accordance with the investment policy adopted by our investment committee, we may invest up to NIS 500 million (\$131 million) through several Israeli investment firms. Our investment portfolio is divided as follows: up to 15% in shares and 85% in government and corporate bonds with a rating of at least A on a domestic scale. The portfolio may not include investment in derivative instruments and trust funds.

Our investments in marketable securities are classified as trading securities and therefore are exposed to market-price fluctuations which are recorded as gains or losses in our financial statements. Capital markets are subject to fluctuations in respect of events over which we have no control. Such changes may have an impact on the value of these investments upon realization.

For information regarding restrictions on dividend distributions by PC during the years 2012-2013, see "- Overview - 2011."

#### **Liquidity**

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

We and PC depend on our ability to refinance our existing Israeli traded notes. We have recently experienced a significant decline in trading prices (and corresponding rise in yield returns) of the Israeli traded notes of PC and us, which has severely impaired, and may continue to impair, our ability to raise additional financing or to refinance our existing notes through issuances of new Israeli traded notes at attractive terms or at all. During 2011 the value of our and PC's public-issued debentures declined dramatically. As a result, our ability to raise funds through the issuance of debentures is and will remain severely limited and will remain so until the value of our debentures increases once again.

Also, during 2008, and to some extent during 2009, 2010 and 2011, the world markets experienced a financial crisis, which resulted in lower liquidity in the capital markets and lower liquidity in bank financing for real property projects. The financial crisis also affected our ability to obtain financing in CEE and India for our commercial shopping centers and residential projects in those countries. Lower liquidity may result in difficulties to raise additional debt or less favorable interest rates for such debt. In addition, construction loan agreements generally permit the drawdown of the loan funds against the achievement of pre-determined construction and space leasing or selling milestones. If we fail to achieve these milestones (including as a result of the global financial crisis and the significant decrease in the number and volume of transactions in general), the availability of the loan funds may be delayed, thereby causing a further delay in the construction schedule.

If we are not successful in obtaining financing to fund our planned projects and other expenditures, our ability to develop existing projects and to undertake additional development projects may be limited and our future profits and results of operations could be materially adversely affected. Our inability to obtain financing may affect our ability to construct or acquire additional land plots, shopping centers and hotels, and we may experience delays in planned renovation or maintenance of our hotels and commercial centers, or in completion of the construction of our trading property that could have a material adverse effect on our results of operations. Our inability to obtain financing may also affect our ability to refinance our existing debt, which may have a material adverse affect on our results of operations and cash flow. We believe that, based on our current operating forecast, the combination of existing working capital and expected cash flows from operations will be sufficient to finance our ongoing operations for the next twelve months. The following list describes major transactions and events in 2011, 2010 and 2009, which resulted in material changes in our liquidity:

*Sources of Cash from Major Transactions and Events:*

2012

- On February 23, 2012, InSightec and InSightec's wholly owned subsidiary concluded a series of agreements with GEHC pursuant to which GEHC will provide financing to InSightec in the form of convertible notes up to a total of \$13,750,000, 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 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.
- In January 2012, the EPN Group entered into an agreement to sell 47 shopping centers (out of 49) located throughout the United States that were previously held by EDT Retail Trust to BRE DDR Retail for a purchase price of \$1.43 billion. Total property level debt to be repaid by the EPN Group or assumed by BRE DDR Retail Holdings LLC was approximately \$934 million as of the date of the agreement. The transaction is expected to close in June 2012, and is subject, *inter alia*, to approval of the applicable lenders to the assignment and assumption of the above mentioned assumed debt, and satisfaction of certain other closing conditions.
- In April 2012, we completed the sale of all our shares in Elbit Trade & Retail Ltd. and all the interests in G.B. Brands, Limited Partnership, which was the franchisee of the Gap™ and Banana Republic™ brands, to Gottex for a purchase price of approximately NIS 57.9 million (including the payment for the inventory purchased by Gottex and certain working capital items included in the closing initial balance sheet), which amount is subject to adjustment based upon Elbit Trade & Retail Ltd.'s financial statements as of the closing date.
- In March 2012, we entered into a share purchase agreement with PPHE for the sale of our holdings in certain subsidiaries (the "Purchased Companies") which own 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 are jointly owned by us and PPHE and are managed by PPHE. The transfer of title in the shares of the Purchased Companies to PPHE and the due date for the payment of the consideration, are scheduled to occur following the satisfaction of certain conditions, which are expected to be fulfilled by no later than May 30, 2012 ("Transfer Date"). The transfer of risk and benefit deriving from the hotels and the Purchased Companies to PPHE was made as of March 30, 2012. The transaction reflects an asset value of €169 million (approximately \$219 million) for all four hotels. The total net consideration payable to us is €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 will be eliminated from our consolidated balance sheet. The consideration will be paid in the following manner: (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 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 gain which will be recognized in our financial statements as a result of the transaction is estimated at approximately NIS 180 million (approximately \$47 million).

2011

- 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 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 September 21, 2011, our indirect subsidiary, Elbit USA, LLC, ("Elbit USA") entered into a term loan agreement (the "Term Loan Agreement") with Eastgate, for a term loan in the amount of \$30 million (the "Term Loan"). In addition, 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 April 5, 2012, we and Eastgate amended the warrant, 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.
- On September 19, 2011, EDT distributed an interim dividend payment of \$26 million. Elbit Plaza USA, L.P. ("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.
- 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. The new agreement is for a 6-year term and bears interest at a rate of LIBOR + 3.8% per annum. As security for this facility, we have pledged to the Israeli bank (i) an amount of 86 million shares of PC, representing approximately 29% of PC's outstanding shares, which will be subject to a 70% loan to value mechanism on PC's shares; (ii) all of our holdings in Elbit Trade & Retail Ltd. which, following the sale thereof to Gottex, was replaced with a pledge over all of our holdings in Elbit Fashion; and (iii) a deposit that equals next year's principal and interest amount. In addition, we elected to exercise the option of pledging our holdings in some of our hotels in the Netherlands in order to credit the value of those holdings towards the satisfaction of the loan to collateral value ratio which, following the sale of those hotels to PPHE, was replaced with a pledge over certain receivables.
- 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). For interest rates our notes, see " - Other Loans" below.

- 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

- In November 2010, we completed a private placement of NIS 35 million principal amount of our Series D Notes as an expansion to the existing Series D Notes traded on the TASE. These notes mature in 2020, will be linked to the Israeli consumer price index and will make annual payments of principal and semi-annual payments of interest at the rate per annum of 5%, linked to the Israeli consumer price index. The notes were approved for listing on the TASE, but initial re-sales are restricted by applicable securities laws. For interest rates of our notes, see " - Other Loans" below.
- 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 \$26 million).
- 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). For interest rates of our notes, see " - Other Loans" below.
- In June 2010, the Fund raised \$31 million in capital commitments from Menora. Menora's commitment currently represents a 13.4% interest in the U.S. investment platform, through its 99.8% holding in the Fund. For further information, see "Item 4.B. Business Overview – United States Real Property – U.S. Real Property Joint Venture."

#### 2009

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

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

	Year ended December 31,			
	2011	2011	2010	2009
Convenience translation in \$ thousands	NIS Thousands	NIS Thousands	NIS Thousands	NIS Thousands
Net cash provided by (used in) operating activities	(63,042)	(240,889)	(334,587)	(754,331)
Net cash provided by (used in) investing activities	99,395	379,796	(303,946)	99,187
Net cash (used in) provided by financing activities	(166,210)	(635,084)	305,930	425,055
Increase (decrease) in cash and cash equivalents	(129,857)	(496,177)	(332,603)	(230,089)

*Cash flow from operating activities*

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

Net cash used in operating activities was NIS 241 million (approximately \$63 million) in 2011 compared to NIS 335 million in 2010 and NIS 754 million in 2009.

Our cash flow from operating activities in 2011, 2010 and 2009 was influenced by the following significant factors:

- (i) Cash flow from operating activities in 2011 included negative cash flow resulting from the cost of purchase of trading properties and payments on the account of trading properties of NIS 404 million. Most of the acquisitions and investments in trading properties in 2011 were: (i), Poland (Torun project); India (Bangalore, Koregaon Park and Chennai projects); Serbia (Krugajevac project); and Romania (the Casa Radio project).
- (ii) Cash flow from operating activities in 2010 included negative cash flow resulting from the cost of purchase of trading properties and payments on the account of trading properties of NIS 350 million. Most of the acquisitions and investments in trading properties in 2010 were: (i) Romania (the Casa Radio project); Poland (Suwalki and Zgorzelec projects); Czech Republic (Liberec project); and India (Bangalore, Koregaon Park and Chennai projects).
- (iii) Cash flow from operating activities in 2009 included negative cash flow resulting from the cost of purchase of trading properties and payments on the account of trading properties of NIS 612 million. Most of the acquisitions and investments in trading properties in 2009 were: (i) Romania (the Casa Radio project); Bulgaria (Sophia project); Poland (Torun project), Czech Republic (Liberec project); Latvia (Riga project); and India (Bangalore, Koregaon Park and Chennai projects); and (ii) the first time consolidation of the Obuda project in Hungary in mid-2009.
- (iv) Cash flows from operating activities in 2011, 2010 and 2009 also included the proceeds from operations of our commercial centers, U.S. retail properties, hotel, retail and image guided segments less operating expenses of those segments (including research and development expenses, sales and marketing and general and administrative expenses attributable directly to those segments) as well as general and administrative expenses of our headquarters.

*Cash used in or from investing activities*

Cash flow provided by investing activities in 2011 and 2009 amounted to NIS 380 million (approximately \$99 million) and NIS 99 million (approximately \$26 million) in 2011 compared to NIS 304 million (approximately \$80 million) in 2010.

Our cash flow provided by investing activities in 2011 was influenced by the following factors:

- (i) During July 2011, EPN EDT Holdings II LLC finalized the binding takeover bid offer in the EDT investments fund which began in March 2011, following which EPN Group's holdings in EDT increased to 97.5%. Thereafter, EPN EDT Holdings II LLC completed the acquisition of the remaining units of EDT in accordance with the takeover offer. The total amount of the investments of the EPN Group in the framework of the binding takeover offer amounted to \$242 million. The total amount of investment by us and PC in the framework of the binding takeover offer amounted to \$57 million each. The total overall investment of the EPN Group in the acquisition of EDT as of the first investment transaction in April 2010 amounts to \$358 million. The contribution of each of us and PC with respect to this amount is approximately \$83 million each.
- (ii) Purchase of property, plant and equipment, investment property and other assets in the amount of NIS 71 million (\$18 million) mainly attributable to the purchase of new investment property in the U.S., renovation of the Victoria hotel in Amsterdam and Radisson Blu Bucharest Hotel in Romania and leasehold improvements of Elbit Fashion's new stores.
- (iii) Investments in associates and other companies in the amount of NIS 20 million (approximately \$5 million) mainly attributable to the increase in our shareholding in the EPN group in 2011 from 43.3%, to 45.38%.
- (iv) Proceeds from long-term deposits and long-term loans in the amount of NIS 33 million (approximately \$9 million) mainly attributable to proceeds from long-term loans provided to PPHE's subsidiary in respect of a loan provided to it in the framework of the sale of our hotels in London.
- (v) Investments in long-term deposits and long term loans in the amount of NIS 44 million (approximately \$11 million).
- (vi) Proceeds from interest received from deposits in the amount of NIS 65 million (approximately \$17 million).
- (vii) Purchase of available for sale marketable securities net of proceeds from available for sale marketable securities amounted to NIS 1 million (approximately \$0.3 million).
- (viii) Disposition of short-term deposits and marketable securities, net, in the amount of NIS 330 million (approximately \$86 million).

Our cash flow used in investing activities in 2010 was influenced by the following factors:

- (i) Investment in initially-consolidated subsidiaries in the amount of NIS 135 million is attributable to our U.S. retail properties initially consolidated in June 2010.
- (ii) Purchase of property, plant and equipment, investment property and other assets in the amount of NIS 87 million mainly attributable to the renovation of the Radisson Blu Bucharest Hotel in Romania, the leasehold improvements of Elbit Trade & Retail Ltd.'s new stores and our hospital and agriculture activities in India.
- (iii) Proceeds from realization of property, plant and equipment, investments and loans in the amount of NIS 31 million.

- (iv) Reduction of cash flow from realization of investments in subsidiaries in the amount of NIS 21 million in connection with the sale of our three hotels in England. See "Item 4.B. Business Overview – Hotels – Recent Acquisitions and Dispositions of Hotels."
- (v) Proceeds from long-term deposits and long-term loans in the amount of NIS 119 million (approximately \$33.5 million) mainly attributable to proceeds from realization of financial instrument by us in the amount of NIS 111 million.
- (vi) Investments in long-term deposits and long term loans in the amount of NIS 28 million.
- (vii) Proceeds from interest received from deposits in the amount of NIS 57 million.
- (viii) Proceeds from repayment of debt securities net of investment in debt securities in the amount of NIS 8 million attributable to our U.S. investment platform's activity in connection with the EDT transaction.
- (ix) Purchase of available for sale marketable securities net of proceeds from available for sale marketable securities amounted to NIS 58 million.
- (x) Investing in deposits and marketable securities, net in the amount of NIS 183 million.

Our cash flow provided by investing activities in 2009 was influenced by the following factors:

- (i) Purchase of property, plant and equipment, investment property and other assets in the amount of NIS 107 million mainly attributable to the renovation of the Radisson Blu Bucharest Hotel in Romania, the leasehold improvements of Elbit Trade & Retail Ltd.'s new stores and our hospital and agriculture activities in India.
- (ii) Proceeds from realization of property, plant and equipment, investments and loans in the amount of NIS 3 million.
- (iii) Proceeds from long-term deposits and long-term loans in the amount of NIS 111 million mainly due to: (a) proceeds from realization of financial instrument by us in the amount of NIS 82 million; and (b) proceeds from realization of long term deposits by PC in the amount of NIS 28 million.
- (iv) Investments in long-term deposits and long term loans in the amount of NIS 11 million.
- (v) Proceeds from interest received from deposits in the amount of NIS 91 million.
- (vi) Purchase of available for sale marketable securities net of proceeds from available for sale marketable securities amounted to NIS 24 million.
- (vii) Proceeds from the sale of deposits and marketable securities in the amount of NIS 42 million.

#### *Cash flow from financing activities*

Cash flow used in financing activities in 2011 amounted to NIS 635 million (approximately \$166 million) compared to cash flow provided by financing activities of NIS 306 million in 2010 and NIS 425 million in 2009.

Our cash flow used in financing activities in 2011 was influenced by the following factors:

- (i) Dividend paid to non-controlling interest by PC in the amount of NIS 57 million (approximately \$15 million).
- (ii) Repurchase of debentures by us and PC in the amount of NIS 202 million (approximately \$53 million).
- (iii) Interest paid in cash by us in the amount of NIS 470 million (approximately \$123 million) on our borrowings (mainly debentures issued by us and PC and loans provided to our hotels and investment property).

- (iv) Repayment of borrowings, net, of proceeds from loans in the amount of NIS 0.6 million (approximately \$0.1 million), mainly attributable to the funds paid and funds raised by PC and us from unsecured non-convertible debentures issued during 2011, loans provided to us and to our hotels and investment property.
- (v) Proceeds from selling derivatives in the amount of NIS 223 million (approximately \$58 million).
- (vi) Proceeds from transactions with non-controlling interests, net in the amount of NIS 382 million (approximately \$100 million) mainly from the purchase of the remaining 52.2% units of EDT by EPN Group.
- (vii) Proceeds from short-term credit in the amount of NIS 411 million (approximately \$108 million), mainly attributable to new loans raised by PC during 2010 in order to finance the construction of its trading property.
- (viii) Repayment of short-term credit in the amount of NIS 158 million (approximately \$41 million).

Our cash flow provided by financing activities in 2010 was influenced by the following factors:

- (i) Purchase of treasury shares by us in the amount of NIS 30 million.
- (ii) Interest paid in cash by us in the amount of NIS 372 million on our borrowings (mainly debentures issued by us and PC and loans provided to our hotels).
- (iii) Proceeds from borrowings, net, of repayment of loans in the amount of NIS 398 million, mainly attributable to the funds raised by PC and us from unsecured non-convertible and convertible debentures issued during 2010.
- (iv) Proceeds from selling derivatives in the amount of NIS 46 million.
- (v) Proceeds from transactions with non-controlling interests, net in the amount of NIS 121 million.
- (vi) Proceeds from short-term credit in the amount of NIS 275 million, mainly attributable to new loans raised by PC during 2010 in order to finance the construction of its trading property.
- (vii) Repayment by us of short-term credit in the amount of NIS 131 million related to a financial instrument.

Our cash flow provided by financing activities in 2009 was influenced by the following factors:

- (i) Interest paid in cash by us in the amount of NIS 320 million on our borrowings (mainly debentures issued by us and PC and loans provided to our hotels).
- (ii) Proceeds from borrowings, net, of repayment of loans in the amount of NIS 368 million, mainly attributable to the funds raised by PC and us from unsecured non-convertible and convertible notes issued during 2009.
- (viii) Proceeds from selling derivatives in the amount of NIS 72 million.
- (iii) Proceeds from transactions with non-controlling interests, net in the amount of NIS 116 million.
- (iv) Proceeds from short-term credit in the amount of NIS 272 million, mainly attributable to new loans raised by PC during 2009 in order to finance the construction of its trading property.
- (v) Repayment by us of short-term credit in the amount of NIS 83 million (related to financial instrument).

*Major balance sheet changes*

The following table discloses the balance sheet balances in NIS million and major balance sheet items as a percentage of total assets as of December 31, 2011, 2010 and 2009:

	2011		2010		2009	
	NIS million	%	NIS million	%	NIS million	%
Current assets	6,053	58.4%	6,573	61.4%	6,778	72%
Current liabilities	2,845	27.4%	2,892	27%	2,757	29.3%
Non-current assets	4,318	41.6%	4,130	38.6%	2,631	28%
Non-current liabilities	5,987	57.7%	5,634	52.6%	4,503	47.9%
<b>Shareholders' equity:</b>						
Attributable to our equity holders	360	3.5%	761	7.1%	946	10%
Non-controlling interest	1,179	11.4%	1,417	13.3%	1,202	12.8%

2011 compared to 2010

The decreased in current assets in the amount of NIS 520 million (approximately \$136 million) in 2011 was mainly attributable to: (i) decrease in cash and cash equivalents in the amount of 439 million as explained above; (ii) decrease in the short term deposits and investment in the amount of NIS 426 million mainly in our deposits and marketable securities offset by (iii) increase in trading property in the amount of NIS 364 million mainly due to investments in PC trading properties in Poland, India, Serbia and Romania.

The changes in current liabilities as compared to 2010 were in immaterial amounts.

The increase in non-current assets of NIS 188 million (approximately \$49 million) in 2011 was mainly attributable to: (i) an increase in the investment property in the amount of NIS 440 million (approximately \$115 million) as result of net gain from fair value adjustments and increase in our holding rate in the U.S. investment platform activity; offset by (ii) a decrease in deposits, loans and other long-term balances mainly because of decreases in derivatives measured at FVTPL related to PC's debentures as result of settlement of cross-currency SWAP transactions by PC.

The increase in non-current liabilities of NIS 353 million (approximately \$93 million) in 2011 was mainly attributable to: (i) an increase in loans from banks, financial institutions and others, (ii) an increase in debentures issued by us and PC during 2011; and (iii) increase in deferred taxes attributable mainly to timing differences related to our operations in the U.S. and to PC's debentures measured at fair value through profit and loss.

2010 compared to 2009

The changes in current assets and current liabilities as compared to 2009 were in immaterial amounts.

The increase in non-current assets of NIS 1,499 million in 2010 was mainly attributable to: (i) an increase in the investment property in the amount of NIS 2,132 million as result of consolidating the retail commercial centers in our balance sheet following the purchase of EDT as part of our U.S. investment platform activity; offset by (ii) a decrease in property, plant and equipment as result of the sale of our three hotels in London at the end of 2010.

The increase in non-current liabilities of NIS 1,131 million in 2010, was mainly attributable to: (i) an increase in loans from banks, financial institutions and others, mainly as result of the purchase of EDT as part of our U.S. investment platform activity, offset by a decrease in loans as result of the sale of our three hotels in London at the end of 2010; and (ii) an increase in debentures issued by us and PC during 2010 as compared to 2009.

**Concentration of Credit Risk**

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

Due to the nature of their activity, our subsidiaries operating in the hotel, investment property, medical and fashion merchandise segments, are not materially exposed to credit risks stemming from dependence on a given customer. Our subsidiaries examine the credit amounts extended to their customers on an ongoing basis and, accordingly, record a provision for doubtful debts based on factors they believe to have an effect on specific customers. As of December 31, 2011 and 2010 our trade receivables do not include any significant amounts due from buyers of trading property.

**Derivative Instruments**

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

**Other Loans**

We have entered into or assumed liability for various financing agreements, either directly or indirectly through our subsidiaries, to provide capital for the purchase, construction, and renovation and operation of shopping and entertainment centers, income yielding properties and hotels as well as for various investments in our other operations. In our opinion, our working capital is sufficient for our current requirements; however, our subsidiaries will continue to borrow funds from time to time to finance their various projects. Set forth below is certain material information with respect to material loans extended to us, our subsidiaries and our jointly controlled companies as of December 31, 2011.

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

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
El	Series A Notes issued to the public	NIS 594.2 million (less amount of notes repurchased by us and our subsidiary Elbit Financial Services, as described below)	NIS 338.1 million	5% per annum, linked to the Israeli CPI.	10 semi-annual installments commencing August 2009 through 2014. Interest payable by semi-annual installments commencing 2006 through 2014.
Principal Security and Covenants	Unsecured				
Other Information	The notes are registered for trade on the TASE. The notes are not registered under the Securities Act. Events of default include, among others, the cross default with other series of notes and delisting from both the TASE and NASDAQ Global Select Market. In May 2011 we announced a repurchase program of up to NIS 150 million of our Series A-G Notes. As of December 31, 2011 we and our subsidiary had repurchased approximately NIS 4.0 million and NIS 5.8 million, respectively, of Series A Notes. All of the notes repurchased by us were delisted from the TASE.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
EI	Series B Notes issued to the public	\$14.8 million	\$ 7.4 million	Libor + 2.65%	10 semi-annual installments commencing August 2009 through 2014. Interest payable by semi-annual installments commencing 2006 through 2014.
Principal Security and Covenants	Unsecured				
Other Information	<p>The notes are registered for trade on the TASE. The notes are not registered under the Securities Act.</p> <p>Events of default include, among others, the cross default with other series of notes and delisting from both the TASE and NASDAQ Global Select Market.</p> <p>In May 2011 we announced a repurchase program of up to NIS 150 million of our Series A-G Notes. As of December 31, 2011 we had not repurchased any of the Series B Notes.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
EI	Series C Notes issued to the public	NIS 455 million (less amount of notes repurchased by us and our subsidiary, as described below)	NIS 342.2 million	5.3% per annum, linked to the Israeli CPI.	10 annual installments commencing September 2009 through 2018. Interest payable by semi-annual installments commencing 2007 through 2018.
Principal Security and Covenants	Unsecured				
Other Information	<p>The notes are registered for trade on the TASE. The notes are not registered under the Securities Act.</p> <p>Events of default include, among others, the cross default with other series of notes and delisting from both the TASE and NASDAQ Global Select Market.</p> <p>In May 2011 we announced a repurchase program of up to NIS 150 million of our Series A-G Notes. As of December 31, 2011 we and our subsidiary had repurchased approximately NIS 4.0 million and NIS 10.8 million, respectively, of Series C Notes. All of the notes repurchased by us were delisted from the TASE.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
EI	Series D Notes issued to the public	NIS 746 million (less amount of notes repurchased by us and our subsidiary, as described below)	NIS 859 million	5% per annum, linked to the Israeli CPI.	8 annual installments commencing April 2013 through 2020. Interest payable by semi-annual installments commencing 2007 through 2020.
Principal Security and Covenants	Unsecured				
Other Information	<p>The notes are registered for trade on the TASE.</p> <p>The notes are not registered under the Securities Act.</p> <p>Events of default include, among others, the cross default with other series of notes and delisting from both the TASE and NASDAQ Global Select Market.</p> <p>In May 2011 we announced a repurchase program of up to NIS 150 million of our Series A-G Notes. As of December 31, 2011 we and our subsidiary had repurchased approximately NIS 5.0 million and NIS 5.8 million, respectively, of Series D Notes. All of the notes repurchased by us were delisted from the TASE.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
EI	Series E Notes issued to the public	NIS 64.5 million (less amount of notes repurchased by us, as described below)	NIS 73.2 million	5.3% per annum, linked to the Israeli CPI.	10 annual installments commencing July 2012 through 2021. Interest payable by semi-annual installments commencing 2007 through 2021.
Principal Security and Covenants	Unsecured				
Other Information	<p>The notes are registered for trade on the TASE.</p> <p>The notes are not registered under the Securities Act.</p> <p>In May 2011 we announced a repurchase program of up to NIS 150 million of our Series A-G Notes. As of December 31, 2011 we had repurchased approximately NIS 2.0 million of our Series E Notes. All of the notes repurchased by us were delisted from the TASE.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
EI	Series F Notes issued to the public	NIS 502.8 million (less amount of notes repurchased by us and our subsidiary, as described below)	NIS 371 million	5.7% per annum, linked to the Israeli CPI.	6 annual installments commencing October 2010 through 2015. Interest payable by semi-annual installments commencing 2008 through 2015.
Principal Security and Covenants	Unsecured				
Other Information	<p>The notes are registered for trade on the TASE.  The notes are not registered under the Securities Act.</p> <p>In May 2011 we announced a repurchase program of up to NIS 150 million of our Series A-G Notes. As of December 31, 2011 we and our subsidiary had repurchased approximately NIS 5.7 million and NIS 5.3 million, respectively, of Series F Notes. All of the notes repurchased by us were delisted from the TASE.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
EI	Series G Notes issued to the public	NIS 466.5 million (less amount of notes repurchased by us and our subsidiary, as described below)	NIS 468.3 million	5.08% per annum, linked to the Israeli CPI.	5 annual installments commencing October 2014 through 2018 (10% of the principal will be payable on December 31, 2014, 20% of the principal will be payable on December 31 on each of 2015 and 2016, and 25% of the principal will be payable on December 31 on each of 2017 and 2018). Interest payable by semi-annual installments commencing 2010 through 2018.
Principal Security and Covenants	Unsecured				
Other Information	<p>The notes are registered for trade on the TASE.  The notes are not registered under the Securities Act.</p> <p>In May 2011 we announced a repurchase program of up to NIS 150 million of our Series A-G Notes. As of December 31, 2011 we had repurchased approximately NIS 4.7 million of our Series G Notes. All of the notes repurchased by us were delisted from the TASE.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
EI	Series I Convertible Notes issued to the public	NIS 112 million	NIS 104.1 million	5.25% per annum.	First half to be paid on December 31, 2013, and second half to be paid on December 31, 2014. Interest payable by semi-annual installments commencing 2009 through 2014.
Principal Security and Covenants	Unsecured.				
Other Information	The notes are convertible into our ordinary shares at the price of NIS 128 per share until July 31, 2013 and at the price of NIS 200 per share thereafter.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
EI	Bank Hapoalim B.M.	\$70.0 million	\$66.4 million	LIBOR + 3.8%	5 annual installments commencing March 2011 through 2017. Interest payable by quarterly installments commencing March 2011 through 2017.
Principal Security and Covenants	<p>Pursuant to the applicable loan agreement, we are required to maintain compliance with certain financial covenants and other covenants relating to us and/or our subsidiaries, including compliance with loan to value of collateral ratio, compliance with net financial debt to net cap ratio, maintaining of minimum equity threshold, compliance with equity to total balance ratio, reservation of minimum amount of cash surpluses and financial assets (on a solo basis, which as of December 31, 2011 is lower than our cash), and other customary obligations and undertakings.</p> <p>As to the pledge of 29% of Plaza Center's outstanding shares discussed above in "Item 5. Operating and Financial Review and Prospects", we are required to maintain a ratio between the net debt amount and the market value of the pledged shares (the "Collateral LTV Ratio"). If the Collateral LTV Ratio exceeds a certain rate, we may, at our sole discretion, do one or more of the following: (i) reduce the debt, (ii) provide a cash deposit pledged in favor of the bank and/or (iii) credit the value of our holdings in some of our hotels in the Netherlands for the purpose of maintaining the Collateral LTV Ratio as long as we provide this as security for the loan. Due to the recent fluctuation in the value of PC's shares, we have elected to use that alternative to maintain the Collateral LTV Ratio (as described in "Other Information" below). In the event that we fail to comply with any of the covenants, or upon the occurrence of an event of default (including the failure to provide additional securities), the bank shall be entitled to demand the immediate repayment of the loan and the interest rate will be increased.</p>				
Other Information	In the framework of the sale of our Dutch hotels to PPHE in March 2012, Bank Hapoalim B.M. has agreed to release the pledges over our (indirect) holdings in the Dutch hotels, which were replaced with a pledge over certain receivables due to us from PPHE's subsidiary (Please see Item 4.B "Business Overview – Hotels").				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
El	Bank Leumi Le-Israel B.M.	\$24.2 million	\$17.0 million	LIBOR + 3.5%	5 annual installments commencing June 2011 through March 2016. Interest payable by quarterly installments commencing June 2011 through March 2016.
Principal Security and Covenants	Pursuant to the applicable loan agreement, we are obligated to maintain certain financial and other covenants, including compliance with net financial debt to net cap ratio, maintaining of minimum equity threshold, reservation of minimum amount of cash surpluses and financial assets (on a solo basis, which as of December 31, 2011 is lower than our cash), and other customary obligations and undertakings. In the event that we fail to comply with any of the covenants, or upon the occurrence of an event of default, the bank shall be entitled to demand the immediate repayment of the loan.				
Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Elbit USA, LLC	Eastgate	\$30 million	\$30 million	11.4% per annum or 16.6% per annum retroactively if the loan will be extended one additional year	Bullet repayment in one installment at the first anniversary of the loan with an option to extend the loan term one additional year. Interest payable by quarterly installments.
Principal Security and Covenants	We pledged our 50% interest in Elbit USA LLC's parent company, Elbit Plaza, Elbit USA LLC, which is a special purpose entity that indirectly owns approximately 12% of EDT (and following the voluntary liquidation of EDT, EDT's U.S. REITs), also pledged to Eastgate (i) its shares in the EPN entities that own its interest (as well as Eastgate's, Elbit USA II, LLC and Plaza USA, LLC's interests) in EDT (and following the voluntary liquidation of EDT, EDT's U.S. REITs) and (ii) certain upstream distributions from EDT and EDT's portfolio. We also agreed to guarantee the loan in full to Eastgate. In addition, we granted 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 April 5, 2012, we and Eastgate amended the warrant, 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.				
Other Information	For additional information please see "Item 5. Operating and financial review and prospects - Overviews".				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
PC	Series A Notes issued to the public	NIS 281 million	NIS 328 million *	4.5% per annum, linked to the Israeli CPI.	8 annual installments commencing December 31, 2010 through December 31, 2017. Interest payable by semi-annual installments commencing December 31, 2007 through December 31, 2017.
Principal Security and Covenants	Unsecured.				
Other Information	<p>The notes are registered for trade on the TASE. The notes are not registered under the Securities Act. * NIS 267 million of the notes are presented at fair value through profit and loss (the fair value as of December 31, 2011 was NIS 170.8 million) and NIS 61 million of the notes are presented at amortized cost.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
PC	Series B Notes issued to the public	NIS 1,004 million	NIS 1,135 million *	5.4% per annum, linked to the Israeli CPI	5 annual installments commencing July 2011 through July 2015. Interest payable by semi-annual installments commencing July 2008 through July 2015.
Principal Security and Covenants	Unsecured				
Other Information	<p>The notes are registered for trade on the TASE. The notes are not registered under the Securities Act. * NIS 722 million of the notes are presented at fair value through profit and loss (the fair value as of December 31, 2011 was NIS 536.5 million) and NIS 413 million of the notes are presented at amortized cost.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms	
PC	Private bond issuance to Polish institutional investors	PLN 60 million	PLN 60 million	6 Month Wibor+4.5%	Loan matures at the end of three years, with balloon payment at the end of the maturity period. Interest payable by semi-annual installments commencing May 2011 through November 2013.	
Principal Security and Covenants	Certain circumstances shall be deemed events of default giving the bondholders the right to demand early redemption including the following:					
		<ul style="list-style-type: none"> <li>breach of the "cash position" as a result of the payment of dividends, or the repurchase program, in which the cash position falls below €50 million. "Cash position" shall be the sum of cash and cash equivalent of: cash, short and long - interest bearing deposits with banks or other financial institutions, available for sale marketable securities, and restricted cash, calculated based on the consolidated financial statements;</li> <li>the Net Capitalization Ratio exceeds 70%, where "Net Capitalization Ratio" is the Net Debt divided by the sum of the equity plus the Net Debt, and "Net Debt" mean 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; and</li> <li>PC fails to repay any matured and undisputable debt in the amount of at least €100 million within 30 days of its maturity.</li> </ul>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
PC	Merrill Lynch	€10 million €27 million	€10 million €26.2 million	12 months Euribor + 0.4% 3 months Euribor + 0.4%	€10 million to be repaid in February 2018. €26.2 million to be repaid in 2023.
Principal Security and Covenants	A pledge on financial notes and deposits. Compliance with certain covenants stipulated in the loan agreement, including a minimum value of collateral. Failing to comply with the covenants will require PC to provide additional cash collateral. As of December 31, 2011, PC has provided the bank with additional cash collateral of €9.8 million.				
Other Information	Loan was used for repurchase of outstanding notes.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
PC	FIBI Bank	€2.6 million €4.6 million € 0.6 million	€2.6 million €4.6 million € 0.6 million	1% 1.29% 0.8%	Revolving credit facilities.
Principal Security and Covenants	Floating charges over PC's assets with the bank, including securities.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Riga Plaza	MKB Bank Zrt, Seb Bank, as Unicredit Bank	€36.4 million *	€33.4 million *	3 months Euribor + 2.5%	Loan matures on June 30, 2014. Quarterly annuity payments calculated according to 20 years amortization, with balloon payment upon maturity.
Principal Security and Covenants	Registered first ranking mortgage on the underlying real estate. Assignment of all rights under relevant insurance policies. Pledge over all shares owned by PC in the borrower or share pledge agreement Assignment of all rights and claims under the construction agreements and construction warranties. First ranking pledges on the borrower's accounts. Prompt collection right to debit any of the bank accounts of the borrower. Requirement to maintain a debt service cover ratio of 1.2, and a loan to value ratio or 70%. Riga Plaza is not in compliance with these covenants, and a one year waiver (until December 31, 2011) was initially granted and another one year waiver (until December 31, 2012) is being finalized by the parties. Corporate guarantee of PC to invest equity up to a prescribed debt service cover ratio, in the event Riga Plaza is not sold within 6 months following opening or the proceeds of such sale do not cover the repayment of the loan balance.				
Other Information	* Represents 50% of the loan, which is PC's shareholding in Riga Plaza.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Sofia Plaza	Investec Bank	€5.9 million	€5.9 million	3 months Euribor + 4%	Loan matures on April 26, 2012. Quarterly interest payments.
Principal Security and Covenants	Registered first ranking mortgage on the underlying real estate. First ranking pledges on the borrower's accounts.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Airplane loan	GEFA Germany	US\$ 4.56 million	€3.0 million	USD Libor + 4% per annum	Loan matures on March 5, 2014, with a 75% balloon payment upon maturity. Quarterly principal payments are \$60,500.
Principal Security and Covenants	First priority aircraft mortgage entered into the Hungarian Aircraft Register at the CAA, Budapest. Assignment of all rights under relevant insurance policies.				
Other Information	Loan serves to finance the purchase of an airplane for our company.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Koregaon Park	AXIS, SBH (India)	INR 2,040 million credit facility	INR 2,031 million	13.25-15% p.a.	Loan matures in the first quarter of 2021.
Principal Security and Covenants	Assignment of all rights under relevant insurance policies.				
Other Information	Corporate guarantee of Plaza Centers. Pledge on assets of the project company.				

Borrower	Lender	Original amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Liberec Plaza	MKB BANK Zrt., ERSTE Bank AG	€25 million	€21.975 million	3 months Euribor+ 3.5% per annum	Bullet payment in 2014 of more than 90% of the principal.
Principal Security and Covenants	Registered first ranking mortgage and purchase option right on the underlying real estate. Assignment of all rights under relevant valid insurance policies. Share pledge agreement. Assignment of all rights and claims under the construction agreements and construction warranties. First ranking pledges on the borrower's accounts. Prompt collection right to debit any of the bank accounts of the borrower. Completion guarantee of PC for the term of the construction. Requirement to maintain a debt service cover ratio of 1.15, and a loan to value ratio of 85%. Liberec Plaza is not in compliance with these covenants, and a one year waiver (until December 31, 2011) was initially granted and another one year waiver (until December 31, 2012) is being finalized by the parties. Corporate guarantee of PC for debt service.				
Other Information	On March 19, 2010, the borrower entered into an amended agreement with the lenders pursuant to which the amount of the loan was reduced to €21.975 million and the interest was increased.				

Borrower	Lender	Original Amount *	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
A: Valley View B: Acacia Park C: Acacia Park Romania D: Fountain Park E: Primavera Tower	A: OTP Bank Nyrt B: Bank Leumi C: Bank Leumi Romania D: Bank Leumi E: MKB Bank Zrt	A: €8.2 million B: €1.4 million C: €1.3 million D: €1.42 million E: €1.5 million	A: €8.2 million B: €1.214 million C: €1.129 million D: €1.42 million E: €1.5 million	A: Euribor + 6% p.a. B: Euribor + 6% p.a., C: Euribor + 5% p.a. D: Euribor + 6% p.a. E: Euribor + 4.5% p.a.	A: Expired, and negotiations ongoing. Only interest payments, and principal remains outstanding. B: Expires: July 2012. C: Expires: July 2012. D: Expires: September 2012. E: Expired and negotiations ongoing. Only interest payments, and principal remains outstanding.
Principal Security and Covenants	First ranking mortgage on the underlying properties. Corporate guarantee of owners for Fountain Park and Acacia Park in respect of the interest.				
Other Information	* PC consolidates 50% of these loan balances in its financial statements with the exception of the loan for Fountain Park, which is not consolidated since PC only owns 25% of the equity of Fountain Park.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011*	Interest	Payment Terms
ProOne Kft (Dream Island Project)	MKB Bank Zrt	€15 million (approximately \$19 million)	€15 million (approximately \$20 million)	3M EURIBOR + 2.5% per annum	Expires May 31, 2012. Quarterly interest payments and balloon payment upon maturity.
Principal Security and Covenants	Pledge on shares of borrower, along with a call option for the shares of the project company holding the plot. Requirement to maintain loan to value ratio of 60%.				
Other Information	EURIBOR fixed for the whole term at 1.6% * PC's share in this loan is 21.75%.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011*	Interest	Payment Terms
Dream Island 2004 Kft	MKB Bank Zrt	€54.1 million €5 million	I - €40.5 million II - €4.5 million	3M Euribor + 3 % per annum 3M Euribor + 3.2% per annum	I- Expires March 30, 2012. Quarterly interest payments and balloon payment upon maturity. ** II- Expires December 15, 2012. Quarterly interest payments and balloon payment upon maturity.
Principal Security and Covenants	First ranking mortgage on the underlying property. Pledge on shares of borrower. Assignment of income. Floating charge over the assets. Assignment of all rights under relevant insurance policies. Requirement to maintain loan to value ratio of 80%.				
Other Information	* PC's share in these loans is 43.5%. ** The terms of this loan are currently being renegotiated. No payment was made during 2012.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Suwalski Plaza	ING Bank Śląski S.A.	I - €42.2 million, amended to €33.5 million in February 2011 II - PLN 8.125 million	I - €33.2 million	I - 3 months Euribor + 1.85% per annum for construction period and 3 months Euribor + 1.65% per annum thereafter II - 3 months WIBOR (for PLN) + 1.5% per annum	I - Expires December 29, 2020. Quarterly payments with fixed principal amounts and balloon payment upon maturity. II- Matured in March 2011
Principal Security and Covenants	First ranking mortgage on the underlying property. Pledge on shares of borrower and pledge on bank accounts. Assignment of all rights under relevant insurance policies, guarantees and agreements. Corporate guarantee of PC in the amount of €2.7 million for payment deficit of any outstanding amount due and payable to the lender. Requirement to maintain a debt service cover ratio of 1.2 and a loan to value ratio of 0.7.				
Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Zgorzelec Plaza	Bank Zachodni WBK S.A.	I - €20.8 million + €1.5 million* II - PLN 21 million (VAT facility)*	I - €20.8 million	I - 3 months Euribor + 2.75% per annum for construction period and 3 months Euribor + 2.5% per annum thereafter II - 3 months WIBOR (for PLN) + 1.6%	I - Expires June 30, 2014 if conversion (discussed below) does not occur before such date or June 30, 2019 if conversion does occur. II - matured in March 2011
Principal Security and Covenants	A first ranking mortgage on the underlying property. Pledge on shares of borrower and pledge on bank accounts. Assignment of all rights under relevant insurance policies, guarantees and agreements. Completion and cost overrun guarantee of PC. Requirement to maintain a debt service cover ratio of 1.15, loan to construction cost ratio of 0.80, and loan to value ratio of 0.75. PC is not in compliance with certain covenants set forth in the loan agreement and the parties agreed on March 16, 2012 to postpone the date upon which the loan is converted from a construction loan to an investment loan until June 30, 2014.				
Other Information	* Pursuant to terms of Annex No. 7 executed by the parties on March 16, 2012.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Torun Plaza	Bank PEKAO S.A	I - €52.4 million II - PLN 16.0 million	I - €30.5 million II - PLN 16.0 million	I - 1 months Euribor + 3.5% per annum for construction period and 3 months Euribor + 3.0% per annum thereafter II - 1 months WIBOR (for PLN) + 2.5% per annum	Expires December 31, 2017. Quarterly payments with fixed principal amounts and balloon payment upon maturity. II- Matures on December 31, 2012
Principal Security and Covenants	First ranking mortgage on the underlying property. Pledge on shares of borrower and pledge on bank accounts. Assignment of all rights under relevant insurance policies, guarantees and agreements. Corporate guarantee of PC in the amount of €9.4 million for payment of overrun cost and €2.7 million for payment of unpaid interest, cost, fees due under construction facility and VAT facility payable to the lender; Requirement to maintain a debt service cover ratio of 1.25 and loan to value ratio of 0.7.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Praha Plaza s.r.o	Erste Bank AG	€7.5 million	€4.101 million	Euribor + 1.75%	Quarterly payments of €117,200, beginning on December 31, 2004. The remaining amount will be paid in one installment on December 31, 2016.
Principal Security and Covenants	First ranking pre-emption right regarding the underlying property. Pledge on shares of borrower, on accounts, and on receivables from the lease agreements. Assignment of all rights under relevant insurance policies. Requirement to maintain a debt service cover ratio of 1.15 and loan to value ratio of 80%.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Kragujevac Plaza (Serbia)	OTP Bank Nyrt, OTP Bank Srbija a.d	€32.9 million	€12.8 million (OTP HU) + €4.1 million (OTP SRB)	3 months Euribor + 5.5%	Loan matures in 2027. Quarterly annuity payments (interest and principal).
Principal Security and Covenants	First and second-ranking mortgage over the underlying property. Pledge on shares of borrower, on accounts, and on receivables from the lease agreements. Assignment of all rights under relevant insurance policies.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Tanoli Enterprises Ltd.	Barclays Bank Plc.	NIS 60 million	NIS 60 million	6 months Telbor + 6%	Loan matures in 2015. Half annual annuity payments (interest and principal).
Principal Security and Covenants	<b>First and second-ranking mortgage over the bonds purchased by Tanoli.</b> Corporate guarantee for the due and punctual performance of Tanoli's obligations under the loan documents.				

• Borrower	Lender	Original Amount **	Amount Outstanding on Dec. 31, 2011 **	Interest	Payment Terms
• Victoria Hotel C.V., Utrecht Victoria Hotel B.V. • Mandarin Hotel BV(*)	Aarcal Bank	Victoria: €59.35 million Utrecht: €13.7 million *	Victoria: €57.4million Utrecht: €13.2 million *	Fixed interest rate of 5.266% per annum	Quarterly repayments of a gradually increasing amount, commencing March 2010, and ending with a bullet repayment on September 30, 2014.
Principal Security and Covenants	<b>Mortgage on hotels.</b> First ranking pledge on moveable assets, bank accounts, rights of the borrowers under their operating agreements and insurance receivables. <b>First ranking pledge on shares of borrowers.</b>				
Other Information	* Mandarin Hotel is wholly owned by PPHE. Total amount of the loan granted to all three parties was €78 million. The parties have executed an internal reimbursement agreement for liabilities borne by the joint hotels in respect of that part of the loans attributed to each of the relevant hotels. ** Our share in the loan amounts is 50%. This loan is included in the framework of the sale of the Dutch hotels transaction with PPHE. For a discussion of the sale of our interest in these hotels, please see Item 4.B "Business Overview – Hotels".				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011 *	Interest	Payment Terms
Victoria Monument BV	Bank Hapoalim B.M.	€14 million	€14.3 million	Euribor + 2.25%	Revolving credit facility. Interest is payable on a quarterly basis.
Principal Security and Covenants	<b>Fixed charge over account.</b> <b>Charge over the property, and charge over the purchase agreement of the property.</b> Charge over the shares held in the borrower; guarantee provided by us (in respect of our share in the property, although we will be released therefrom as part of the sale of the Dutch hotels transaction with PPHE); Each of the guarantors must beneficially own 50% of the share capital of the borrower. <b>Prohibition on the distribution of dividends by the borrower, in cash or in kind or making any other distribution without lender's prior consent.</b>				
Other Information	* Our share in the loan amount is 50%. This loan is included in the framework of the Dutch hotels transaction with PPHE.. For a discussion of the sale of our interest in these hotels, please see Item 4.B "Business Overview – Hotels".				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
<b>Bucuresti Turism SA</b>	Raiffeisen Bank International ("RBI")	€62.5 million	€61.9 million	Euribor + 4.6%	The principal is repayable in 20 quarterly installments of €0.65 million each, commencing September 2011, with a balloon payment of €58.5 million to be repaid on June 30, 2016. During the first quarter of 2013 we will be able to draw down an additional €9 million under the loan.
Principal Security and Covenants	First rank mortgage on the Radisson Blu Bucharest Hotel and the Centerville Hotel. Future and existing cash flow through the bank accounts opened at Raiffeisen Bank. Pledge over the shares of Bucuresti Turism SA and its subsidiary held by the majority share holder (Bca Hotels Eastern Europe BV). Pledge of receivables arising from lease agreements and insurance policies concluded by the borrower. Guarantee of the yearly debt service from us. Title insurance over the mortgage asset.				
Other Information	On April 3, 2012, we concluded an agreement with RBI fixing the Euribor at 1.40% from January 1, 2012, until the end of the loan.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
<b>Astrid Plaza Hotel NV</b>	Bank Hapoalim	€24.4 million	€18.75 million	Euribor + 1.75%	Semi-annual principal repayment of €625,000 to be paid commencing December 31, 2007 and ending on December 31, 2016. €12,500,000 to be paid at the end of the term. Interest is payable on a semi-annual basis.
Principal Security and Covenants	First ranking share pledge on Astrid Plaza shares. First ranking mortgage over Astrid Plaza's real estate. A mortgage mandate over Astrid Plaza's real estate. First ranking pledge on a reserve fund of €1 million, which is blocked on a deposit account. Required to maintain a debt service cover ratio.				
Other Information	We guarantee Astrid Plaza's undertakings under the loan agreement. The guarantee is unlimited in amount.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Astrid Plaza Hotel NV, for the Park Inn Hotel	Fortis Bank	A: €4 million B: €3.5 million	A: €3.5 million B: €3.1 million	A: 5.56% B: 3.38%	Repayment over a 15 year period.
Principal Security and Covenants	A first ranking mortgage on the Park Inn hotel and its assets. Subordination of loan granted by us to the borrower and undertaking not to reduce such loan below a given amount. Compliance with certain financial and operational covenants. Undertaking to maintain an equity/asset ratio. We have furnished the bank with a guarantee up to the amount of €1.37 million.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011*	Interest	Payment Terms
Schiphol Victoria Hotel C.V	Aareal Bank	€28 million	€27.3 million	4.56%	Expires April 27, 2017. Quarterly interest payments and balloon payment upon maturity.
Principal Security and Covenants	A first priority right of mortgage on the underlying real estate, pledge of all furniture fixtures and equipment, insurance rights, lease agreement, management agreement, income receivables accounts, and the shares of the borrowers and grantors. Requirement to maintain compliance with certain financial and operational covenants, including a debt service cost ratio, loan to value of and net operating to debt service.				
Other Information	* Our share in the loan amount is 50%. This loan is included in the framework of the Dutch hotels transaction with PPHE. For a discussion of the sale of our interest in these hotels, please see Item 4.B "Business Overview – Hotels".				

Borrower	Lender	Original Amount * **	Amount Outstanding on Dec. 31, 2011 * **	Interest	Payment Terms
EDT Portfolio Name: Longhorn III	UBS	\$35.6 million	\$32.6 million	Fixed interest rate of 5.10% per annum	Expires May 5, 2012.
Principal Security and Covenants	A first ranking mortgage on the property.				
Other Information	Longhorn III portfolio Number of properties: 2 Location: 1 Michigan, 1 Colorado * Debt Balance trust share ** Our share in the loan amount is 43%.				

Borrower	Lender	Original Amount *,**	Amount Outstanding on Dec. 31, 2011 *,**	Interest	Payment Terms
<b>EDT</b> <b>Portfolio Name: Longhorn I</b>	UBS	\$85 million	\$85 million	Fixed interest rate of 4.91% per annum	Expires June 30, 2012.
<b>Principal Security and Covenants</b>	A first ranking mortgage on the property				
<b>Other Information</b>	Longhorn I portfolio Number of properties: 4 Location: 1 South Carolina, 2 Texas, 1 Colorado *Debt Balance trust share ** Our share in the loan amount is 43%.				

Borrower	Lender	Original Amount *,**	Amount Outstanding on Dec. 31, 2011 *,**	Interest	Payment Terms
<b>EDT</b> <b>Portfolio Name: Longhorn II</b>	JP Morgan DDR – mezzanine	\$142.3 million \$31.7 million	\$139.8 million \$31.7 million	Fixed interest rate of 5.01% Fixed interest rate of 10%	Expires October 1, 2017.
<b>Principal Security and Covenants</b>	A first ranking mortgage on the property for JP Morgan. Second ranking mortgage on the property for DDR.				
<b>Other Information</b>	Longhorn II portfolio Number of properties: 7 Location: 1 Florida, 3 Wisconsin, 2 Minnesota, 1 Connecticut *Debt Balance trust share ** Our share in the loan amount is 43%.				

Borrower	Lender	Original Amount *,**	Amount Outstanding on Dec. 31, 2011 *,**	Interest	Payment Terms
<b>EDT</b> <b>Portfolio Name: Revolver</b>	Commonwealth Bank of Australia	\$239.3 million	\$169.4 million	LIBOR + 3.25%	Expires April 30, 2013.
<b>Principal Security and Covenants</b>	A first ranking mortgage on the property. Requirement to maintain compliance with certain covenants.				
<b>Other Information</b>	Revolver portfolio Number of properties: 9 Location: 3 Florida, 2 Ohio, 1 Minnesota, 1 Kansas, 1 Tennessee, 1 Pennsylvania *Debt Balance trust share ** Our respective share in the loan amount is 43%.				

Borrower	Lender	Original Amount *;**	Amount Outstanding on Dec. 31, 2011 *;**	Interest	Payment Terms
<b>EDT</b> <b>Portfolio Name:</b> <b>Bison</b>	UBS	\$135 million	\$114 million	Fixed interest rate of 5.25%	Expires April 6, 2016.
Principal Security and Covenants	A first ranking mortgage on the property.				
Other Information	Bison portfolio Number of properties: 12 Location: 7 New York, 2 Arkansas, 1 North Carolina, 1 Tennessee, 1 Pennsylvania *Debt Balance trust share ** Our share in the loan amount is 43%.				

Borrower	Lender	Original Amount *;**	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
<b>EDT</b> <b>Portfolio Name:</b> <b>Venice</b>	Bank of America, N.A.	\$77.7 million	\$77.7 million	Fixed interest rate of 6%	Expires July 1, 2013
Principal Security and Covenants	A first ranking mortgage on the property.				
Other Information	Venice portfolio Number of properties: 7 Location: 2 Georgia, 4 Texas, 1 Colorado *Debt Balance trust share ** Our share in the loan amount is 43%.				

Borrower	Lender	Original Amount *;**	Amount Outstanding on Dec. 31, 2011 *;**	Interest	Payment Terms
<b>EDT</b> <b>Portfolio Name:</b> <b>Homart II</b>	MetLife	\$268 million	\$267.3 million	Fixed interest rate of 6.4%	Expires September 1, 2015.
Principal Security and Covenants	A first ranking mortgage on the property.				
Other Information	Homart II portfolio Number of properties: 4 Location: 1 Florida, 1 Virginia, 1 Massachusetts, 1 Illinois. *Debt Balance trust share ** Our share in the loan amount is 43%.				

Borrower	Lender	Original Amount *;**	Amount Outstanding on Dec. 31, 2011 *;**	Interest	Payment Terms
<b>EDT Individual Riverchase</b>	Lehman Brothers	\$8.2 million	\$7 million	Fixed interest rate of 5.5%	Expires January 11, 2013.
Principal Security and Covenants	A first ranking mortgage on the property.				
Other Information	Riverchase Promenade, Birmingham, Alabama *Debt Balance trust share ** Our share in the loan amount is 43%.				

Borrower	Lender	Original Amount *;**	Amount Outstanding on Dec. 31, 2011 *;**	Interest	Payment Terms
<b>EDT Individual Clarence</b>	Keyport Life Insurance Co.	\$4 million	\$851 thousand	Fixed interest rate of 6.25%	Expires August 1, 2013.
Principal Security and Covenants	A first ranking mortgage on the property.				
Other Information	Jo-Ann Plaza, Buffalo NY *Debt Balance trust share ** Our share in the loan amount is 43%				

Borrower	Lender	Original Amount *;**	Amount Outstanding on Dec. 31, 2011 *;**;***	Interest	Payment Terms
<b>EDT Individual Roswell</b>	Sun Life	\$14 million	\$13.54 million	Fixed interest rate of 5%	Expires November 1, 2015.
Principal Security and Covenants	A first ranking mortgage on the property.				
Other Information	Roswell Crossing, Roswell GA *Debt Balance trust share ** Our respective share in the loan amount is 43%. *** This loan was assumed upon acquisition of the property on December 1, 2011.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Elbit Trade & Retail Ltd.	Bank Hapoalim	NIS 10 million	NIS 10 million	Prime + 1.75 %	Revolving short-term credit facility
Principal Security and Covenants	Fixed mortgage on all Elbit Trade assets and a guarantee for the full amount provided by us.				
Other Information	<p>An additional Stand-By Letter of Credit has been provided by the bank to Elbit Trade in the amount of €3.7 million in order to secure payment to third party suppliers.</p> <p>In April 2012, we completed the sale of all our shares in Elbit Trade &amp; Retail Ltd. and all the interests in G.B. Brands, Limited Partnership, which was the franchisee of the Gap™ and Banana Republic™ brands, to Gottex, and transferred all the other activities of Elbit Trade &amp; Retail Ltd. (mainly with respect to the MANGO-MNG™ brand) to Elbit Fashion. In the framework of the transaction we have paid off this loan and Elbit Fashion had entered into a new credit facility agreement with Bank Hapoalim and issued a new Stand-by Letter of Credit ("SBLC") to Punto Fa. The credit line and the credit under the SBLC were secured by similar pledges over Elbit Fashion and by the pledge over certain receivables that was granted by us and which replaced the pledge over the holdings in the Dutch hotels that were sold to PPHE. For a discussion of the sale of our interest in Elbit Trade &amp; Retail Ltd. and G.B. Brands Limited Partnership, please see "Item 4.B "Business Overview – Fashion Apparel".</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2010	Interest	Payment Terms
GB Brand Limited Partnership ("GB Brand")	Bank Leumi	NIS 4.5 million	NIS 4.5 million	Prime + 1.5 %	Revolving short-term credit facility
Principal Security and Covenants	Fixed mortgage on all Elbit Trade assets and a guarantee for the full amount provided by us.				
Other Information	<p>An additional Stand By Letter of Credit has been provided by the bank to GB Brand in the amount of \$4.3 million in order to secure payment to third party suppliers.</p> <p>In April 2012, we completed the sale of all our shares in Elbit Trade &amp; Retail Ltd. and all the interests in G.B. Brands, Limited Partnership, which was the franchisee of the Gap™ and Banana Republic™ brands, to Gottex, and transferred all the other activities of Elbit Trade &amp; Retail Ltd. (mainly with respect to the MANGO-MNG™ brand) to Elbit Fashion. In the framework of the said transaction Gottex had stepped into our shoes and had entered into new agreements with Bank Leumi Le'Israel Ltd. regarding the grant of banking services following the sale. Accordingly, our guarantee and the collaterals that were given by us were cancelled and we were released from all our obligations in relation to the loan. For a discussion of the sale of our interest in Elbit Trade &amp; Retail Ltd. and GB Brands, see Item 4.B "Business Overview – Fashion Apparel".</p>				

#### Financial Instruments

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

#### Material Commitments for Capital Expenditure

See " - Tabular Disclosure of Contractual Obligations" below.

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

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

InSightec's research and development efforts have been financed, in part, through OCS grants. InSightec has received or was entitled to receive grants totaling \$25.2 million from the OCS since its inception in 1999 and is required to repay such grants through payment of royalties to the OCS at a rate of 3.5% of its revenues until the entire amount is repaid.

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

In accordance with IFRS, such grants are recorded in the income statements if there is reasonable assurance that the grants will not be repaid. Otherwise, the grants are recorded as a liability and are measured at fair value at each balance sheet date. The fair value of the OCS grants as of December 31, 2011 and 2010 was NIS 27.3 million (approximately \$7.2 million) and NIS 25.6 million (approximately \$7.2 million), respectively.

Our total research and development expenses amounted to NIS 62.8 million (approximately \$16.2 million), NIS 58.4 million and NIS 74.0 million in the years ended December 31, 2011, 2010 and 2009, respectively.

The total OCS grants received by InSightec during 2011, 2010 and 2009 were \$1.1 million, \$2.4 million and \$2.9 million, respectively. These grants were recorded at fair value as part of our liabilities in our consolidated financial statements.

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

#### D. TREND INFORMATION

##### *Shopping and Entertainment Centers*

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

In recent years the retail market in CEE has experienced extraordinary growth. However, the recent decline in the global economy, which also influenced the European Union, as well as the recent concerns regarding the possibility of sovereign debt defaults by European Union member countries, affected the growth in most countries during 2008 through 2011.

Retailers entering or expanding across CEE and South East Europe ("SEE") are still favoring shopping centers over retail parks. However, this is also closely linked to the availability of real estate, as shopping centers still dominate the retail scene across the region. For existing retail schemes, retailers are mainly targeting the top performing shopping centers in order to minimize their risk. Whilst retail parks have lost their main competitive advantage, the cost differential between the average shopping center and the average retail park has significantly narrowed. The situation is particularly obvious with new developments, where retailers are able to secure space on attractive terms. The real winners are the landlords of the top performing shopping centers: they are able to set their conditions and continue driving the market. In the more developed and mature CEE and SEE markets, retailers are also interested in securing space in outlet centers, particularly in Poland, which is the most developed amongst these countries.

Within CEE and SEE, Poland continues to be the top destination among newcomers. The decisions of the brands are very much driven by market size, spending power and, to a certain extent, the availability of franchise partners for those selecting that particular business model to start operations in a new country. Poland, Romania, Croatia and Serbia can be classed as "hot", while the Czech Republic, Slovakia and Hungary are struggling to lure international chains to their respective markets. Austrian and German retailers tend to be more represented in the Czech Republic, Slovakia and Hungary and to a lesser extent in Croatia and Serbia. This predominance can be explained as a result of the strong cultural and historical ties linking these countries. Spanish, Italian, French and to some extent the UK brands, have a stronger presence in Poland and Romania; however, they are also appealing to Croatian and Serbian consumers. Unsurprisingly, concepts tend to be more successful in countries with closer cultural and historical proximities. In the case of Greek and Turkish brands, their expansion has been partially driven by geography and is particularly pronounced in Romania, Croatia and Serbia. Poland and Romania have a wider choice between international and national retailers, while smaller countries, such as Serbia, Hungary, Croatia and the Czech Republic, remain dependent on international brands.

Although the new developments in the retail market in the Czech Republic experienced stagnation during 2011, the situation is expected to change in the following two years. More than 166,000 square meters of retail space is under construction and scheduled to be delivered by 2013. The capital city, Prague and major markets, Brno and Ostrava are currently well supplied with retail space. Density figures in these markets, as well as the whole country, are among the highest in the CEE & SEE region. Developer's plans in the three big cities focus mainly on extensions of well-established and prominently located centers within densely populated catchment areas which have good connectivity to public transport and car access. 42% of the Czech Republic's future pipeline comes from extensions. As major markets mature, developers are beginning to shift to medium-sized and smaller sized cities (40,000 to 80,000 inhabitants). Compared to 2010, the retail market in the Czech Republic today is seeing growth in demand for retail space, especially from mass market retailers, with few up-market brands arriving recently. Prague continues to be the primary focus for the majority of retailers, closely followed by Brno and Ostrava. In terms of location, they continue to concentrate on prime high streets, and on prime shopping centers. However, as the attractive retail space on offer in these cities narrows, retailers are beginning to look at opportunities in smaller markets, where the competition is not as fierce.

Just like the rest of Europe, the current economic situation in Hungary is challenging. The decrease of retail sales between 2007 and 2010 has stopped and is stagnating at the moment, though the government's actions to boost employment might help to increase consumer spending. Although the overall sentiment on the Hungarian retail market remains conservative, the long-term outlook seems promising. Shopping center supply in Hungary totals 1.3 million square meters (67% of the total retail stock). The retail park stock of 587,000 square meters accounts for 30%, while outlet centers, offering 64,000 square meters, provides 3% of the total figure. In 2011 the market experienced the largest amount of new supply delivered to the market since 2007. By November 2011, approximately 100,000 square meters of new retail space came to the market in two projects. In 2012 half of this year's stock, in several small-sized shopping centers, will be supplied. The capital city Budapest is where nearly 70% of the new supply will be developed. As financing remains the bottleneck for many commercial projects, several schemes under planning have been in the pipeline for two to three years. Leasing is also a challenge, especially for new projects without reliable track records; retail chains prefer to secure space in existing and well-performing shopping centers, instead of new and untested projects. Some of the best shopping centers in Budapest have been restructuring their tenant mixes as lease contracts expire. This creates a perfect opportunity for international anchor tenants who are keen to enter the market. Retailers are currently able to achieve favorable lease conditions especially in projects in Budapest which recently opened or are still under construction.

The Polish retail market, with more than 38 million potential customers, has a leading position in the CEE & SEE region, attracting international investors, developers and, importantly, new retailers. Their confidence in the market is supported by the strong fundamentals of the Polish economy, including sound GDP growth, increasing spending power and rising retail sales. Shopping center space stands at 7.5 million square meters, i.e., 75% of the total retail stock in the country (10 million square meters). The remainder is found in other retail formats, such as retail parks, outlet centers and standalone retail warehouses. Construction continues to be high, with more than 670,000 square meters of shopping center space being currently developed. In major and secondary cities (more than 200,000 inhabitants) developers focus on both new projects and extensions of existing well-performing retail assets. Extensions account for nearly 30% of new supply in Poland and it is expected that this share will grow in the future. As major markets mature, developers are progressively expanding into smaller geographies (less than 200,000 people) with new large-scale projects. Poland is clearly an attractive market with many international chains willing to explore the country. Approximately 25 chains started Polish operations in 2011. Strong retail demand coupled with low vacancy in good quality assets and good economic fundamentals justify new development in the country.

The economic condition of Romania is slowly improving. Growing retail sales, increasing spending power and GDP forecasts are positive signs for all market stakeholders. Especially given that Romania, which currently offers only 1.5 million square meters of shopping center space, has one of the lowest density levels of the CEE & SEE region: precisely 68 square meters for every 1,000 inhabitants. After a year and a half of stagnation, the retail market in Romania is witnessing a resurgence of development and retailer expansion activity. An impressive pipeline of 423,000 square meters in 14 projects is at the development stages across the country with delivery planned until 2013. Major international brands on the market are seeking new expansion opportunities and being attracted mostly by the well performing shopping centers which continue to register low vacancy rates. The appetite for expansion of both international and local in-line retailers is much weaker and focuses on Bucharest. Additionally, new store openings by smaller, non-anchor labels are often limited by the shortage of financing some franchise operators face. Probably one of the most desired brands, H&M, entered Romania in the spring of 2011. Most new international brands which entered the market this year came via the franchising as this model still remains an attractive to new market entrants.

The Serbian market, with 7.3 million people, is clearly undersupplied in retail terms and offers just 307,000 square meters of shopping center space. This translates into the lowest density ratio (42 square meters for every 1,000 inhabitants) of all the seven CEE & SEE countries. The immaturity of the market, the lack of good quality retail space, low vacancy rates and growing retailer demand is pushing developers to revive the projects which they put on hold due to the economic crisis and proceed with new investments. 2011 has been extremely active in terms of new retail developments. 136,000 square meters is in a construction stage, an amount which equals 45% of the present total retail space, including shopping center, retail park and factory outlet formats. The emerging stock is evenly split between the three formats. Today, the offer of the retail market is limited to small-sized schemes constituting 63% of the shopping center stock. That situation is set to change in 2012 with the arrival of projects currently being developed. Interest from international retailers in the market is significant: 11 newcomers appeared in 2011. Their primary focus is on the most prominent and modern shopping centers in Belgrade but, also in high street retail units. However, with the opening of some modern schemes in secondary Serbian cities such as Niš, Kragujevac and Pančevo, retailers are showing growing interest in spreading across Serbia. Many international retailers, such as Inditex and Grupo Cortefiel, have decided to cancel agreements with local franchise partners and to expand their brands directly.

With the opening of nine shopping malls in 2010, the total inventory of contemporary shopping mall space in Bulgaria increased to 560,000 square meters equal to 74 square meters for every 1,000 inhabitants. Demand for High Street space in the four largest cities remained stable. Rental levels in shopping malls and across the High Street continued to decrease slowly. 2010 marked the largest annual increase in terms of shopping mall supply with a further 327,000 square meters of new stock completed and thus total stock reached 560,000 square meters. Despite the economic slump, there is clear optimism amongst retailers. In the future shoppers are likely to experience new, niche/hybrid concept stores (e.g., combining fashion & art, books & café or interior & fashion), many of which will include an entertainment component. Future demand is expected to come from three main segments; soft cash & carry, convenience stores and lower end fashion retailers. Particularly non-food hypermarkets are expected to expand in the years ahead. Shopping malls in Sofia enjoy low levels of vacancy. As a result of intensive expansion and fall in consumer demand, some retailers are facing dwindling turnovers, and thus are pressed financially. With no new centers opening in 2011 in Sofia, existing malls have a chance to position themselves, and thus strengthen their competitive offer. Rental levels are clearly affected by the increasing supply of shopping mall space. The High Street is expected to make a come-back in the coming period. New local retail concepts will be introduced.

The economy of Latvia has stabilized and started to grow, showing a 5.3% increase in real Gross Domestic Product during 2011 according to provisional data. According to provisional data of the population census held during 2010, currently there are 2.1 million inhabitants in Latvia. That is, during the last ten years Latvia lost 300,000 inhabitants, of which 150,000 emigrated. Weak demographics is a very serious problem for the Latvian economy. During 2011 retail trade turnover stabilized and started to grow, supported by recovery of domestic demand. The annual increase in retail sales at constant prices for the whole year was 7%, but varied significantly for different commodity groups. In line with stabilization and growth of retail sales for a number of groups of goods, tenants were able to improve their financial situation resulting in opening of additional stores or at least starting to consider the possibility. At the same time, landlords of successful shopping centers became reluctant to provide discounts for tenants and are slowly starting to increase rental rates. Following stabilization of the economy and improvement in consumer purchasing power, demand for retail space from the tenant side has increased in most popular shopping centers. Two general tendencies in the retail market segment have been notable in the past year. The first is the overall shift towards less expensive brands from the customer side, which can be explained by the fact that the crisis years made consumers more attentive to prices and quality. The second tendency is that some retailers that face falling or stable demand for their goods, such as books or grocery chains, remain very active and continue opening new stores, as they compete to attract new customers and increase market share. Diverse trends were evident in vacancy dynamics in Riga shopping centers during 2010-2011. While the vacancy rate did not exceed the 1% level for shopping centers most in demand, many properties faced considerable challenges. As of January 2012 the vacancy level in these shopping centers has declined, but still the average level did not fall below 9-12%. During 2011 rental rates stabilized in prime shopping centers, with a tendency for growth. Landlords of most popular shopping centers are reluctant to offer discounts on leases, as was the practice during 2009-2010, and are trying to slowly increase rental rates for both new and old tenants. During 2011 retail trade turnover stabilized and started to grow, supported by recovery of domestic demand.

Despite the global economic slowdown, the Indian economy remained relatively strong and was among the fastest growing economies of the world with an average GDP growth rate of 6.9% in 2011. The services sector grew by 9.4%, and its share in the Indian GDP grew to 59%. Monetary policy was tightened by the Reserve Bank of India (RBI) during 2011 to control inflation and curb inflationary expectations. The slowing inflation reflected the lagging impact of actions taken by the RBI and the government. India's inflation rate, based on the wholesale price index, fell to 6.55% in January 2012. Strong Indian economy traction by domestic demand and the services sector growth is expected to expand 7.6% in 2012-13. With a population of more than 1.22 billion people, including 50% under the age of 25, future growth rate is not expected to decline. On December 20, 2011, Moody's Investor Services released a credit rating upgrade for India, and the long-term government bonds denominated in domestic currency and the long-term country ceiling on the foreign currency bank deposits were both raised from Ba1 to Baa3 (from speculative to investment grade), and short-term government bonds denominated in domestic currency from NP (Not Prime) to P-3 (ranging from speculative to investment grade).

The United States has the largest and most technologically powerful economy in the world, with a per capita GDP of \$48,100. The global economic downturn, the sub-prime mortgage crisis, investment bank failures, falling home prices, and tight credit pushed the United States into a recession by mid-2008. GDP contracted until the third quarter of 2009, making this the deepest and longest downturn since the Great Depression. To help stabilize financial markets, the U.S. Congress established a \$700 billion Troubled Asset Relief Program (TARP) in October 2008, and since then has adopted some significant steps in order to obtain market recovery. The GDP grew at an annualized rate of 3.0% in the fourth quarter of 2011. This follows GDP growth of 5.6% in the fourth quarter of 2010, the fastest pace in more than 6 years, while 2009 faced a negative growth. The inflation rate in 2011 was 3.0% compared to an inflation of 1.6% in 2010. Since the beginning of 2011, U.S. retail sales have shown year over year growth of up to 6.2% in the last quarter of the year. The falling real estate prices provided an opportunity for investors to acquire high quality assets on high capitalization rates, which are expected to decrease in the coming years.

#### ***Hotel Business***

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

The hotel industry was deeply affected by the recession and global financial crisis in 2008 and 2009. European Revpar in 2010 generally increased, and our hotels followed this positive trend. Revenue increases were experienced due to occupancy increases and average rate recovery. Our markets which were affected the most in 2008 and 2009 showed the highest recovery rates, however Revpar for these markets is still less than the results of 2007 and 2008.

For 2011 we generally expect to follow the European trend showing a Revpar increase from 5 to 8%. Investments and renovations of furniture, fixtures and equipment are scheduled again after being suspended for the last two years.

#### ***Residential Projects***

The global economic crisis caused a slowdown in the residential market around mid-2008, but has started to show signs of recovery. Prices for residential homes are increasing in the micro market at a range of 10% to 20%, depending on location, type of developer and amenities offered. Mortgage banks had been offering special reduced interest rates for the first year of a loan, which then increased in the second year, until certain regulators put an end to this practice in the second half of 2010. Most new projects were for luxury housing, from reputed developers, whereas local developers targeted projects aimed at the middle class segment.

Average sales have returned to pre-crisis level of 20 - 40 units per month, depending on location, builder and type of project.

In India, the prices of the residential market in tier 1 cities like Mumbai and Delhi have increased substantially compared to other cities. Luxury projects in well located areas receive overwhelming response and units are typically sold within a few months from project launch.

#### *Fashion Apparel*

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

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

The rising cost of raw materials (cotton, labor, oil, and other commodities) influences consumer retail pricing which challenges our ability to keep revenues and profit margins at the same levels as previous years.

The ongoing trend of new international players entering into the Israeli markets and expansion of local players to become multi-branded players effects and challenges our goal to gain and preserve our market share.

Recent mergers in the shopping mall industry, along with ongoing rising occupancy costs in most of the attractive shopping malls in Israel, pose challenges to our profit margins and development plans.

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

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

- We furnished a local municipality a bank guarantee in an amount of approximately NIS 4.5 million to secure payment of certain land betterment tax by Marina Herzliya Limited Partnership Ltd. (a company controlled by Control Centers, our controlling shareholder). The above sum, including the interest and index linkage accrued thereon, as of December 31, 2011, amounts to NIS 9.5 million. Arbitration is currently being held as to such liability. Our management estimates, based on legal advice received by Control Centers, that there is no possibility to value the risk as the outcome based on the assessment of valuator that was appointed by the court.
- As part of the franchise and support agreements executed by our subsidiary, Elbit Trade & Retail Ltd. with third parties, which in turn were transferred to Elbit Fashion, and following such transfer Elbit Fashion has furnished Punto Fa with a stand-by letter of credit in the amount of approximately €3.6 million (approximately \$4.66 million) in order to secure payments under the agreements.
- As part of transactions for the realization and/or sale of our holdings in certain subsidiaries or projects, or the realization and sale of certain business activities, we have undertaken to indemnify the respective purchasers for certain losses and costs incurred in connection with the sale transaction, and in particular, with respect to a breach of representations and warranties by seller. The indemnification provisions are usually capped at the purchase price and are limited in time, as set forth in each of the relevant sale agreements. Our management estimates that no significant costs will be borne in respect of these indemnification provisions.
- As part of a lease agreement executed in July 2007 between us and the Israel Land Administration for a long-term lease of land in Tiberius, Israel, we had undertaken to finalize the construction in July 2010. During 2010 we received an extension for an additional three years until July 2013. We have provided the Israel Land Administration with two bank guarantees in the aggregate amount of NIS 10 million linked to the increase in the Israeli consumer price index in order to secure our undertakings included in the lease agreement. As a security for the guarantees, we pledged deposits in the same amount.

- As part of the transactions for the sale of our real estate assets, we have undertaken to indemnify the respective purchasers for any losses and costs incurred in connection with the sale transactions. The indemnification provisions usually include: (i) indemnifications in respect of integrity of title on the assets and/or the shares sold (*i.e.*: that the assets and/or the shares are wholly owned and are free and clear from any encumbrances and/or mortgage and the like). Such indemnification generally survives indefinitely and is capped at the purchase price in each respective transaction; and (ii) indemnifications in respect of other representations and warranties included in such sale agreements (*e.g.*: development of the project, responsibility for defects in the development project, tax matters and others). Such indemnifications are limited in time (generally three years from closing) and is generally capped at 25% to 50% of the purchase price. Our management estimates, based, *inter alia*, on a professional opinion and past experience, that no significant costs will be borne in respect of these indemnification provisions.
- A former subsidiary of PC incorporated in Prague ("Bestes"), which was sold in June 2006 is a party to an agreement with a third party ("Lessee"), for the lease of commercial areas in a center constructed on property owned by it, for a period of 30 years, with an option to extend the lease period by an additional 30 years, in consideration for €6.9 million (approximately \$8.9 million), which has been fully paid. According to the lease agreement, the Lessee has the right to terminate the lease, subject to fulfillment of certain conditions set forth in the agreement. As part of the agreement for the sale of Bestes to Klepierre in June 2006, it was agreed that PC will remain liable to Klepierre in case the Lessee terminates its contract. PC's management believes that this commitment will not result in any material amount due to be paid by it.
- On November 21, 2010, Elbit Medical's shareholders approved the assignment of our indemnification obligations in favor of Gamida and its affiliated parties to Elbit Medical, without a right of reimbursement from us. Elbit Medical also undertook to indemnify Gamida and Teva Pharmaceutical Industries Ltd., as the shareholders of the joint venture Gamida Cell - Teva Joint Venture Ltd. for damages on certain matters. These indemnification undertakings of Elbit Medical replaced similar undertaking formerly made by us to these parties.

#### F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Our contractual obligations consist mainly of: (i) long-term borrowings (mainly loans from banks and financial institutions and non convertible and convertible notes); (ii) long-term operational leases; (iii) commitments towards suppliers, subcontractors and other third parties in respect of land acquisitions; and (iv) other long term liabilities reflected in the balance sheet. Our contractual obligations are generally linked to foreign currencies (mainly Euro and U.S. dollar) and/or other indexes (such as the Israeli consumer price index). Below is a summary of our significant contractual obligations as of December 31, 2011 in NIS, based upon the representative exchange rate of the NIS as of the balance sheet date, against the currency in which the obligation is originally denominated or based on the respective index of the Israeli consumer price index as of December 31, 2011. Actual payments of these amounts (as are presented in our financial statements) are significantly dependent upon such exchange rates or indexes prevailing as at the date of execution of such obligation, and therefore may significantly differ from the amounts presented herein below.

Contractual Obligations as of December 31, 2011	Payments due by Period (in NIS thousands)				
	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
Long-Term Debt (1)	9,716,840	2,124,936	3,283,918	2,534,668	1,773,318
Operating Leases (2)	639,526	47,956	93,445	88,639	409,486
Purchase Obligations and Commitments (3)	747,440	97,925	218,019	215,748	215,748
Other Long-term Liabilities Reflected on Balance Sheet (4)	51,744	9,208	20,936	6,412	15,188
<b>Total</b>	<b>11,155,550</b>	<b>2,280,025</b>	<b>3,616,318</b>	<b>2,845,467</b>	<b>2,413,740</b>

(1) Long term debt includes interest that we will pay from January 1, 2012 through the loan maturity dates. Part of our loans bear variable interest rates and the interest presented in this table is based on the LIBOR rates known as of December 31, 2011. Actual payments of such interest (as presented in our financial statements) are significantly dependent upon the LIBOR rate prevailing as of the date of payment of such interest. For additional information in respect of the long term debt, see "Item 5.B. Liquidity and Capital Resources - Other Loans".

(2) Our operating lease obligations are subject to periodic adjustment of the lease payments as stipulated in the agreements. In this table we included the lease obligation based on the most recent available information. For additional information in respect of our operating lease obligations see note 23A(4) to our annual consolidated financial statements.

(3) Includes mainly commitments for construction suppliers, subcontractors and amount payable to third and related parties including estimated payments to a related party in respect of land acquisitions. Such obligations were not recorded as liabilities in the balance sheet, since, as of the balance sheet date, the construction services were not yet provided and/or certain conditions precedent for the plot acquisitions have not yet been fulfilled.

(4) Includes fair value of royalty payments that InSightec may have to pay to the OCS. InSightec partially finances its research and development expenditures under programs sponsored by the OCS for the support of research and development activities conducted in Israel. In exchange for OCS participation in the programs, InSightec is obligated to pay 3.5% of total sales of products developed within the framework of these programs. At the time the OCS grants were received, successful development of the related projects was not assured. The obligation to pay these royalties is contingent on (i) actual sales of the products; (ii) fair value of hedging transactions in respect of interest rates on long term loans; and (iii) fair value of the exit fee payable in certain events to a financial institution within the framework of long term credit facilities provided to our jointly controlled companies in the United Kingdom (see also "Item 5.B. Liquidity and Capital Resources - Other Loans").

#### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

##### A. DIRECTORS AND SENIOR MANAGEMENT

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

NAME	AGE	POSITION
Mordechay Zisser (1)(2)	57	Executive President and Director
Shimon Yitzhaki (1)(2)	57	Executive Chairman of the board of directors and Director
David Rubner (2)	72	Director
Zvi Tropp (1)(2)(3)	72	External Director
Moshe Lion	51	Director
Shmuel Peretz	72	Director
Elina Frenkei Ronen (1)(2)	38	External Director
Dudi Machluf	40	Co-CEO
Ran Shtarkman	44	Co-CEO and CEO of PC
Doron Moshe	41	Chief Financial Officer
Zvi Maayan	44	General Counsel

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

**MORDECHAY ZISSER.** On January 1, 2010, Mr. Zisser was appointed as our Executive President. Mr. Zisser continues to serve on our board of directors. From May 1999 until December 2009, Mr. Zisser served as our Executive Chairman of the board of directors. Mr. Zisser also serves as a director in additional companies held by us, such as InSightec, Elbit Ultrasound Ltd. and Elbit Medical Technologies Ltd. Mr. Zisser is the entrepreneur behind most of our core businesses, including: real estate investment, investment in commercial real property in the United States, hotel ownership and management, development and operation of shopping and entertainment centers in CEE and in India, development of major residential projects and mixed-use complexes, venture capital investments in the hi-tech, medical and bio-technology industries and distribution and marketing of fashion apparel and accessories in Israel. Mr. Zisser has served as President and Chairman of the board of directors of Europe-Israel since March 1998 and as President and Chairman of the board of directors of Control Centers since 1983. Mr. Zisser has developed major real estate development projects in Israel (including the city of Emmanuel, the Herzliya Marina, the Ashkelon Marina, and the Sea and Sun luxury residential project in north Tel Aviv), as well as large scale residential and hotel projects abroad. Mr. Zisser has also served as Executive Chairman of the board of directors of PC since October 2006. Mr. Zisser is a member of the investment committee of EPN since 2010. Mr. Zisser is active in charitable organizations and is a member of the management of the "Oranit" guest home for children with cancer, as well as the national Bone Marrow Donor Registry.

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

**DAVID RUBNER.** Mr. Rubner has served as a member of our board of directors since July 2003. Mr. Rubner serves as Chairman of the board of directors and Chief Executive Officer of Rubner Technology Ventures Ltd. as well as the General Partner of Hyperion Israel Advisors Ltd., a venture capital firm. From 1970 until 2000, Mr. Rubner held various positions at ECI Telecom Ltd., including President, Chief Executive Officer, Chief Engineer, Vice President of operations and Executive Vice President and General Manager of the Telecommunications Division of ECI. Mr. Rubner serves on the boards of public companies including Check Point Software Ltd., Radware Ltd., Messaging International Ltd., as well as some privately held companies. Mr. Rubner serves on the boards of trustees of Bar Ilan University and Shaare Zedek Hospital. Mr. Rubner holds a B.S. in engineering from Queen Mary College, University of London and an M.S. from Carnegie Mellon University. Mr. Rubner was the recipient of the Israeli Industry Prize in 1995.

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

**MOSHE LION.** Mr. Lion has served as a member of our board of directors since April 2006. Mr. Lion is a senior partner at Lion, Orlitzky and Co., an accounting firm in Israel, Chairman of the Jerusalem Development Authority since June 2008 and a member of the board of directors of Brainstorm Cell Therapeutics since July 2007 and Chairman of the Board of Green Ocean Finance. From April 2003 until April 2006, Mr. Lion was the Chairman of Israel Railways. From October 2000 until December 2005, Mr. Lion served as a director of Elscint. From December 1997 to July 1999, Mr. Lion served as Director General of the Israeli Prime Minister's Office and as an economic advisor to the Israeli Prime Minister. From January 1997 to November 1997, Mr. Lion served as the Head of the Bureau of the Israeli Prime Minister's Office and as an economic advisor to the Israeli Prime Minister. Mr. Lion served as a member of the board of directors of Bank Massad Ltd. from January 2000 until November 2006 and as a member of the board of directors of Bank Tefachot Ltd. from November 1999 until May 2004. Mr. Lion currently serves as a member of the board of directors of the Israel Council for Higher Education and of the Wingate Institute for Physical Education. Mr. Lion holds a B.A. in accounting and economics and an L.L.M., both from Bar Ilan University.

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

**ELINA FRENKEL RONEN.** Ms. Frenkel Ronen has served as one of our external directors since December 2008. Since 2005, Ms. Frenkel Ronen has headed her family's real estate business. Ms. Frenkel Ronen currently serves as a member of the board of the Institute of CPAs in Israel as the Chair of the CEOs, CFOs and Controllers Committee of the Institute of CPAs in Israel, and as an external director of Tempo Beverages Ltd. and of Micromedic Technologies Ltd., and as Chairperson of the Board of Directors of Haifa Port Ltd. From 2008 until 2011, Ms. Frenkel Ronen served as an External Director of Tao Tsuot Ltd. and Haifa Port Ltd. From 2004 until 2007, Ms. Frenkel Ronen served as the Public Representative for the Public Utility Authority – Electricity. From 2008 until 2012, Ms. Frenkel Ronen served as Chief Financial Officer of Ortek Paper Ltd. From 1999 until 2002, Ms. Frenkel Ronen served as Chief Financial Officer of Sherutay Hashomrim Group. From 1993 until 1999, Ms. Frenkel Ronen served as the Chief Controller and Financial Reports Supervisor of the Tnuva Industry Group of Companies, including its 96 subsidiaries. Ms. Frenkel Ronen holds a B.A. in accounting and economics and an Executive M.B.A., both from Tel-Aviv University. Ms. Frenkel Ronen is a Certified Public Accountant.

**DUDI MACHLUF.** On January 1, 2010, Mr. Machluf was appointed as our Co-CEO. From August 2006 until 2009, Mr. Machluf served as our Chief Financial Officer. From 2003 until 2005, Mr. Machluf was the head of our accounting department and managed the transaction department. Mr. Machluf also serves as Chief Executive Officer of Elbit Medical and has served as a director of InSightec. From June 2010 until June 2011, Mr. Machluf served as a director of EDT. Mr. Machluf is a member of the investment committee of EPN. Prior to joining us, Mr. Machluf was a manager at Deloitte, Certified Public Accountants. Mr. Machluf holds a B.A. in Economics and an L.L.M., both from Bar Ilan University and is a Certified Public Accountant.

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

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

**ZVI MAAYAN.** Mr. Maayan has served as our General Counsel since October 2008. From 2007 until October 2008, Mr. Maayan served as our Assistant General Counsel. From 2000 until 2007 Mr. Maayan served as Assistant General Counsel for Israel Aerospace Industries Ltd. From 1996 until 2000, Mr. Maayan was a senior associate in the law firm Shugol, Ketzef, Ehrlich, Kerner & Co., specializing in commercial and civil law, international commerce, banking and financing, bankruptcy, biopharmaceutical industry, real estate and litigation. From June 2010 until June 2011, Mr. Maayan served as a director of EDT. Since January 2011, Mr. Maayan is a member of the Executive Committee of the Real Estate Division of the Israel-America Chamber of Commerce. Mr. Maayan holds an LL.B. and an LL.M., *cum laude*, both from Bar-Ilan University, and is a member of the Israeli Bar Association.

## B. COMPENSATION OF DIRECTORS AND OFFICERS

### Aggregate 2011 Compensation of Directors and Officers

The aggregate compensation paid to or accrued on behalf of all persons as a group (11 persons) who served in the capacity of director or executive officer in the year ended December 31, 2011, was approximately NIS 17,064 million (approximately \$4.5 million). Such aggregate amount includes management fees, salaries and bonuses including certain fringe benefits and accrued amounts in respect of pensions and retirement benefits, but does not include stock-based compensation expenses relating to options granted to our directors and officers. One of our executive officers provides services to us pursuant to a management contract with a company that conducts no other active business.

In 2011, we granted an aggregate of 158,637,000 options (out of which 28,153,500 are subject to shareholder approval) exercisable into Elbit Medical shares, 6,169,000 options exercisable into PC's shares and 360,000 options for participation units of Elbit Plaza USA shares, to our directors and officers under our incentive plans. For information regarding the terms of grant and exercise under our incentive plans, see "Item 6.E. Share Ownership - 2006 Employees, Directors and Officers Incentive Plan," "- PC Share Option Scheme" and "- 2011 Elbit Plaza USA Incentive Plan."

In addition, our directors and officers participate in share or option allocations pursuant to various plans adopted by us, PC and InSightec.

For information regarding the terms of grant and exercise under all plans, see "Item 6.E. Share Ownership - 2006 Employees, Directors and Officers Incentive Plan."

The aggregate compensation amount set forth above does not include stock based compensation expenses recognized in accordance with applicable accounting rules in respect of options granted to directors and officers.

### Independent Director Compensation

Pursuant to the requirements of the Companies Law, remuneration of our directors requires shareholder approval. Compensation and reimbursement for external directors is governed by regulations promulgated under the Companies Law. Our external directors are compensated in the form of an annual fee in the amount of NIS 95,100 (approximately \$24,900 and a meeting attendance fee in the amount of NIS 4,880 (approximately \$1,277, payable in accordance with the regulations. Our other independent directors are compensated with an annual fee in the amount of NIS 58,500 (approximately \$15,310, and a meeting attendance fee in the amount of NIS 2,060 (approximately \$540, payable in accordance with the regulations.

### Services of Mr. Mordechay Zisser

Pursuant to a management agreement approved by our shareholders on May 31, 2006, Mr. Mordechay Zisser, at that time our Executive Chairman, and in his new role, as of January 1, 2010, as Executive President, provides us with services via a management company controlled by him. The agreement provides that Mr. Zisser will devote at least 80% of his time, skills and efforts to his position as our Executive President. In consideration for these services, we pay the management company a monthly fee of \$50,000, plus applicable value added tax, as well as reimbursement of expenses. In addition, the management company is entitled to other benefits, such as an appropriate vehicle, telephone, facsimile, mobile phone, computer, printer and modem, including installation costs and all reasonable expenses related thereto. The agreement has a five-year term commencing on August 1, 2005. On August 12, 2010, our shareholders approved the extension of this agreement for an additional five year term, until July 31, 2015; however, pursuant to the Israeli Companies Law, this agreement will require shareholder approval again in our shareholder meeting in 2013.

Termination of Mr. Zisser's services for any reason whatsoever will result in an immediate termination of the management agreement. Notwithstanding the above, at our request, Mr. Zisser will serve (through the management company) in addition to or in lieu of his services as our director or officer, and in such event, the agreement will remain in effect with regard to such service.

In November 2007, our shareholders approved an annual bonus for Mr. Zisser, not to exceed NIS 18 million, calculated as follows: (i) 0% of the first NIS 100 million of profits (as defined below); (ii) 2.5% of profits between NIS 100 million and NIS 125 million; (iii) 3% of profits between NIS 125 million and NIS 150 million; and (iv) 3.5% of profits exceeding NIS 150 million. The annual bonus is payable with respect to the fiscal year ended December 31, 2006 and for each fiscal year thereafter for so long as Mr. Zisser serves as a director or officer of us or any of our subsidiaries. For the purpose of determining the annual bonus, in accordance with resolutions of our audit committee and board of directors of May 29, 2008 and also based on legal advice received, "profits" for any year shall mean our profit before taxes, as disclosed in our annual audited consolidated financial statements for that year minus profit (loss) before tax attributable to the minority shareholders and minus such loss (before taxes and after deduction of profit (loss) attributable to the minority shareholders) as disclosed in our annual consolidated audited financial statements for all years commencing 2007, that had not already been deducted for the purpose of calculating such annual bonus for any previous year. Such resolution shall be applied, retroactively, to bonuses payable in respect of the year 2007 and thereafter. Pursuant to an amendment to the Israeli Companies Law, the effectiveness of this bonus is subject to re-approval by our shareholders.

Effective January 1, 2010, Mr. Zisser was appointed our Executive President. Mr. Zisser's services and compensation, as detailed above, were unaffected by this new appointment. Mr. Zisser continues to serve on our board of directors.

In November 2007, our shareholders approved a service agreement between PC and Mr. Zisser for his services as the Executive Chairman of PC. In consideration for such services, Mr. Zisser receives a monthly salary of \$25,000, as well as reimbursement of his reasonable expenses incurred in the performance of his duties. Under the services agreement, the salary is to be reviewed by the board of directors of PC each year and may be increased, subject to applicable law. Mr. Zisser has waived his right to receive from PC any severance pay under the Israeli Severance Pay Law and social benefits.

Under Israeli law, however, a waiver of certain social benefits, including severance pay, has no effect, and therefore we may be exposed to potential additional payments to Mr. Zisser in an aggregate amount which we believe to be not material to us, should the agreement be regarded as an employment agreement. Each party may terminate the service agreement upon 12 months' prior notice.

#### Agreements with our Former Executive Vice Chairman

Pursuant to an employment agreement approved by our shareholders on January 17, 2008, Mr. Abraham (Rami) Goren served as our Executive Vice Chairman of the board of directors through December 31, 2009. Mr. Goren also had the responsibility of our business activities in Asia and in particular, India, until his resignation in December 2009. Our annual cost of Mr. Goren's salary did not exceed NIS 2,134,000, linked to increases in the Israeli consumer price index.

Under this agreement, we provided Mr. Goren with a vehicle suitable to his position and bore all related expenses, including taxes and medical insurance.

Under an agreement between Mr. Goren and PC, dated October 26, 2006, which was approved by our shareholders meeting on January 17, 2008, Mr. Goren received options to acquire 5% of the holding company through which PC conducts its operations in India. The options were subject to vesting over a three-year period and became fully vested on March 31, 2009. Where considered appropriate, and by agreement, Mr. Goren will be entitled to receive a 5% interest in specific projects, in which case necessary adjustments will be made at the holding company level. The options may be exercised at any time, for cash or on a cashless basis, at a price based on PC's net equity investment made in the projects plus interest accrued at the rate of LIBOR plus 2% per annum from the date of investment until the date of exercise.

Mr. Goren has a put right to require PC to purchase shares held by him following exercise of the options, at a price to be determined by an independent appraiser. If PC sells its shares in the Indian holding company to a third party, Mr. Goren's options will not be affected. However, if a new investor is allotted shares in the holding company, Mr. Goren's options will be diluted pro-rata. The agreement includes tag-along rights and rights of first refusal.

Subject to the approval of the shareholders of PC, the foregoing agreement will be replaced with an agreement containing substantially similar terms and conditions to the agreement described below, which will apply to all projects in India.

Under an agreement between Mr. Goren and us, dated January 17, 2008, in consideration for services performed by Mr. Goren pertaining to the sourcing, initiation, operation or management of any business activities in India and other countries in Asia in which Mr. Goren renders such services for our benefit and for the benefit of our affiliates (excluding PC and its subsidiaries), as well as for the performance of other activities assigned to Mr. Goren by us, Mr. Goren is entitled to receive 5% of the outstanding share capital owned by us in each entity through which we conduct business activities initiated in such territory. This arrangement applies for so long as Mr. Goren devotes a substantial part of his time and attention to such sourcing activities and for 30 months thereafter.

Mr. Goren's right to receive shares in each investment vehicle is subject to vesting over a three-year period and became fully vested on March 31, 2009. The right to receive shares in any investment vehicle in which we obtain equity rights after March 31, 2009 will vest immediately. The shares issued to Mr. Goren under the agreement are not entitled to any type of distributions from the investment vehicle until our investments in such investment vehicle have been returned in full, with interest. The agreement includes tag-along rights, pre-emptive rights and registration rights in favor of Mr. Goren and transfer restrictions, rights of first refusal and drag-along rights in our favor. Accordingly, EPI has allotted Mr. Goren Series B shares of EPI constituting 5% of the current issued and outstanding share capital of EPI.

Effective as of August 2010, Mr. Goren resigned from his position as a director in us and in other companies in our group, and effective as of December 31, 2010, he resigned from his employment with us, accordingly the sourcing period will end in June 2013.

#### **Employment Agreement with our Executive Chairman**

In December 2002, our shareholders approved the employment agreement of Mr. Shimon Yitzhaki, who then served as our President, Chief Executive Officer and a director, which provides for an aggregate monthly cost to us of NIS 164,734, linked to the Israeli consumer price index. Such cost includes customary social benefits and the use of a car fully maintained by us. In addition, Mr. Yitzhaki is entitled to reimbursement of expenses incurred in connection with his services in the foregoing capacities. The agreement requires Mr. Yitzhaki to devote at least 90% of his working time to us.

In addition, Mr. Yitzhaki is entitled to an annual bonus, calculated as follows: (i) 0.75% of the first NIS 125 million of profits; (ii) 0.875% of profits between NIS 125 million and NIS 150 million; and (iii) 1% of profits exceeding NIS 150 million. For the purpose of determining the annual bonus, in accordance with the resolutions of our audit committee and board of directors of May 29, 2008 and based on legal advice received, "profits" for any year shall mean our profit before taxes, as disclosed in our annual audited consolidated financial statements for that year minus profits (losses) before tax attributable to the minority shareholders.

Effective January 1, 2010, Mr. Yitzhaki was appointed our Executive Chairman of the board.

#### **C. BOARD PRACTICES**

##### **Corporate Governance Practices**

We are incorporated in Israel and therefore are subject to various corporate governance practices under the Companies Law, relating to such matters as external directors, the audit committee, the internal auditor and approvals of interested-party transactions. These matters are in addition to the ongoing listing conditions of the Nasdaq Global Select Market and other relevant provisions of U.S. securities laws. Under the Nasdaq rules, a foreign private issuer may generally follow its home country rules of corporate governance in lieu of the comparable Nasdaq requirements, except for certain matters such as composition and responsibilities of the audit committee and the independence of its members. For further information, see "Item 16G. Corporate Governance."

Under the Companies Law, our board of directors must determine the minimum number of directors having financial and accounting expertise, as defined in the regulations promulgated under the Companies Law that our board of directors should have. In determining the number of directors required to have such expertise, the board of directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our board of directors has determined that we require at least two directors with the requisite financial and accounting expertise and that two of our directors fulfill the requirements promulgated under the Companies Law.

#### **Election of Directors**

Our directors are generally elected by our shareholders at the annual meeting of the shareholders by a simple majority. Generally, the nominees for a director's office are recommended by our audit committee which also acts as our nominating committee. The directors hold office until the next annual meeting of our shareholders. Our board of directors may appoint additional directors to our board of directors in the event of a vacancy on or an enlargement of the board of directors. Any director so appointed will hold office until the next annual meeting of the shareholders. Our board of directors currently consists of eight members.

#### **Alternate Directors**

Our articles of association provide that any director may, by written notice to us, appoint another person who is not a director to serve as an alternate director, subject to the approval of the chairman of the board. In the case of an appointment made by the chairman, such appointment shall be valid unless objected to by the majority of other directors. The term of appointment of an alternate director is unlimited in time and scope unless otherwise specified in the appointment notice, or until notice is given of the termination of the appointment. No director currently has appointed any other person as an alternate director. The Companies Law stipulates that a person who serves as a director may not serve as an alternate director except under very limited circumstances. An alternate director has the same responsibility as a director.

#### **External Directors; Independent Directors**

The Companies Law requires Israeli public companies (such as us) to appoint at least two external directors. The Companies Law provides for certain qualifications that a candidate for external directorship must comply with. Among such requirements, a person may not be appointed as an external director if: (i) such person or person's relative or affiliate has, at the date of appointment, or had at any time during the two years preceding such date, any affiliation with the company, a controlling shareholder thereof or their respective affiliates; or (ii) in a company that does not have a 25% shareholder, if such person has an affiliation with any person who, at the time of appointment, is the chairman, the chief executive officer, the chief financial officer or a 5% shareholder of the company. The term "affiliation" is broadly defined in the Companies Law, including an employment relationship, a business or professional relationship, control or service as a director or officer.

In addition, no person may serve as an external director if such person's position or other business creates, or may create, conflict of interest with the person's position as an external director, or if such position or other business may impair such person's ability to serve as an external director. Until the lapse of two years from termination of office, a company or its controlling shareholder may not give any direct or indirect benefit to the former external director.

External directors are to be elected by a majority vote at a general meeting of shareholders, provided that (i) such majority vote at the general meeting includes at least a majority of the total votes of non-controlling shareholders voted at such general meeting or (ii) the total number of votes of non-controlling shareholders that voted against such election does not exceed 2% of the total voting rights in the company.

The initial term of an external director is three years, and such term may be extended for up to two additional three-year terms. In addition, the service of an external director may be extended for additional terms of up to three years each, if both the audit committee and the board of directors confirm that, in light of the expertise and contribution of the external director, the extension of such external director's term would be in the interest of the company. Reelection of an external director may be effected through one of the following mechanisms: (1) the board of directors proposed the reelection of the nominee and the election was approved by the shareholders by the majority required to appoint external directors for their initial term; or (2) a shareholder holding 1% or more of the voting rights proposed the reelection of the nominee, and the reelection is approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders, provided that the aggregate votes cast in favor of the reelection by such non-excluded shareholders constitute more than 2% of the voting rights in the company. External directors may be removed only in a general meeting, by the same percentage of shareholders as is required for their election, or by a court, and in both cases only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to us. Each committee of a company's board of directors that is authorized to exercise powers of the board of directors is required to include at least one external director, and all external directors must be members of the company's audit committee.

An external director is entitled to reimbursement of expenses and to monetary and other compensation as provided in regulations promulgated under the Companies Law, but is otherwise prohibited from receiving any other compensation, directly or indirectly, for his serving as a director of the company.

Mr. Zvi Tropp's third three-year term as an external director commenced on September 2, 2010, and Ms. Elina Frenkel Ronen's second three-year term as an external director commenced on December 25, 2011.

Under the Nasdaq rules, a majority of our directors are required to be "independent directors" as defined in Nasdaq's rules. The current composition of our board of directors consists of a majority of independent directors. Two of our independent directors also qualify as external directors as defined by the Companies Law.

#### **Board Committees**

Our board of directors has established an audit committee, a donation committee and an investment committee, as described below.

**Audit committee.** The Companies Law requires public companies to appoint an audit committee. An audit committee must consist of at least three members, and include all of the company's external directors. The members of the audit committee must satisfy certain independence standards under the Companies Law, and the chairman of the audit committee is required to be an external director.

The responsibilities of the audit committee include identifying and examining flaws in the business management of the company and suggesting appropriate course of actions, recommending approval of interested party transactions, assessing the company's internal audit system and the performance of its internal auditor.

Our audit committee is comprised of three members, all of whom meet all requisite independence and other professional requirements. Our audit committee operates in accordance with a charter and written procedures governing approval of any proposed transactions with our external auditors. Within the framework of such governing documents, the audit committee oversees the appointment, compensation, and oversight of the public accounting firm engaged to prepare or issue an audit report on our financial statements. The audit committee's specific responsibilities in carrying out its oversight role include the approval of all audit and permitted non-audit services to be provided by the external auditor.

Our audit committee is also authorized to act as our "qualified legal compliance committee". As such, our audit committee will be responsible for investigating reports, made by attorneys appearing and practicing before the SEC in representing us, of perceived material violations of U.S. federal or state securities laws, breaches of fiduciary duty or similar material violations of U.S. law by us or any of our agents. Under Nasdaq rules, the approval of the audit committee is also required to effect related-party transactions that would be required to be disclosed in our annual report.

Nasdaq rules require that director nominees be selected or recommended for the board's selection either by a committee composed solely of independent directors or by a majority of independent directors. The compensation of a company's chief executive officer and other executive officers is required to be approved either by a majority of the independent directors on the board or a committee comprised solely of independent directors. Our audit committee also acts as our nominating committee and compensation committee.

Our audit committee has the authority to retain independent legal, accounting or other consultants as advisors, for which we will provide funding, and handle complaints relating to accounting, internal accounting controls or auditing matters.

*Donation committee.* Our articles of association authorize us, in accordance with the Companies Law, to donate reasonable amounts to any cause we deem worthy. Our donation committee is authorized to determine, in its discretion, with respect to any contribution, the amount thereof, its purpose, the entity to receive the contribution and any other term or condition relating thereto.

*Investment committee.* Our investment committee is responsible for developing and monitoring our financial risk management policies and determining our investments in short-term liquidity funds, all in order to preserve value of our cash.

#### **Internal Auditor**

Under the Companies Law, our board of directors is required to appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine, among other things, whether our actions comply with the law and proper business procedure. The internal auditor may not be an interested party, an office holder, or a relative of any of the foregoing, nor may the internal auditor be our independent accountant or its representative. The Companies Law defines the term "interested party" to include a person who holds 5% or more of our outstanding share capital or voting rights, has the right to appoint one or more directors or the general manager or who serves as a director or as the general manager. Our internal auditor is Mr. Daniel Spira, a Certified Public Accountant in Israel.

For information on the duties of directors, officers and shareholders and requirements for the approval of related-party transactions, please see Item 10.B - "Memorandum and articles of association and General Provisions of Israeli Law."

#### **D. EMPLOYEES**

As of March 31, 2012, we employed or contracted 55 persons as employees or consultants in investment, administration and managerial services, all of whom work out of our headquarters in Israel. As of March 31, 2012, PC had 161 employees, 23 consultants and 1 part time employee in CEE, Russia, Greece and India. As of March 31, 2012, our Hotel division had 692 employees (including employees in proportionally consolidated companies in which we hold 50%, and including 231 employees of our hotels in the Netherlands which are being sold to PPHE pursuant to an agreement entered into in March 2012. See "Item 4.B. Business Overview – Hotels – Recent Acquisitions and Dispositions of Hotels"). As of March 31, 2012, Elbit Fashion employed 441 employees and G.B. Brands Limited Partnership employed 273 employees (of which 5 employees of G.B. Brands Limited Partnership were transferred to Gottex as part of the sale of the GAP brand in April 2012. See "Item 4.B. Business Overview – Fashion Apparel").

As of March 31, 2012, we employed 7 employees in the United States, in investment, administration and managerial services for our U.S. investment platform.

As of March 31, 2011, we employed 66 persons in investment, administration and managerial services, all of whom were employed in our headquarters in Israel. As of March 31, 2011, PC had 141 employees, 15 consultants and 1 part time employee in CEE, Russia, Greece and India. As of March 31, 2011, our Hotel division had 1,080 employees (including employees in proportionally consolidated companies in which we hold 50%). As of March 31, 2011, Elbit Trade & Retail Ltd. and G.B. Brands, Limited Partnership had 590 employees.

As of March 31, 2010, we employed 3 employees and 2 part time contract workers in our headquarters in Australia, and 2 employees in the United States, in investment, administration and managerial services for our U.S. investment platform.

As of March 31, 2010, we employed 63 persons in investment, administration and managerial services, all of whom were employed in our headquarters in Israel. As of March 31, 2010, PC had 151 employees, 26 consultants and 4 part time employees in CEE, Russia, Greece and India. As of March 31, 2010, our Hotel division had 1,080 employees (including employees in proportionally consolidated companies in which we hold 50%). As of March 31, 2010, Elbit Trade & Retail Ltd. and G.B. Brands, Limited Partnership had 595 employees.

We are not party to any collective bargaining agreement with our employees or with any labor organization.

## E. SHARE OWNERSHIP

As of March 31, 2012, our directors and executive officers, excluding Mr. Mordechay Zisser and Europe-Israel, beneficially owned an aggregate of 334,323 of our ordinary shares, or approximately 1.35% of our outstanding ordinary shares. This figure includes options to purchase ordinary shares that were vested on such date or that were scheduled to vest within the following 60 days.

For information regarding the terms of grant and exercise under all plans, see " - 2006 Employees, Directors and Officers Incentive Plan" below.

For information on Mr. Mordechay Zisser's and Europe-Israel's beneficial ownership of our ordinary shares, see "Item 7. Major Shareholders and Related Party Transactions - Major Shareholders" below. No other director or executive officer beneficially owns 1% or more of our outstanding ordinary shares.

The following is a description of each of our option plans, including the amount of options currently outstanding and the exercise prices of such options.

### *2006 Employees, Directors and Officers Incentive Plan, As Amended*

Our 2006 Employees, Directors and Officers Incentive Plan, as amended (the "2006 Plan"), provides for the grant of up to 2,300,000 options to employees, directors and officers of us and of companies controlled directly or indirectly by us. The exercise price per option is the average closing price of our ordinary shares on the TASE during the 30-trading day period preceding the date of grant of such options or as otherwise determined by the board of directors.

The options are exercisable pursuant to a "cashless" exercise mechanism whereby, in lieu of paying the exercise price of the option in exchange for all the ordinary shares subject to the option, the holder is issued such number of ordinary shares whose market value equals the excess of (i) the market value of all the ordinary shares subject to the option over (ii) the aggregate exercise price. In order to limit the potential dilution to shareholders that may be caused by the exercise of options under the 2006 Plan, on October 6, 2008, the audit committee and board of directors amended the 2006 Plan to limit the market price employed in such formula to a maximum price of NIS 200 per ordinary share or as otherwise determined by the board of directors.

Under the terms of the 2006 Plan, options vest over a period of three years, such that 33.33% of the options granted become exercisable on each of the first, second and third anniversaries of the date of grant. The options expire five years from the date of grant.

Pursuant to an amendment of the 2006 Plan in May 2009 regarding options granted in 2006 to offerees still employed by us (including directors and officers who still hold office), offerees were granted the option to choose that the exercise price per option be NIS 60, to limit the "cashless" exercise price to a maximum price of NIS 120 per ordinary share and to extend the expiration date of such options from five years to seven years or the option to only extend the expiration date of such options.

In September, 2011, our board of directors, following the recommendation of our audit committee, decided to amend the exercise price per share of all outstanding options granted by us in accordance with the 2006 Plan to offerees still employed by us (including directors and officers who still hold office), 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 March 31, 2012, options to purchase 1,709,251 ordinary shares were outstanding under the 2006 Plan.

#### *InSightec Incentive Plans*

InSightec's 1999 Employee Stock Ownership Plan (the "1999 Plan") provides for the grant of up to 2,650,000 options. Most of the options under the 1999 Plan were exercised and the rest were canceled.

InSightec's 2006 Stock Option Plan (the "2006 Plan") provides for the grant of up to 4,345,000 options (including options transferred from previous plans), at an exercise price of \$6.00. Options granted under the 2006 Plan generally vest over a one to four-years period from the grant date. The options generally expire following seven years as of their date of grant or, subject to certain criteria, following five years.

InSightec's 2007 Stock Option Plan (the "2007 Plan") provides for the grant of up to 2,000,000 options, at exercise prices of between \$1.44 and \$6.00. Options granted under the 2007 Plan generally vest over a four-years period from the earlier of (i) InSightec's initial public offering or (ii) a "material change" in InSightec (as defined in the 2007 Plan) (the "Commencement Date"), 50% after two years from the Commencement Date and 25% after each of the third and the fourth years from the Commencement Date. The options generally expire following seven years as of the Commencement Date or, subject to certain criteria, following five years. On October 31, 2007, InSightec's board of directors approved that all the options granted under the 2007 Plan starting October 30, 2007, shall become fully vested and exercisable on the second anniversary of the Commencement Date and shall remain exercisable until the end of the term of the options, as defined in the 2007 Plan.

All options under InSightec's option plans automatically vest and become exercisable without any discretion on the part of InSightec's board of directors upon certain events that constitute a material change to InSightec as defined in the options plans, such as a change of control, a resolution of InSightec's shareholders or its board of directors for its dissolution or a distribution in kind of most of its assets, mergers etc. As of March 31, 2012, options to purchase an aggregate of 1,610,500 ordinary shares were outstanding under InSightec's option plans.

#### *2010 Elbit Incentive Plan and Conversion Plan for InSightec Shares*

Our 2010 Incentive Plan (the "2010 Incentive Plan for InSightec Shares") provides for the grant of options exercisable into up to 500,000 shares of InSightec to employees, directors and officers of us and of affiliate companies, at an exercise price per option to be determined by our board of directors.

Under the 2010 Incentive Plan for InSightec Shares, options vest gradually over a period of three years. The options expire seven years from the date of grant. Options are exercisable by payment of the exercise price in cash.

Prior to an IPO, the underlying shares are subject to certain "drag along" rights.

Prior to or after the consummation of a listing of securities of any parent company of InSightec, our board of directors may approve an exchange of options or underlying shares under the 2010 Incentive Plan for InSightec Shares with options or shares of such parent company, according to a formula set forth in the 2010 Incentive Plan for InSightec Shares.

As of March 31, 2012, options to purchase 430,000 shares were outstanding under the 2010 Incentive Plan for InSightec Shares.

#### *2011 Elbit Employees and Officers Incentive Plan for Elbit Medical Technologies Ltd.'s Shares*

In April 2011, our board of directors adopted the Elbit Employees and Officers Incentive Plan for Elbit Medical Technologies Ltd.'s shares (the "2011 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 0.40. The exercise price of each option will be reduced upon distribution of dividends, stock dividends etc. The exercise mechanism of the options into Elbit Medical's shares will be as follows: at the exercise date the company shall issue to each option holder 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 (the "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.

As of March 31, 2012, options to purchase 130,483,500 shares were outstanding under the 2011 Plan.

***PC Share Option Scheme***

PC's 2006 Share Option Scheme, as amended in August 2007, November 2008 and November 2011 (the "2006 Scheme") provides for the grant of up to 46,834,586 options to employees, directors, officers and other persons who provide services to PC, including our employees. The exercise price per option is the average closing price of PC's shares traded on the London Stock Exchange during the fifteen-day period prior to the date of grant.

The options are exercisable pursuant to a "cashless" exercise mechanism whereby, in lieu of paying the exercise price of the option in exchange for all the ordinary shares subject to the option, the holder is issued such number of ordinary shares whose market value equals the difference between (i) the opening price of the ordinary shares on the London Stock Exchange on the exercise date (or Warsaw Stock Exchange in case no opening price on the London Stock Exchange is available on the relevant date of exercise), provided that if the opening price exceeds £3.24 the opening price is set at £3.24 (except for the second employee stock option, for which the cap is set at £2.00) less (ii) the exercise price of the options, with the difference between (i) and (ii) divided by the opening price of the ordinary shares on the London Stock Exchange on the exercise date.

Under the terms of the 2006 Scheme, options vest over a period of three years, such that 33.33% of the options granted become exercisable on each of the first, second and third anniversaries of the date of grant. Pursuant to the amendment of the 2006 Scheme in November 2008, all options that were not vested on October 26, 2008 shall begin the three-year vesting cycle from the beginning, commencing as of October 25, 2008. In addition, PC's shareholders authorized PC's board of directors to allot equity securities (including rights to acquire equity securities) in PC up to 33% of PC's issued and outstanding share capital.

On November 25, 2008, PC's shareholders and Board of Directors approved a repricing of all options granted more than one year prior to October 25, 2008 to £0.52, the average closing price of PC's shares traded on the London Stock Exchange during the 30-day period ending on November 25, 2008.

On November 22, 2011, PC's shareholders and Board of Directors approved an amendment to the plan to extend the term during which options can be exercised from seven to ten years from the date of grant and adopted a second employee stock option plan under which the total number of options to be granted under second plan is 14,000,000.

Upon the occurrence of an event of change of control in PC (as defined in the 2006 Scheme), the vesting of all the outstanding options granted by PC that were not exercised or did not expire by such date, shall be fully accelerated. As of March 31, 2012, options to purchase 29,305,718 ordinary shares were outstanding under the 2006 Scheme (on a fully diluted assumption basis).

***PC India Holdings Public Company Limited ("PCI") Share Plan***

On September 7, 2010, PCI adopted an incentive plan for the grant of options to officers and employees of PCI, us and of affiliate companies (the "2010 PCI Plan").

The 2010 PCI Plan provides for the grant of up to 14,697 options exercisable into Ordinary C Shares of PCI, to employees, directors and officers of PCI and/or affiliates of PCI including our employees. The exercise price per option shall be determined by the board or by the administrator of the plan. The options expire seven years from the date of grant.

The options are exercisable either by payment of the exercise price in cash or pursuant to a "cashless" exercise mechanism whereby in lieu of paying the exercise price of the option in exchange for all the Ordinary C Shares subject to the option, the holder is issued such number of Ordinary C Shares whose market value equals the excess of (i) the market value of all the underlying shares subject to the option, if the exercise occurs following the closing of an IPO or the fair value of such underlying share if the exercise occurs prior to the closing an IPO, over (ii) the aggregate exercise price.

Under the terms of the 2010 PCI Plan, options vest over a period of three years, so that 33.33% of the options granted become exercisable on each of the first, second and third anniversaries of the date of grant.

Immediately prior to the consummation of a listing of securities of the parent company of PCI, the Ordinary C Shares held by each participant shall automatically convert into the same type of shares being listed such that immediately following listing the proportion of shares in PCI held by each participant compared to the proportion of shares in PCI held by other shareholders shall be the same as immediately prior to Listing, and all options under the 2010 PCI Plan shall become exercisable into listed shares of the parent company, in lieu of Ordinary C Shares such that immediately following listing the proportion of the underlying shares issuable upon exercise of the option compared to the proportion of shares in PCI held by other shareholders shall be the same as immediately prior to listing.

In addition, subject to the receipt of appropriate approvals from the relevant tax authorities, if applicable and/or any other approval required as determined by the administrator of the 2010 PCI Plan prior to the consummation of a listing of securities of any subsidiary of the PCI, and subject further to any and appropriate adjustments which are necessary as determined by the administrator, each participant shall have the right to be issued: (i) options for securities in the listed subsidiary in lieu for his options under the 2010 PCI Plan; and/or (ii) securities in the listed subsidiary in lieu for the Ordinary C shares, reflecting his indirect percentage interest in the listed subsidiary and to have such shares registered for trading together with the other shares of the listing subsidiary.

Prior to an IPO, the underlying shares are subject to certain "No Sale" and other restrictions.

As of March 31 2012, options to purchase 14,212 Ordinary C Shares were outstanding under the 2010 PCI Plan.

***Ebit Plaza India Real Estate Holding Limited Share Plan***

On August 16, 2010, EPI adopted an incentive plan for the grant of options to officers and employees of EPI, us and of affiliate companies (the "2010 EPI Plan").

The 2010 EPI Plan provides for the grant of up to 52,600 options exercisable into Ordinary C Shares of EPI, to employees, directors and officers of EPI and/or affiliates of EPI including our employees. The exercise price per option shall be determined by the board or by the administrator of the plan. The options expire seven years from the date of grant.

The options are exercisable either by payment of the exercise price in cash or pursuant to a "cashless" exercise mechanism whereby in lieu of paying the exercise price of the Option in exchange for all the Ordinary C Shares subject to the option, the holder is issued such number of Ordinary C Shares whose market value equals the excess of (i) the market value of all the underlying shares subject to the option, if the exercise occurs following the closing of an IPO or the fair value of such underlying share if the exercise occurs prior to the closing an IPO, over (ii) the aggregate exercise price.

Under the terms of the 2010 EPI Plan, options vest over a period of three years, so that 33.33% of the options granted become exercisable on each of the first, second and third anniversaries of the date of grant.

Immediately prior to the consummation of a listing of securities of the parent company of EPI, the Ordinary C Shares held by each participant shall automatically convert into the same type of shares being listed such that immediately following listing the proportion of shares in the EPI held by each participant compared to the proportion of shares in EPI held by other shareholders shall be the same as immediately prior to Listing, and all options under the 2010 EPI Plan shall become exercisable into listed shares of the parent company, in lieu of Ordinary C Shares such that immediately following listing the proportion of the underlying shares issuable upon exercise of the option compared to the proportion of shares in EPI held by other shareholders shall be the same as immediately prior to listing.

In addition, subject to the receipt of appropriate approvals from the relevant tax authorities, if applicable and/or any other approval required as determined by the administrator of the 2010 EPI Plan prior to the consummation of a listing of securities of any subsidiary of the EPI, and subject further to any and appropriate adjustments which are necessary as determined by the administrator, each participant shall have the right to be issued: (i) options for securities in the listed subsidiary in lieu for his options under the 2010 EPI Plan; and/or (ii) securities in the listed subsidiary in lieu for the Ordinary C shares, reflecting his indirect percentage interest in the listed subsidiary and to have such shares registered for trading together with the other shares of the listing subsidiary.

Prior to an IPO, the underlying shares are subject to certain "No Sale" and other restrictions.

As of March 31, 2012, options to purchase 51,053 Ordinary C Shares were outstanding under the 2010 EPI Plan.

*Elbit Plaza USA, L.P. 2011 Incentive Plan*

In August 2011, Elbit Plaza USA adopted the 2011 Incentive Plan (the "2011 EPUS Incentive Plan") that provides for the grant of options exercisable into up to 500,000 Participation Units of Elbit Plaza USA to employees, directors and officers of Elbit Plaza USA and of affiliate companies, at an exercise price per option of \$17 (which may be changed or adjusted by Elbit Plaza USA's management and the plan administrator, at their sole discretion). The exercise price of each option will be reduced upon any event that Elbit Plaza USA makes cash distributions of the proceeds to all its partners or repays its partners and/or any affiliate any outstanding loan, interest, charges and/or current debt, etc.

Under the 2011 EPUS Incentive Plan, options vest gradually over a period of three years. The plan administrator may in its sole discretion accelerate or otherwise modify the vesting period.

The vested options granted shall be exercisable into Participation Units only immediately prior to a date in which Elbit Plaza USA ceases to be a going concern and its activities are merely for the purpose of winding up its affairs.

Upon winding up of Elbit Plaza USA 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 Elbit Plaza USA 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. Each and every option shall entitle its holder to receive its proportionate share in the abovementioned amount.

As of March 31, 2012, options exercisable into up to 488,750 Participation Units were outstanding under the 2011 EPUS Incentive Plan.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**A. MAJOR SHAREHOLDERS**

We had, as of March 31, 2012, 24,885,833 ordinary shares outstanding, excluding 3,388,910 shares held by us which do not have any voting and economic rights. The voting rights of all shareholders are the same. The following table sets forth certain information as of March 31, 2012 concerning: (i) persons or entities who, to our knowledge, beneficially own more than 5% of our outstanding ordinary shares; and (ii) the number of our ordinary shares beneficially owned by all of our directors and officers as a group:

Name and Address	Number of Shares	Percent of Shares Beneficially Owned (1)
<b>Mordechay Zisser (2)</b>	12,203,634(3)	49.04%
Europe-Israel (M.M.S.) Ltd. (4)	12,084,194	48.56%
All officers and directors of the company as a group (11 persons)	12,537,957(5)	50.38%

(1) The number of shares and percentages of ownership are based on our shares outstanding as of March 31, 2012. Such number excludes 3,388,910 treasury shares. Beneficial ownership is determined in accordance with the rules of the SEC based on voting and investment power with respect to such ordinary shares. Shares subject to options that are currently exercisable or exercisable within 60 days of March 31, 2012 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not deemed to be outstanding and to be beneficially owned for the purpose of computing the percentage ownership of any other person. All information with respect to the beneficial ownership of any principal shareholder has been furnished by such shareholder or is based on the most recent Schedule 13D or 13G filed with the SEC and, unless otherwise indicated below, we believe that persons named in the table have sole voting and sole investment power with respect to all the shares shown as beneficially owned, subject to community property laws, where applicable. The shares beneficially owned by our directors include shares owned by their family members, as to which such directors disclaim beneficial ownership.

- (2) The information regarding the beneficial ownership of Europe-Israel and of Mr. Zisser is based on a Schedule 13D filed by them on May 10, 2011. We were notified by Europe-Israel and Mr. Zisser that the purchases and sales of our ordinary shares executed by Europe-Israel and Mr. Zisser in 2011 subsequent to the date of the filing of the Schedule 13D did not result in a material change in the number of our ordinary shares beneficially owned by Europe-Israel and Mr. Zisser. Mr. Zisser is considered our indirect controlling shareholder by virtue of his control of Europe-Israel and serves as our Executive President and as a director. See footnote 4 below.
- (3) Includes (i) 12,084,194 of our shares held by Europe-Israel, which may be deemed to be beneficially owned by Mr. Mordechay Zisser, our Executive President and a director, by virtue of his control of Europe-Israel; (ii) 24,837 of our shares held by Marina Herzlia (Limited Partnership) 1988, which may be deemed to be beneficially owned by Mr. Mordechay Zisser, by virtue of his control of Control Centers Ltd., which wholly owns Marina Herzliya (Limited Partnership) 1988; and (iii) 94,603 shares held by Mr. Zisser. See footnote 4 below. Certain of these shares are pledged as security to lending banks. A foreclosure event could lead to a change in the control of our company, which in turn may cause us to be in default of financial covenants with certain of our lending banks.
- (4) Europe-Israel is an Israeli corporation wholly-owned by Control Centers, a private company controlled by Mr. Mordechay Zisser.
- (5) Includes: (i) 12,084,194 shares held by Europe-Israel, which may be deemed to be beneficially owned by Mr. Mordechay Zisser, (see footnote 4 above); (ii) 24,837 shares held by Marina Herzlia (Limited Partnership) 1988; (iii) 94,603 shares held by Mr. Zisser; and (iv) 681,500 options exercisable into 334,323 shares as of March 31, 2012 and vesting within 60 days thereafter granted to our other directors and officers pursuant to our 2006 Employees, Directors and Officers Incentive Plan, as amended.

As of December 5, 2011, The Phoenix Holdings Ltd. ("Phoenix") and Excellence Investments Ltd. ("Excellence") informed us that they held an aggregate of 4.96% of our ordinary shares. As of January 10, 2011, Phoenix and Excellence informed us that they held an aggregate of 4.43% of our ordinary shares. As of March 23, 2010, Phoenix and Excellence held an aggregate of 2,109,997, or 8.43% of our ordinary shares, based on a form of ownership report dated March 23, 2010, provided to us by Phoenix and Excellence, that it uses to report holdings under Israeli law. The method used to compute holdings under Israeli law does not necessarily bear the same result as the method used to compute beneficial ownership under SEC rules and regulations. Phoenix and Excellence are controlled by the Delek Group and Mr. Yitzhak Tshuva.

As of March 31, 2012, there were approximately 592 holders of record of our ordinary shares with addresses in the United States, holding approximately 22.28% of our issued and outstanding ordinary shares. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders reside since many of these ordinary shares are held of record by brokers or other nominees.

#### **B. RELATED PARTY TRANSACTIONS**

##### ***Relationship Agreement with PC***

On October 27, 2006, we entered into an agreement with PC pursuant to which we undertook, as long as we hold at least 30% of the issued share capital of PC, that neither we nor any person connected with us will compete with the business of PC related to the development of shopping and entertainment centers in Central and Eastern Europe or India or the development of the Dream Island or Casa Radio projects. The Relationship Agreement terminates in the event that PC's issued share capital ceases to be admitted to the main market of the London Stock Exchange.

#### ***Guarantee Agreement with PC***

On October 27, 2006, PC agreed, with effect from January 1, 2006, to pay a commission to us in respect of any and all outstanding corporate and first demand guarantees which have been issued by us in favor of PC and which remain valid and outstanding ("EI Guarantees"). The amount of the commissions to be paid will be agreed upon between us and PC at the beginning of each fiscal year, and will apply to all EI Guarantees which remain outstanding during the course of that relevant fiscal year, subject to a cap of 0.5% of the amount or value of the relevant EI Guarantee, per annum. During 2011 no guarantees were provided by us to PC.

#### ***Agreement for Services for Construction Projects***

On May 31, 2006, our shareholders approved an agreement between us and Control Centers according to which we will receive from Control Centers (either directly or through its subsidiaries or affiliates, other than us) coordination, planning, execution and supervision services over our real estate projects and/or real estate projects of our subsidiaries and/or affiliates in consideration for a fee equal to 5% of the actual execution costs (excluding land acquisition costs, financing cost and the consideration for Control Centers under the agreement) of each such project. The agreement applies to real estate projects initiated following the approval of the agreement by our shareholders and to the following projects: (i) a shopping and entertainment center in Liberec, Czech Republic; (ii) a shopping and entertainment center in Kerepesi, Hungary; and (iii) a complex of shopping and entertainment center, hotels, congressional centers and other facilities in Obuda, Hungary, which were at that time in early stage of development.

Such fee will be paid in installments upon the meeting of milestones as stipulated in the agreement. In addition, we will reimburse Control Centers for all reasonable costs incurred in connection with the services rendered thereby, not to exceed a total of €75,000 (approximately \$97,000) per real estate project.

If the purpose of a real estate project is changed for any reason prior to the completion of the project or if the development of the real estate project is terminated for any reason (including the sale of the real estate project), the payment to Control Centers will be calculated as a percentage of the budget for the project, provided that such percentage shall not exceed the percentage determined for the next milestone of the project had it continued as planned. The calculation of such payments to Control Centers will be subject to the approval of an external accountant and the approval of our audit committee and board of directors.

In addition, we and/or our subsidiaries and/or affiliates may also purchase from Control Centers, our indirect parent, through Jet Link Ltd., an aviation company and a wholly-owned subsidiary of Control Centers, up to 125 flight hours per calendar year in consideration for payments to Jet Link in accordance with its price list to unaffiliated companies, less a 5% discount. This agreement does not derogate from a previous agreement entered into between us and Jet Link for the purchase of aviation services which was approved by our shareholders on September 10, 2000, see "- Agreement for Aviation Service" below.

The agreement with Control Centers expired on May 31, 2011, but it continues to apply to projects that commenced prior to such date.

#### ***PC Agreement for Aviation Services***

On October 27, 2006, PC entered into an agreement with Jet Link Ltd., an aviation company and a wholly-owned subsidiary of Control Centers, pursuant to which PC and/or its affiliates may use Jet Link's airplane for their operational activities up to 275 flight hours per calendar year in consideration for payments to Jet Link in accordance with its price list to unaffiliated companies, less a 5% discount. The initial term of the agreement expired on October 27, 2011, and was extended for an additional four-year term.

#### ***Guarantee Towards a Local Municipality***

We furnished a local municipality with a bank guarantee in an amount of approximately NIS 9.5 million to secure payment of certain land betterment tax by Marina Herzliya Limited Partnership Ltd. (a company controlled by Control Centers). Arbitration is currently being held as to this tax liability. We estimate that no significant costs will be incurred by us in respect of this guarantee.

***Loan Agreement with Bank Hapoalim B.M.***

Within the framework of our loan agreements with Bank Hapoalim B.M., we undertook to maintain financial covenants. Europe-Israel also undertook to maintain a 30% minimum holding in our ordinary shares.

See "Item 5.B. Liquidity and Capital Resources - Other Loans" above.

***Indemnification, Insurance and Exemption***

For information regarding the grant of insurance, exemption and indemnification to our directors and officers, by us or our subsidiaries, see "Item 10.B. Memorandum and Articles of Association and General Provisions of Israeli Law - Insurance, Indemnification and Exemption" below.

***Inter-company Loans and Guarantees***

From time to time we invest in our subsidiaries and jointly controlled companies, by way of equity or capital investments, or otherwise provide loans or guarantees to such companies, in order to finance their operations and businesses. All such investments are eliminated in our consolidated financial statements. Details as to material guarantees are provided in "Item 5.B. Liquidity and Capital Resources - Loans" above.

For amounts paid under our related party transactions see note 27C to our annual consolidated financial statements incorporated herein by reference.

**ITEM 8. FINANCIAL INFORMATION**

**A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

See our annual consolidated financial statements on our current report on Form 6-K filed with the SEC on March 29, 2012, which is incorporated by reference herein.

**Legal Proceedings**

For information regarding the legal proceeding we are involved in see note 23B to our annual consolidated financial statements.

**Dividend Distribution Policy**

On January 11, 2007, our board of directors, adopted a dividend distribution policy pursuant to which we will distribute a cash dividend of at least 50% of the net profits accrued by us every year, provided that such dividend does not exceed 50% of the cash flow accrued by us from dividends and repayment of owners' loans received by us from subsidiaries in that year, all determined in accordance with our consolidated audited annual financial statements. Any distribution of dividends under this policy is subject to a specific resolution of our board of directors determining our compliance with the distribution criteria prescribed in the Companies Law, and in any other applicable law. In making such determination, our board of directors takes into account, *inter alia*, our liabilities and undertakings towards third parties, our cash flow needs and the financing resources available to us. Our board of directors is authorized in its sole discretion, to change or terminate our dividend policy at any time. The adoption of our dividend policy does not constitute any undertaking towards any third party.

On June 4, 2011, our board of directors resolved not to distribute any dividends for a period of at least 12 months, after which the board of directors will evaluate whether to extend such policy.

**B. SIGNIFICANT CHANGES**

There are no significant changes that occurred since December 31, 2011, except as otherwise disclosed in this annual report and in our annual consolidated financial statements.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our ordinary shares are listed on the NASDAQ Global Select Market under the symbol "EMITF" and on the TASE under the symbol "EMIT."

*Information regarding the price history of the stock listed*

The annual high and low sale prices for our ordinary shares for the five most recent full financial years are:

Year Ended December 31,	NASDAQ		TASE	
	High (\$)	Low (\$)	High (\$)	Low (\$)
2011	13.97	1.98	12.74	1.93
2010	24.76	12.05	25.08	12.37
2009	28.09	9.3	28.75	10.03
2008	56.09	7.58	56.55	7.1
2007	57.43	31.30	58.51	33.16

The quarterly high and low sale prices for our ordinary shares for the two most recent full financial years and any subsequent period are:

Financial Quarter	NASDAQ		TASE	
	High (\$)	Low (\$)	High (\$)	Low (\$)
<b>2012</b>				
Q1	3.32	2.40	3.35	2.45
Q2 (through April 16)	3.22	2.65	3.27	2.66
<b>2011</b>				
Q1	13.97	10.95	13.99	11.17
Q2	11.99	6.13	12.16	6.13
Q3	6.84	1.98	6.16	1.99
Q4	4.73	2.25	4.71	2.26
<b>2010</b>				
Q1	24.76	21.91	22.21	19.32
Q2	24.76	21.91	25.08	21.88
Q3	22.88	12.62	22.57	12.49
Q4	15.25	12.41	15.4	12.5

The monthly high and low sale prices for our ordinary shares during the six months of October 2011 through April 2012 were:

Month	NASDAQ		TASE	
	High (\$)	Low (\$)	High (\$)	Low (\$)
April 2012 (through April 16)	3.32	2.40	3.35	2.45
March 2012	2.76	2.40	2.84	2.45
February 2012	2.97	2.47	2.92	2.53
January 2012	3.32	2.60	3.33	2.68
December 2011	3.54	2.25	3.44	2.29
November 2011	4.29	2.54	4.13	2.38
October 2011	4.73	2.356	4.99	2.40

The closing prices of our ordinary shares listed on the TASE for each of the periods referred to in the tables above were originally denominated in NIS and were converted to U.S. dollars using the representative exchange rate between the U.S. dollar and the NIS published by the Bank of Israel for each applicable day in the presented period.

**B. PLAN OF DISTRIBUTION**

Not applicable.

**C. MARKETS**

Since our initial public offering in November 1996, our ordinary shares have been listed on the NASDAQ Global Select Market (then known as the NASDAQ National Market) under the symbol "EMITF" and on the TASE under the symbol "EMIT."

**D. SELLING SHAREHOLDERS**

Not applicable.

**E. DILUTION**

Not applicable.

**F. EXPENSES OF THE ISSUE**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. SHARE CAPITAL**

Not applicable.

**B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

**Purposes and Objects of the Company**

We are a public company registered under the Companies Law as Elbit Imaging Ltd., registration number 52-004303-5.

Pursuant to Section 2 of our memorandum of association, we are authorized to operate in any business or matter for profit purposes as shall be determined or defined by our board of directors from time to time. In addition, our articles of association authorize us to donate reasonable amounts to any cause we deem worthy.

**Approval of Certain Transactions**

Generally, under the Companies Law, engagement terms of directors, including the grant of an exemption from liability, purchase of directors' and officers' insurance, or grant of indemnification (whether prospective or retroactive) and engagement terms of a director in other positions require the approval of the audit committee, the board of directors and the shareholders of the company, in that order. In addition, under the Companies Law and our articles of association, transactions with our officers or directors or a transaction with another person in which such officer or director has a personal interest must be approved by our audit committee, board of directors or authorized non-interested signatories, and if such transaction is considered an extraordinary transaction (as defined below) or involves the engagement terms of officers, the transaction must be approved by the audit committee and board of directors.

The Companies Law also requires that any extraordinary transaction with a controlling shareholder or an extraordinary transaction with another person in which a controlling shareholder has a personal interest must be approved by the audit committee, the board of directors and the shareholders of the company, in that order. The shareholder approval must be by a simple majority, provided that (i) such majority vote includes at least a simple majority of the total votes of shareholders having no personal interest in the transaction or (ii) the total number of votes of shareholders mentioned in clause (i) above who voted against such transaction does not exceed 2% of the total voting rights in the company. In addition, any such extraordinary transaction whose term is longer than three years requires further shareholder approval every three years, unless (with respect to transactions not involving management fees or employment terms) the audit committee approves that a longer term is reasonable under the circumstances.

The Companies Law prohibits any person who has a personal interest in a matter from participating in the discussion (and voting pertaining to such matter in the company's board of directors or audit committee except for in circumstances where the majority of the board of directors has a personal interest in the matter, in which case such matter must be approved by the company's shareholders).

An "extraordinary transaction" is defined in the Companies Law as any of the following: (i) a transaction not in the ordinary course of business; (ii) a transaction that is not on market terms; or (iii) a transaction that is likely to have a material impact on the company's profitability, assets or liability.

Under the Companies Law, a private placement of securities requires approval by the board of directors and the shareholders of the company if it will cause a person to become a controlling shareholder or if:

- the securities issued amount to 20% or more of the company's outstanding voting rights before the issuance;
- some or all of the consideration is other than cash or listed securities or the transaction is not on market terms; and
- the transaction will increase the relative holdings of a shareholder that holds 5% or more of the company's outstanding share capital or voting rights or that will cause any person to become, as a result of the issuance, a holder of more than 5% of the company's outstanding share capital or voting rights.

#### **Fiduciary Duties of Directors and Officers**

The Companies Law imposes a duty of care and a duty of loyalty on the directors and officers of a company. The duty of care requires a director or officer holder to act with the level of care with which a reasonable director or officer in the same position would have acted under the same circumstances. It includes a duty to use reasonable means to obtain information on the advisability of a given action brought for his approval or performed by him by virtue of his position and all other important information pertaining to these actions.

The duty of loyalty of a director or officer includes a general duty to act in good faith for the benefit of the company, and particularly to:

- refrain from any conflict of interest between the performance of his duties for the company and the performance of his other duties or his personal affairs;
- refrain from any activity that is competitive with the company;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself or others; and
- disclose to the company any information or documents relating to a company's affairs which the director or officer has received due to his position as such.

The Companies Law requires that directors, officers or a controlling shareholder of a public company disclose to the company any personal interest that he or she may have, including all related material facts or documents in connection with any existing or proposed transaction by the company. The disclosure must be made without delay and no later than the first board of directors meeting at which the transaction is first discussed.

#### Duties of a Shareholder

Under the Companies Law, a shareholder, in exercising his rights and fulfilling his obligations to the company and the other shareholders, must act in good faith and in a customary manner and refrain from improperly exploiting his power in the company, including when voting at general or class meetings of shareholders on: (a) any amendment to the articles of association; (b) an increase of the company's authorized share capital; (c) a merger; or (d) the approval of related party transactions. In addition, a shareholder must refrain from prejudicing the rights of other shareholders. Furthermore, any controlling shareholder, any shareholder who knows that he possesses power to determine the outcome of the shareholders' vote at a general or a class meeting, and any shareholder that, pursuant to the provisions of the articles of association, has the power to appoint or prevent the appointment of an officer in the company or possesses any other power towards the company, is subject to a duty to act in fairness towards the company. The Companies Law does not detail the substance of this duty.

#### Board of Directors

In accordance with our articles of association, the board of directors may, from time to time, in its discretion, cause us to borrow or secure the payment of any sum or sums of money for the purposes of the Company and may cause us to secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions in all respects as it deems fit, and in particular by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of our property (both present and future), including its uncalled or called but unpaid share capital for the time being.

Neither our memorandum nor our articles of association, nor the laws of the State of Israel require retirement of directors at a certain age, or share ownership for director qualification, nor do they contain any restriction on the board of directors' borrowing powers.

#### Insurance, Indemnification and Exemption

**General** - our articles of association set forth the following provisions regarding the grant of exemption, insurance and indemnification to any of our directors or officers, all subject to the provisions of the Companies Law. In accordance with such provisions and pursuant to the requisite approvals of our audit committee, board of directors and shareholders, we have obtained liability insurance covering our directors and officers, have granted indemnification undertakings to our directors and officers and have agreed to exempt our directors and officers (other than our Executive Chairman) from liability for breach of the duty of care. PC, InSightec and Gamida have also granted indemnification undertakings to their respective directors and officers.

**Insurance** - we may insure the liability of any director or officer to the fullest extent permitted by law. Without derogating from the aforesaid, we may enter into a contract to insure the liability of a director or officer for an obligation imposed on him in consequence of an act done in his capacity as such, in any of the following cases:

- (i) A breach of the duty of care via-a-vis us or via-a-vis another person;
- (ii) A breach of the duty of loyalty via-a-vis us, provided that the director or officer acted in good faith and had reasonable basis to believe that the act would not harm us;
- (iii) A monetary obligation imposed on him in favor of another person;
- (iv) Reasonable litigation expenses, including attorney fees, incurred by the director or officer as a result of an administrative enforcement proceeding instituted against him. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the director or officer in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 1968, as amended (the "Securities Law") and expenses that the director or officer incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees; or
- (v) Any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of our directors or officers.

Indemnification

We may indemnify a director or officer to the fullest extent permitted by law, either retroactively or pursuant to an undertaking given in advance. Without derogating from the aforesaid, we may indemnify our directors or officers for liability or expense imposed on him in consequence of an action taken by him in his capacity as such, as follows:

- (i) Any financial liability he incurs or imposed on him in favor of another person in accordance with a judgment, including a judgment given in a settlement or a judgment of an arbitrator, approved by a court, provided that any undertaking to indemnify be restricted to events that, in the opinion of the board of directors, are anticipated in light of our actual activity at the time of granting the undertaking to indemnify and be limited to a sum or measurement determined by the board of directors to be reasonable under the circumstances;
- (ii) Reasonable litigation expenses, including legal fees, incurred by the director or officer or which he was ordered to pay by a court, within the framework of proceedings filed against him by or on behalf of us, or by a third party, or in a criminal proceeding in which he was acquitted, or in a criminal proceeding in which he was convicted of a felony which does not require a criminal intent; and
- (iii) Reasonable litigation expenses, including legal fees he incurs due to an investigation or proceeding conducted against him by an authority authorized to conduct such an investigation or proceeding, and which was ended without filing an indictment against him and without being subject to a financial obligation as a substitute for a criminal proceeding, or that was ended without filing an indictment against him, but with the imposition of a financial obligation, as a substitute for a criminal proceeding relating to an offense which does not require criminal intent, within the meaning of the relevant terms in the Companies Law or in connection with an administrative enforcement proceeding or a financial sanction. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the director or officer in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Securities Law, and expenses that the director or officer incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees.

The aggregate indemnification amount payable by us pursuant to indemnification undertakings may not exceed the lower of (i) 25% of our shareholders' equity as of the date of actual payment by us of the indemnification amount (as set forth in our most recent consolidated financial statements prior to such payment) and (ii) \$40 million, in excess of any amounts paid (if paid) by insurance companies pursuant to insurance policies maintained by us, with respect to matters covered by such indemnification.

Exemption - we may exempt a director or officer in advance or retroactively for all or any of his liability for damage in consequence of a breach of the duty of care vis-a-vis us, to the fullest extent permitted by law.

Prohibition on the grant of exemption, insurance and indemnification - The Companies Law provides that a company may not give insurance, indemnification nor exempt its directors or officers from liability in the following events:

- (i) a breach of the duty of loyalty to the company, unless, with respect to insurance coverage or indemnification, the director or officer acted in good faith and had a reasonable basis to believe that the act would not harm us;

- (ii) an intentional or reckless breach of the duty of care;
- (iii) an act done with the intention of unduly deriving a personal profit; or
- (iv) a fine imposed on the officer or director.

#### **Rights Attached to Shares**

Our registered share capital consists of a single class of 50,000,000 ordinary shares, par value NIS 1.00 per share, of which 24,885,833 ordinary shares were issued and outstanding as of March 31, 2012. Such number excludes 3,388,910 treasury shares held by us or for our benefit, which do not have any voting or economic rights.

#### **Dividend and Liquidation Rights**

Our board of directors may declare a dividend to be paid to the holders of ordinary shares on a pro rata basis. Dividends may only be paid out of our profits and other surplus funds, as defined in the Companies Law, as of our most recent financial statement or as accrued over the past two years, whichever is higher, or, in the absence of such profits or surplus, with court approval. In any event, a dividend is permitted only if there is no reasonable concern that the payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares on a pro rata basis. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future, subject to applicable law. For information on our dividend policy, see "Item 8.A. Financial Information – Consolidated Statements and Other Financial Information – Dividend Distribution Policy."

#### **Voting Rights**

Holders of ordinary shares have one vote for each ordinary share held by them on all matters submitted to a vote of the shareholders. Such voting rights may be affected by the creation of any special rights to the holders of a class of shares with preferential rights that may be authorized in the future in the manner provided for under the Companies Law and our articles of association. The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent, in the aggregate, at least 33-1/3% of the issued voting share capital. In the event that a quorum is not present within half an hour of the scheduled time, the meeting shall be adjourned to the same day of the following week, at the same time and place, or to such other day, time and place as the board of directors shall determine by notice to the shareholders. If at such adjourned meeting a quorum is not present within half an hour of the scheduled time, the two members present in person or by proxy will constitute a quorum.

#### **Modification of Class Rights Attached to Shares**

The rights attached to any class, such as voting, liquidation and dividend rights, may be amended by written consent of holders of a majority of the issued shares of that class, or by adoption of a resolution by a simple majority of the shares of that class represented at a separate class meeting.

#### **Annual and Special Meetings**

In accordance with the Companies Law, the board of directors must convene an annual meeting of shareholders at least once every calendar year, and no later than within 15 months from the last annual meeting. Notice of at least 14 days prior to the date of the meeting is required, subject to applicable law, which often requires notice of at least 21 or 35 days. An extraordinary meeting may be convened by the board of directors, either at its discretion or upon a demand of (i) any two directors or 25% of the serving directors; or (ii) one shareholder or more holding in the aggregate at least 5% of our issued capital and at least 1% of the voting rights in the Company or one shareholder or more holding at least 5% of the voting rights in the Company.

#### **Limitations on the Rights to own Securities**

Our memorandum and articles of association do not restrict in any way the ownership of our shares by non-residents of Israel and neither the memorandum nor articles of association nor Israeli law restricts the voting rights of non-residents of Israel, except that under Israeli law, any transfer or issue of our shares to a resident of an enemy state of Israel is prohibited and shall have no effect.

#### **Changes to our Capital**

Changes to our capital are subject to the approval of our shareholders by a simple majority.

#### **Anti-Takeover Provisions**

The Companies Law prohibits the purchase of our shares if the purchaser's holding following such purchase increases above certain percentages without conducting a tender offer or obtaining shareholder approval. See "Item 3.D. Risk Factors - Risks Relating to Israel - Anti-takeover provisions could negatively impact our shareholders" above.

#### **Amendment of Articles of Association**

Any amendment to our articles of association requires the approval of our shareholders by a simple majority.

#### **Transfer Agent**

Our transfer agent in the United States is American Stock Transfer and Trust Company whose address is 59 Maiden Lane New York, New York 10038.

#### **C. MATERIAL CONTRACTS**

The following is a list of material agreements entered into by us or any of our subsidiaries during the last two years prior to the filing of this annual report.

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

##### *Agreement for Services for Construction Projects*

For information regarding the agreement for the provision of coordination, planning, execution and supervision services over construction projects to our affiliated companies see "Item 7.B. Related Party Transactions - Agreement for Services for Construction Projects."

#### **United States Real Property**

For information regarding the framework agreement entered into with Eastgate, see "Item 4.B. Business Overview – United States Real Property – U.S. Real Property Joint Venture."

For information regarding the framework agreement entered into in connection with the EDT transaction and our subsequent purchases of additional units of EDT, see "Item 4.B. Business Overview – United States Real Property – Real Estate Investment Portfolio – EDT Retail Trust."

For information regarding the warrant granted to Eastgate in connection with the Term Loan Agreement, see "Item 5. Operating and Financial Review and Prospects – Overview – 2012."

For information regarding the agreement to sell 47 U.S. shopping centers previously held by EDT to BRE DDR Retail Holdings LLC, see "Item 4.B. Business Overview – United States Real Property – Real Estate Investment Portfolio – EDT Retail Trust."

## **Hotel Business**

### ***Hotel Management Agreements***

For information regarding the management agreements regarding our hotel operations, see "Item 4.B. Business Overview - Hotels - Management of Hotels."

### ***Sale of Hotels***

For information regarding the sale of three hotels in London, England to PPHE, see "Item 4.B. Business Overview - Hotels – Recent Acquisitions and Dispositions of Hotels."

For information regarding the sale of our hotels in the Netherlands to PPHE, see "Item 4.B. Business Overview - Hotels – Recent Acquisitions and Dispositions of Hotels."

## **D. EXCHANGE CONTROLS**

In 1998, the government of Israel promulgated a general permit under the Israeli Currency Control Law, 5738 - 1978. Pursuant to such permit, substantially all transactions in foreign currency are permitted.

Our Memorandum and articles of association do not restrict in any way the ownership of our shares by non-residents and neither the Memorandum of Association nor Israeli law restricts the voting rights of non-residents.

## **E. TAXATION**

The following is a discussion of certain tax laws that may be material to our shareholders, all as in effect as of the date of this report and all of which are subject to changes, possibly on a retroactive basis, to the extent that such laws are still subject to judicial or administrative interpretation in the future. This discussion is not intended, and should not be construed, as legal or professional tax advice and does not cover all possible tax considerations. For further information as to taxes that apply to us and our subsidiaries, see note 22 to our annual consolidated financial statements.

WE ENCOURAGE EACH INVESTOR TO CONSULT WITH HIS OR HER OWN TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH INVESTOR OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES, INCLUDING THE EFFECTS OF APPLICABLE ISRAELI, U.S. FEDERAL, STATE, AND LOCAL TAXES.

### **Taxation in Israel**

The following is a summary of the material Israeli tax consequences to purchasers of our ordinary shares. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. To the extent that the discussion is based on new tax legislation which has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the appropriate tax authorities or the courts. The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

#### ***Capital Gains Tax on Sales of Our Ordinary Shares***

Israeli law generally imposes a capital gains tax on the sale of capital assets by residents of Israel, and by non-residents of Israel if those assets either (i) are located in Israel; (ii) are shares or a right to a share in an Israeli resident company; or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a specific exemption is available or unless a double tax convention concluded between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is equal to the increase in the purchase price of the relevant asset attributable solely to the increase in the Israeli CPI, or a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

As of January 1, 2012, capital gains derived by individuals from the sale of shares, whether listed on a stock market or not, purchased on or after January 1, 2003, will be taxed at the rate of 25%. However, if the individual shareholder is a "Significant Shareholder" (i.e., a person who holds, directly or indirectly, alone or jointly with others, 10% or more of one of the Israeli resident company's means of control) at the time of sale or at any time during the preceding 12 month period, such gains will be taxed at the rate of 30%. In addition, capital gains derived by an individual claiming a deduction of financing expenses in respect of such gains will be taxed at the rate of 30%. However, different tax rates may apply to dealers in securities and shareholders who acquired their shares prior to an initial public offering. Israeli companies are subject to the corporate tax rate (24% for the 2011 tax year and 25% for the 2012 tax year) on capital gains derived from the sale of shares.

The tax basis of our shares acquired prior to January 1, 2003, will generally be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the Israeli tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

Capital gains derived from the sale of our shares by a non-Israeli shareholder may be exempt under the Israeli Income Tax Ordinance from Israeli taxation provided the following cumulative conditions are met: (i) the shares were purchased upon or after the registration of our shares on the stock exchange, (ii) the seller doesn't have a permanent establishment in Israel to which the derived capital gains are attributed, and (iii) if the seller is a corporation, less than 25% of (a) its means of control or (b) the beneficial rights to the revenues or profits of such corporation, whether directly or indirectly, are held by Israeli resident shareholders. In addition, the sale of our shares by a non-Israeli shareholder may be exempt from Israeli capital gain tax under an applicable tax treaty.

Pursuant to the Convention between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended, or the U.S.-Israel Tax Treaty, the sale, exchange or disposition of ordinary shares by a person who (i) holds the ordinary shares as a capital asset, (ii) qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty and (iii) is entitled to claim the benefits afforded to such resident by the U.S.-Israel Tax Treaty generally will not be subject to Israeli capital gains tax unless (i) either such resident holds, directly or indirectly, shares representing 10% or more of the voting power in the company during any part of the 12-month period preceding such sale, exchange or disposition, subject to certain conditions, or (ii) the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment of the shareholder in Israel. If the above conditions are not met, the sale, exchange or disposition of ordinary shares would be subject to such Israeli capital gains tax to the extent applicable; however, under the U.S.-Israel Tax Treaty, such residents should be permitted to claim a credit for such taxes against U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to state or local taxes.

In some instances where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

#### ***Taxation of Dividends Distribution***

A distribution of dividends to an Israeli resident individual will generally be subject to income tax at a rate of 25%. However, a 30% tax rate will apply if the dividend recipient is a Significant Shareholder at the time of distribution or at any time during the preceding 12 month period. If the recipient of the dividend is an Israeli resident company, such dividend will be exempt from income tax provided that the income from which such dividend is distributed was derived or accrued within Israel. A distribution of dividends from income attributable to an "Approved Enterprise" or "Benefited Enterprise" under the Israeli Law for the Encouragement of Capital Investments, 5719-1959 will generally be subject to tax in Israel at the rate of 15% (for Israeli individuals or companies).

Under the Israeli Income Tax Ordinance, a non-Israeli resident (either individual or company) is generally subject to an Israeli income tax on the receipt of dividends at the rate of 25% (30% if the dividends recipient is a Significant Shareholder), unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. Under the U.S.- Israel Tax Treaty, the following rates will apply in respect of dividends distributed by an Israeli resident company to a U.S. resident: (i) if the U.S. resident is a corporation which holds during that portion of the tax year which precedes the date of payment of the dividend and during the whole of its prior tax year (if any), at least 10% of the outstanding shares of the voting stock of the Israeli resident paying company and not more than 25% of the gross income of the Israeli resident paying company for such prior taxable year (if any) consists of certain type of interest or dividends - the tax rate is 12.5%, (ii) if both the conditions mentioned in section (i) above are met and the dividend is paid from an Israeli resident company's income generated by an "Approved Enterprise" or "Benefited Enterprise" which was entitled to a reduced tax rate under the Israeli Law for the Encouragement of Capital Investments, 1959 - the tax rate is 15%, and (iii) in all other cases, the tax rate is 25%. The aforementioned rates under the U.S.- Israel Tax Treaty will not apply if the dividend income was derived through a permanent establishment of the U.S. resident in Israel.

**We are generally obligated to withhold Israeli tax at the source upon the distribution of a dividend, at the aforementioned rates.**

A non-resident of Israel who has dividend income derived from or accrued in Israel, from which tax was withheld at source, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the shareholder.

#### **U.S. Federal Income Tax Considerations**

Subject to the limitations described herein, this discussion summarizes certain U.S. federal income tax consequences of the purchase, ownership and disposition of our ordinary shares to a U.S. holder. A U.S. holder is a holder of our ordinary shares who is:

- an individual citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation (or another entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any political subdivision thereof or the District of Columbia;
- an estate, the income of which may be included in the gross income for U.S. federal income tax purposes regardless of its source; or
- a trust if, in general, (i) a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or (ii) that has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a U.S. person.

Unless otherwise specifically indicated, this discussion does not consider the U.S. tax consequences to a person that is not a U.S. holder (a "non-U.S. holder") and considers only U.S. holders that will own the ordinary shares as capital assets (generally, for investment).

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), current and proposed Treasury Regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as currently in effect and all of which are subject to change, possibly with retroactive effect. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the U.S. holder's particular circumstances. In particular, this discussion does not address the U.S. federal income tax consequences to U.S. holders who are broker-dealers; who have elected mark-to-market accounting; who own, directly, indirectly or constructively, 10% or more of our outstanding voting shares; U.S. holders that received ordinary shares as a result of exercising employee stock options or otherwise as compensation; U.S. holders holding our ordinary shares as part of a hedging, straddle or conversion transaction; U.S. holders whose functional currency is not the U.S. dollar, real estate investments trusts, regulated investment companies, insurance companies, tax-exempt organizations, financial institutions, grantor trusts, S corporations; certain former citizens or long term residents of the United States; and persons subject to the alternative minimum tax, who may be subject to special rules not discussed below. Additionally, the possible application of U.S. federal estate, or gift taxes or any aspect of state, local or non-U.S. tax laws is not discussed.

If a partnership (or other entity treated as a partnership for U.S. Federal income tax purposes) holds our ordinary shares, the tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to its consequences.

**Each holder of our ordinary shares is advised to consult his or her tax advisor with respect to the specific U.S. federal, state, local and foreign tax consequences to him or her of purchasing, holding or disposing of our ordinary shares.**

## Distributions

Subject to the discussion below under "Tax Consequences if We are a Passive Foreign Investment Company," a distribution paid by us with respect to our ordinary shares to a U.S. holder will be treated as dividend income to the extent that the distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of a distribution with respect to our ordinary shares will equal the amount of cash and the fair market value of any property distributed and will also include the amount of any non-U.S. taxes withheld from such distribution. Dividends that are received by U.S. holders that are individuals, estates or trusts will be taxed at the rate applicable to long-term capital gains (a maximum rate of 15% for taxable years beginning on or before December 31, 2012), provided that such dividends meet the requirements of "qualified dividend income." For this purpose, qualified dividend income generally includes dividends paid by a non-U.S. corporation if certain holding period and other requirements are met and either (a) the stock of the non-U.S. corporation with respect to which the dividends are paid is "readily tradable" on an established securities market in the U.S. (e.g., the NASDAQ Global Select Market) or (b) the non-U.S. corporation is eligible for benefits of a comprehensive income tax treaty with the U.S. which includes an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. The United States Internal Revenue Service ("IRS") has determined that the U.S.-Israel income tax treaty is satisfactory for this purpose. Dividends that fail to meet such requirements, and dividends received by corporate U.S. holders are taxed at ordinary income rates. No dividend received by a U.S. holder will be a qualified dividend if (1) the U.S. holder held the ordinary share with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Code Section 246(c), any period during which the U.S. holder has an option to sell, is under a contractual obligation to sell, has made and not closed a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, such ordinary share (or substantially identical securities); or (2) to the extent that the U.S. holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the ordinary share with respect to which the dividend is paid. If we were to be a "passive foreign investment company" (as such term is defined in the Code) for any taxable year, dividends paid on our ordinary shares in such year and in the following taxable year would not be qualified dividends. See discussion below regarding our PFIC status at "Tax Consequences If We Are a Passive Foreign Income Company." In addition, a non-corporate U.S. holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case, the dividend will be taxed at ordinary income rates.

The amount of any distribution which exceeds the amount treated as a dividend will be treated first as a non-taxable return of capital, reducing the U.S. holder's tax basis in its ordinary shares to the extent thereof, and then as capital gain from the deemed disposition of the ordinary shares. Corporate holders will not be allowed a deduction for dividends received in respect of the ordinary shares.

Dividends paid by us in NIS will be generally included in the income of U.S. holders at the dollar amount of the dividend (including any non-U.S. taxes withheld therefrom), based upon the exchange rate in effect on the date the distribution is included in income. U.S. holders will have a tax basis in the NIS for U.S. federal income tax purposes equal to that dollar value. Any subsequent gain or loss in respect of the NIS arising from exchange rate fluctuations will generally be taxable as U.S. source ordinary income or loss.

Subject to certain conditions and limitations set forth in the Code and the Treasury Regulations thereunder, including certain holding period requirements, U.S. holders may elect to claim as a foreign tax credit against their U.S. federal income tax liability the non-U.S. income taxes withheld from dividends received in respect of our ordinary shares. The limitations on claiming a foreign tax credit include, among others, computation rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. In this regard, dividends paid by us generally will be foreign source "passive income" for U.S. foreign tax credit purposes. U.S. holders that do not elect to claim a foreign tax credit may instead claim a deduction for the non-U.S. income taxes withheld if they itemize deductions for U.S. federal income tax purposes. The rules relating to foreign tax credits are complex, and U.S. holders should consult their tax advisors to determine whether and to what extent they would be entitled to this credit.

#### **Disposition of Ordinary Shares**

Subject to the discussion below under "Tax Consequences If We Are a Passive Foreign Investment Company," upon the sale, exchange or other disposition of our ordinary shares, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the amount realized on the disposition and the U.S. holder's tax basis in our ordinary shares. The gain or loss recognized on the disposition of the ordinary shares will be long-term capital gain or loss if the U.S. holder held our ordinary shares for more than one year at the time of the disposition. Under current law, long-term capital gains are subject to a maximum rate of 15% for taxable years beginning on or before December 31, 2012 and subject to a maximum rate of 20% for taxable years thereafter. Capital gain from the sale, exchange or other disposition of our ordinary shares held for one year or less is short-term capital gain and taxed at ordinary income tax rates. Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of our ordinary shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. A U.S. holder that receives foreign currency upon disposition of our ordinary shares and converts the foreign currency into dollars after the settlement date (in the case of a cash method taxpayer or an accrual method taxpayer that elects to use the settlement date) or trade date (in the case of an accrual method taxpayer) may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the dollar, which will generally be U.S. source ordinary income or loss.

#### **Tax Consequences if we are a Passive Foreign Investment Company**

We will be a passive foreign investment company, or PFIC, if either (1) 75% or more of our gross income in a taxable year is passive income or (2) 50% or more of the value, determined on the basis of a quarterly average, of our assets in a taxable year produce or are held for the production of passive income. If we own (directly or indirectly) at least 25% by value of the stock of another corporation, we will be treated for purposes of the foregoing tests as owning our proportionate share of that other corporation's assets and as directly earning our proportionate share of that other corporation's income. If we are a PFIC, a U.S. holder must determine under which of three alternative taxing regimes it wishes to be taxed.

The "QEF" regime applies if the U.S. holder elects to treat us as a "qualified electing fund" ("QEF") for the first taxable year in which the U.S. holder owns our ordinary shares or in which we are a PFIC, whichever is later, and if we comply with certain reporting requirements. If a QEF election is made after the first taxable year in which a U.S. holder holds our ordinary shares and we are a PFIC, then special rules would apply. If the QEF regime applies, then for each taxable year that we are a PFIC, such U.S. holder will include in its gross income a proportionate share of our ordinary earnings (which is taxed as ordinary income) and net capital gain (which is taxed as long-term capital gain), subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. These amounts would be included in income by an electing U.S. holder for its taxable year in which our taxable year ends, whether or not such amounts are actually distributed to the U.S. holder. A U.S. holder's basis in our ordinary shares for which a QEF election has been made would be increased to reflect the amount of any taxed but undistributed income. Generally, a QEF election allows an electing U.S. holder to treat any gain realized on the disposition of its ordinary shares as capital gain. Once made, the QEF election applies to all subsequent taxable years of the U.S. holder in which it holds our ordinary shares and for which we are a PFIC and can be revoked only with the consent of the IRS.

A second regime, the "mark-to-market" regime, may be elected so long as our ordinary shares are "marketable stock" (e.g., "regularly traded" on the NASDAQ Global Select Market). If the mark-to-market election is made after the first taxable year in which a U.S. holder holds our ordinary shares and we are a PFIC, then special rules would apply. Pursuant to this regime, an electing U.S. holder's ordinary shares are marked-to-market each taxable year that we are a PFIC and the U.S. holder recognizes as ordinary income or loss an amount equal to the difference as of the close of the taxable year between the fair market value of our ordinary shares and the U.S. holder's adjusted tax basis in our ordinary shares. Losses are allowed only to the extent of net mark-to-market gain previously included by the U.S. holder under the election for prior taxable years. An electing U.S. holder's adjusted basis in our ordinary shares is increased by income recognized under the mark-to-market election and decreased by the deductions allowed under the election. Under the mark-to-market election, in a taxable year that we are a PFIC, gain on the sale of our ordinary shares is treated as ordinary income, and loss on the sale of our ordinary shares, to the extent the amount of loss does not exceed the net mark-to-market gain previously included, is treated as ordinary loss. Any loss on the sale of our ordinary shares in excess of net mark-to-market gain previously included is generally treated as a capital loss. The mark-to-market election applies to the taxable year for which the election is made and all later taxable years, unless the ordinary shares cease to be marketable stock or the IRS consents to the revocation of the election.

A U.S. holder making neither the QEF election nor the mark-to-market election is subject to the "excess distribution" regime. Under this regime, "excess distributions" are subject to special tax rules. An excess distribution is either (1) a distribution with respect to our ordinary shares that is greater than 125% of the average distributions received by the U.S. holder from us over the shorter of either the preceding three taxable years or such U.S. holder's holding period for our ordinary shares prior to the distribution year, or (2) gain from the disposition of our ordinary shares (including gain deemed recognized if the ordinary shares are used as security for a loan).

Excess distributions must be allocated ratably to each day that a U.S. holder has held our ordinary shares. A U.S. holder must include amounts allocated to the current taxable year, as well as amounts allocated to taxable years prior to the first taxable year in which we were a PFIC, in its gross income as ordinary income for that year. All amounts allocated to other taxable years would be taxed at the highest tax rate for each such prior year applicable to ordinary income and the U.S. holder also would be liable for interest on the deferred tax liability for each such year calculated as if such liability had been due with respect to each such year. A U.S. holder who inherits shares in a non-U.S. corporation that was a PFIC in the hands of the decedent generally is denied the otherwise available step-up in the tax basis of such shares to fair market value at the date of death. Instead, such US holder would generally have a tax basis equal to the lesser of the decedent's basis or the fair market value of the ordinary shares on the date of the decedent's death.

We believe that we were not a PFIC in 2011. However, since the determination of whether we are a PFIC is based upon such factual matters as the valuation of our assets, the assets of companies held by us in certain cases and certain assumptions and methodologies in which we have based our analysis, there can be no assurance that the IRS will agree with our position. In addition, there can be no assurance that we will not become a PFIC for the current taxable year ending December 31, 2012 or in any future taxable year. We will notify U.S. holders in the event we conclude that we will be treated as a PFIC for any taxable year to enable U.S. holders to consider whether or not to elect to treat us as a QEF for U.S. federal income tax purposes, or to "mark-to-market" the ordinary shares or to become subject to the "excess distribution" regime. If we are a PFIC, U.S. holders will generally be required to file an annual report with the IRS for taxable years beginning on or after March 18, 2010.

U.S. holders are urged to consult their tax advisors regarding the application of the PFIC rules, including eligibility for and the manner and advisability of making, the QEF election or the mark-to-market election.

#### **Non-U.S. Holders**

Subject to the discussion below under "Information Reporting and Back-up Withholding," a non-U.S. holder of our ordinary shares generally will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, our ordinary shares, unless, in the case of U.S. federal income taxes (i) the item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States and in the case of a resident of a country which has a treaty with the United States, the item is attributable to a permanent establishment, or in the case of an individual, the item is attributable to a fixed place of business in the United States, or (ii) the non-U.S. holder is an individual who holds the ordinary shares as a capital asset is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

#### **Information Reporting and Backup Withholding**

U.S. holders (other than certain exempt recipients such as corporations) generally are subject to information reporting requirements with respect to dividends paid on our ordinary shares in the United States or by a U.S. payor or U.S. middleman or the gross proceeds from disposing of our ordinary shares. U.S. holders generally are also subject to backup withholding (currently 28% for taxable years through 2010) on dividends paid in the United States or by a U.S. payor or U.S. middleman on our ordinary shares and on the gross proceeds from disposing of our ordinary shares, unless the U.S. holder provides an IRS Form W-9 or is otherwise exempt from backup withholding.

Non-U.S. holders generally are not subject to information reporting or backup withholding with respect to dividends paid on our ordinary shares in the United States or by a U.S. payor or U.S. middleman or the gross proceeds from the disposition of our ordinary shares, provided that such non-U.S. holder certifies to its foreign status, or is otherwise exempt from backup withholding or information reporting.

The amount of any backup withholding may be allowed as a credit against a holder's U.S. federal income tax liability and may entitle such holder to a refund provided that certain required information is timely furnished to the IRS.

**F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

**G. STATEMENT BY EXPERTS**

Not applicable.

**H. DOCUMENTS ON DISPLAY**

We are subject to the informational requirements of the Exchange Act that are applicable to a foreign private issuer. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act.

However, we file annual reports with, and furnish other information to, the SEC. These materials, including this annual report and the exhibits hereto, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington D.C. 20549. Copies of the materials may be obtained from the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. Additionally, copies of the materials may be obtained from the SEC's website at <http://www.sec.gov>.

**I. SUBSIDIARY INFORMATION**

Not applicable.

**ITEM II. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Management of financial risks**

Our operations expose us to risks that relate to various financial instruments, such as market risks (including currency risk, fair value risk with respect to interest rates, cash flow risk with respect to interest rates and other price risk), credit risk and liquidity risk.

*Market risk* is the risk that the fair value of future cash flow of financial instruments will fluctuate because of changes in market prices.

*Credit risk* is the risk of financial loss to us if a counterparty to a financial instrument fails to meet its contractual obligations.

*Liquidity risk* is the risk that we will not be able to meet our financial obligations as they become due.

Our comprehensive risk management program focuses on actions to minimize the possible negative effects on our financial performance. In certain cases we use derivatives and non-derivative financial instruments in order to mitigate certain risk exposures.

Our board of directors has overall responsibility for the establishment and oversight of our risk management framework. Our board of directors has established a continuous process for identifying and managing the risks faced by us, and confirms that all appropriate actions have been or are being taken to address any weaknesses.

As of December 31, 2011, we had exposure to the following risks that are related to financial instruments:

**Foreign currency risk**

We have international activities in many countries and, therefore, we are exposed to foreign currency risks as a result of fluctuations in the different exchange rates. Foreign currency risks are derived from transactions executed and/or financial assets and liabilities held in a currency which is different than the functional currency of our entity which executed the transaction or holds these financial assets and liabilities. In order to minimize such exposure, our policy is to hold financial assets and liabilities in a currency which is the functional currency of that entity. Our functional currency is the NIS and our investees use different functional currencies (mainly the Euro, Indian Rupee, U.S. dollar and the Romanian RON). In addition, part of our long-term loans (mainly those denominated in U.S. dollar) are used to hedge our investments in foreign operations. As for foreign currency risk in respect of PC's debentures, for which PC executed swap transaction in order to mitigate such risk, see " - Interest Rate Risk" below.

The following table details sensitivity analysis to a change of 10% in our main foreign currencies, as of December 31, 2011, against the relevant functional currency and their effect on the statements of income and the shareholder's equity (before tax and before capitalizing any exchange results to qualified assets):

	<b>Functional currency</b>	<b>Linkage currency</b>	<b>Change in the exchange rate (%)</b>	<b>Profit (loss)</b>
			(in NIS thousands)	
<b>Financial assets</b>				
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
				<u>27,843</u>
<b>Financial Liabilities</b>				
Loans at amortized cost	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	Euro	NIS	+10%	(62,232)**
Loans at amortized cost	Euro	U.S. dollar	+10%	(3,247)
Loans at amortized cost	RON	Euro	+10%	(30,246)
Loans at amortized cost	Euro	GBP	+10%	(337)
				<u>(136,747)</u>

(\*) The effect of the exchange rates results in respect of these financial liabilities will be offset against the exchange rate resulting from investments in foreign operations which have the same functional currency.

(\*\*) In respect of PC's Debentures which are presented at amortized cost. Regarding the foreign currency risk of PC's debentures at FVTPL see "Interest Rate Risk" below.

#### *Forward transactions*

PC entered into two forward transactions to mitigate its foreign currency exposure risk in respect of its Series A and B Debentures. In September 2009 PC settled the forward transaction in respect of the Series A Debentures for a total consideration of NIS 14.5 million. In January 2010 PC settled the forward transaction in respect of the Series B Debentures for a total consideration of NIS 29.6 million.

#### *Foreign Currency Mitigate using selling options*

During 2011, PC decided to use selling options strategy (through Israeli and foreign banks) in order to mitigate its foreign currency risk (EURO-NIS) inherent in its long term debentures issued in NIS which are not mitigated by other derivative instruments (e.g. cross currency interest rate swaps or forward transactions).

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.

#### *Price risk*

##### *Marketable securities*

We invest in marketable securities based on the investment policy adopted by our investment committee.

An increase of 10% in the prices of our marketable securities as of December 31, 2011, will increase our finance income by NIS 2.1 million.

##### *Available for sale*

We are exposed to equity price risks arising from equity investments classified as available for sale assets. Such assets are held for strategic rather than trading purposes and we do not actively trade these investments.

If such assets' price had been 5% higher/lower, our profit and loss for the year ended December 31, 2011 would have been unaffected, as the change in value of such assets affects only our comprehensive income, which would increase/decrease by NIS 0.7 million as a result of such changes in fair value.

##### *Derivative measured at FVTPL*

Within the framework of the share purchase agreement entered into with PPHE on December 31, 2010 BEA Hotels N.V. ("BEA") was issued as part of the consideration one million ordinary shares of PPHE with a current market price of £ 1.5 million based on the quotations of such shares on the Alternative Investment Market of the London Stock Exchange (AIM) and 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 PPHE's shares, as set forth in the agreement. Based on its terms this additional payment is classified as a derivative and presented at fair value. An increase of 10% in the price of the shares of PPHE will cause a decrease of NIS 1.2 million (approximately \$314,000) in the fair value of the derivative.

Within the framework of a credit agreement executed in September 2011 we granted to the Lender a warrant to purchase our ordinary shares at an exercise price of \$3.00 per share during a two-year period commencing on March 31, 2012. An increase of 10% in the price of our shares will increase the fair value of this derivative by NIS 1.4 million (approximately \$366,000).

##### *Embedded derivative*

Within the framework of a credit facility agreement executed in April 2010, a BEA jointly controlled subsidiary that holds a hotel in the Netherlands is committed to pay the financing bank an additional exit fee.

An increase of 5% in the fair value of the above-mentioned underlying asset will cause an increase in the fair value of the embedded derivative, which will lead to a loss of approximately NIS 300,000 (approximately \$78,500).

***Credit risk***

We hold 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 our policy to disperse our investments among different banks and financial institutions. Our maximum credit risk exposure is approximately the financial assets presented in the balance sheet in our annual consolidated financial statements.

Our investment in held-to-maturity structures is concentrated mainly in one bank. For additional information, see note 2 (AF) (2) b to our annual consolidated financial statements.

Due to the nature of their activity, our companies which operate in the hotel, the investment property, the image guided and the fashion merchandise business, are not materially exposed to credit risks stemming from dependence on a given customer. Our companies examine on an ongoing basis the credit amounts extended to their customers and, accordingly, record a provision for doubtful debts based on those factors they consider having an effect on specific customers.

As of December 31, 2011, our trade receivables do not include any significant amounts due from buyers of trading property.

***Interest rate risk***

***Fair value risk***

A significant portion of our long-term loans and debentures bear a fixed interest rate and are therefore, exposed to change in their fair value as a result of changes in the market interest rate. The vast majority of these loans and debentures are measured at amortized cost and therefore changes in the fair value will not have any effect on the statement of income. With respect of two project loans, PC mitigates its exposure to cash flow due to floating interest (IRS). The aggregate fair value of these two IRS, based on a valuation technique, was a negative value in an amount of NIS 6.4 million, a change of 1% in the market interest, is expected to have immaterial effect on the statement of income. In addition, we have invested in financial notes which are classified as held to maturity, and therefore change in the fair value of these financial notes will not have any effect on the statement of income. The fair value of these financial instruments is presented in " - Fair value of financial instruments" below.

As of December 31, 2011, PC has issued two series of debentures which are presented at FVTPL: Series A in a total aggregate amount of NIS 305 million, and Series B in a total aggregate amount of NIS 799 million. PC's Series A and B debentures are linked to the Israeli consumer price index and bear a fixed interest rate of 4.5% to 5.4% per annum. Close to the date of their issuance, PC entered into 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 as 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"). 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% to 3.66% and will receive the same interest as the debentures linked to the Israeli consumer price index 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 with changes in the fair value 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 swap transactions associated with them (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 cash flow risk), PC included in its balance sheet a negative value in the amount of NIS 10.3 million (December 31, 2010 - NIS 150,000).

The following table analyses the change in the fair value of the debentures and the derivatives as of December 31, 2011. 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) NIS thousands
Exchange rate of the Euro against the NIS	+10%	70,738
Change in the Israeli CPI	+2.2%	(15,562)
Change in the market interest rate	+1%	10,646

*Cash flow risk*

Part of our long-term borrowings, as well as long-term loans receivable, bear variable interest rates. Cash and cash equivalents, short-term deposits and short-term bank credits are mainly deposited in or obtained at variable interest rates. Changes in the market interest rate will affect our finance income and expenses and our cash flow.

In certain cases we use interest rate swap transaction in order to swap loans with a variable interest rate to fixed interest rate or alternatively entering into loans with a fixed interest rate.

The following table presents the effect of an increase of 2% in the LIBOR rate with respect to financial assets and liabilities as of December 31, 2011, which are exposed to cash flow risk (before tax and before capitalization to qualifying assets):

	Profit (loss) NIS thousands
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	(12,481)
Loans and debentures linked to the Euro (*)	(32,703)
Loans linked to the NIS	(1,498)
	(41,448)

(\*) In respect of PC's debentures which are linked to the Israeli consumer price index and for which PC has executed swap transactions in order to exchange the interest to variable interest rate. See note 9A.(iv) to our annual consolidated financial statements.

PC raised a total of PLN 60 million (approximately NIS 71 million) from Polish institutional investors. The unsecured bearer bonds governed by Polish law have a three year maturity and will bear interest at a rate of six months Polish WIBOR plus a margin of 4.5%. PC entered into a EUR-PLN cross-currency interest rate swap in order to hedge the expected payments in PLN (principal and interest) and to correlate them with the 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 month WIBOR + 4.5% with the same amortization schedule as the Polish bonds.

As of December 31, 2011, we hold investments in financial notes in the amount of NIS 187.6 million which bear interest of 11.5% to 12% per annum, and which are payable only if the margin between the 30 year Euro swap interest rate and the 10 year Euro swap interest rate (measured on a daily basis) is higher than the margin stated in the agreement. Therefore, we are exposed to non-payment of interest on these notes in the event that the aforementioned condition is not met. A decrease of 0.05% in the annual effective interest rate on the notes will lead to a decrease in our financing income and our cash flow for the year ended December 31, 2011, in the amount of NIS 0.2 million.

The following table presents our long-term financial liabilities classified according to their interest rate and their contractual maturity date:

Functional Currency	Linkage Currency	Interest Rate %	Average Interest Rate %	Repayment Years							6 and thereafter	Total
				1	2	3	4 NIS million	5	6 and thereafter			
€	€	6.98	6.98	-	74.8	-	-	-	-	-	-	74.8
€	U.S. dollar	Libor+4	4.5	0.9	0.9	13.1	-	-	-	-	-	14.9
€	€	Euribor + 0.4-5.5	4	798.3	26.4	26.6	26.8	35.8	276.1	1,190		
€	€	Euribor + 1.75-2.25	2.75-3.25	6.2	41.4	6.2	6.2	67.9	-	127.9		
€	NIS (linked to CPI)	4.5-5.4	4.5-5.4	338.5	338.5	338.5	338.5	54.6	54.6	1,463.2		
U.S. dollar	U.S. dollar	4.91-6.4	4.91-6.4	217.5	160.4	14.1	474.5	190.1	221.9	1,278.5		
U.S. dollar	U.S. dollar	Libor +3.25	3.83		293.5	-	-	-	-	293.5		
NIS	U.S. dollar	Libor + 3.5-3.8	4	21	30.6	59.2	59.2	66.9	81.9	318.8		
	€NIS	Telbor+6	8.76	15	15	15	15	-	-	60		
NIS	U.S. dollar	Libor + 2.65	3.05	11.2	11.2	5.6	-	-	-	28		
NIS	NIS (linked to CPI)	5-6.3	6.0	285	392.9	374.7	356.4	263.4	814.3	2486.7		
RON	€	Euribor + 4.6	5.96	12.7	13	13	13	250.9	-	302.6		
NIS	NIS	6.25	6.25	-	56	56	-	-	-	112		
NIS	NIS	Prime +1.5-1.75	5.93	14.5	-	-	-	-	-	14.5		
INR	INR	13.5-15%	13.5-15	15.9 1,736.7	15.9 1,470.5	15.9 937.9	15.9 1,305.5	15.9 945.5	63.7 1,512.5	143.2 7,908.6		

#### **Israeli consumer price index risk**

A significant portion of our borrowings consists of debentures raised by us on the TASE and which are linked to the increase in the Israeli consumer price index above the base index at the date of the debentures issuance (excluding PC's debentures for which PC has executed swap transactions in order to exchange the debentures linkage currency into Euro). An increase of 3% in the Israeli consumer price index will cause an increase in our finance expenses for the year ended December 31, 2011 (before tax and capitalizations of finance expenses to qualified assets) in the amount of NIS 87.8 million.

#### **Fair value of financial instruments**

Our financial instruments primarily include cash and cash equivalents, short and long-term deposits, marketable securities, trade receivables, short and long-term other receivables, short-term banks credit, other current liabilities and long-term monetary liabilities.

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 and financial instruments traded in an inactive market is estimated by means of accepted pricing models, such as present value of future cash flows discounted at a rate that, in our assessment, reflects the level of risk that is incorporated in the financial instrument. We rely, in part, on discount interest which is quoted in an active market, as well as on various techniques of approximation. Therefore, for most of the financial instruments, the estimation of fair value presented below is not necessarily an indication of the realization value of the financial instrument as of December 31, 2011. The estimation of fair value is carried out, as mentioned above, according to the discount rates in proximity to such 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 us, mainly with respect to financial instruments at a fixed interest rate. Moreover, in determining the assessments of fair value, the commissions that could be payable at the time of repayment of the instrument have not been taken into account and they also do not include any tax effect. The difference between the balances of the financial instruments as of the balance sheet date and their fair value as estimated by us may not necessarily be realizable, in particular in respect of a financial instrument which will be held until redemption date.

Following are the principal methods and assumptions which served to compute the estimated fair value of the financial instruments:

- a) **Financial instruments included in current assets** - (cash and cash equivalents, deposits and marketable securities, trade receivables, other current assets and assets related to 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 approximation to those presented in the balance sheet. We 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 us by the issuing bank as of the balance sheet date), of approximately 29% (NIS 55 million) below their cost. Following said examination, we concluded that, as of December 31, 2011, there is no objective evidence which should lead to impairment of these Notes. Such quotation is generally based on discounted expected cash flows from the notes, taking into consideration factors such as the credit rating of the issuer, the prevailing and the expected relevant interest rates and other factors. The fair value of derivatives (mainly swap transactions) is done by relying on third party professional advice of experts, which takes into account the expected future cash flow based on the terms and maturity of each contract using market interest rates for a similar instrument prevailing at the measurement date.
- c) **Financial instruments included in current liabilities** - (short-term credit, suppliers, other current liabilities and liabilities related to discontinued operation) - due to their nature, their fair values approximate to those presented in the balance sheet.

d) **Financial instruments included in long- term liabilities** - The fair value of the traded liabilities (debentures) is generally determined according to closing prices as of December 31, 2011 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 a fixed interest rate is determined according to the present value of future cash flows, discounted at a rate which reflects, in our estimation, the level of risk embedded in the financial instrument. The fair value of liabilities which carried variable interest rate is approximately the amounts presented in the balance sheet.

The following table presents the book value and fair value of our financial assets (liabilities), which are presented in the financial statements at other than their fair value:

	As of December 31, 2011	
	Book Value	Fair Value
Financial Notes held to maturity	187,648	132,875
Long- term loans at fixed interest rate	(1,550,990)	(1,579,736)
Debentures	(3,166,108)	(1,448,648)
	<b>(4,529,450)</b>	<b>(2,895,509)</b>

#### ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

#### PART II

#### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

#### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

#### ITEM 15. CONTROLS AND PROCEDURES

##### **Disclosure Controls and Procedures.**

Our management, with the participation of our co-chief executive officers and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2011. Based on this evaluation, our co-chief executive officers and chief financial officer concluded that, as of December 31, 2011, our disclosure controls and procedures were effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

##### **Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is designed to provide reasonable assurance to our management and the board of directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may decline.

Our management evaluated the effectiveness of our internal control over financial reporting established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the above, our management has assessed and concluded that, as of December 31, 2011, our internal control over financial reporting is effective.

**Attestation Report of the Independent Registered Public Accounting Firm**

Our independent registered public accounting firm independently assessed the effectiveness of our internal control over financial reporting and has issued an attestation report, which is included in this annual report.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

In accordance with Nasdaq Corporate Governance Rules, our board of directors has determined that both Mr. Zvi Tropp and Ms. Elina Frenkel Ronen are "audit committee financial experts" as defined in the instructions to Item 16A. of Form 20-F and are independent in accordance with the Nasdaq listing standards for audit committees applicable to us.

**ITEM 16B. CODE OF ETHICS**

Our co-principal executive officers, principal financial officer as well as all other directors, officers and employees are bound by a Code of Ethics and Business Conduct. Our Code of Ethics and Business Conduct is posted on and can be accessed via our web-site at [www.elbitimaging.com](http://www.elbitimaging.com). We will provide any person, without charge, upon request, a copy of our Code of Ethics. Such request should be submitted to our Corporate Secretary at 2 Weitzman Street, Tel Aviv 64239, Israel and should include a return mailing address.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Fees billed by Brightman Almagor Zohar & Co., a firm of certified public accountants in Israel and a member firm of Deloitte Touche Tohmatsu, and other Deloitte member firms ("Deloitte") for professional services for each of the last two fiscal years were as follows:

<b>Services Rendered</b>	<b>2010 Fees</b>	<b>2011 Fees</b>
Audit (a)	\$ 1,063,366	\$ 1,022,868
Audit-related (b)	\$ 70,945	-
Tax (c)	\$ 82,724	\$ 111,814
All other fees (d)	-	-
<b>Total</b>	<b>\$ 1,217,035</b>	<b>\$ 1,134,682</b>

**(a) Audit Fees**

"Audit Fees" are the aggregate fees billed for the audit of our annual financial statements; audit in accordance with section 404 of the Sarbanes-Oxley Act of 2002, statutory audits and services that are normally provided in connection with statutory and regulatory filings or engagements.

**(b) Audit-Related Fees**

"Audit-Related Fees" are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees.

In 2010, Audit-Related Fees included mainly work related to contemplated public offerings in our medical division. In 2011, we did not incur any Audit-Related Fees.

**(c) Tax Fees**

"Tax Fees" are the aggregate fees billed for professional services rendered for tax compliance, tax advice on actual or contemplated transactions and tax consultations regarding tax audits, tax opinions and tax pre-rulings.

**(d) All Other Fees**

"All Other Fees" are the aggregate fees billed for products and services provided by Deloitte other than as described above. There were no such fees in 2010 and 2011.

**(e) Pre-Approval Policies and Procedures**

Our audit committee oversees the appointment, compensation, and oversight of the registered public accounting firm engaged to prepare and issue an audit report on our financial statements. The audit committee's specific responsibilities in carrying out its oversight role include the approval of all audit and non-audit services to be provided by our registered public accounting firm and quarterly review of its non-audit services and related fees. These services may include audit services, audit-related services, permitted tax services and other services, as described above. The audit committee approves in advance the particular services or categories of services to be provided to us during the following yearly period and also sets forth a specific budget for such audit and non-audit services. Additional services may be pre-approved by the audit committee on an individual basis throughout the year.

None of the Audit-Related Fees, Tax Fees or Other Fees paid by us for services provided by Deloitte were approved by the audit committee pursuant to the *de minimis* exception to the pre-approval requirement provided by Section 10A of the Exchange Act.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE COMPANY AND AFFILIATED PURCHASERS**

No purchases of any of our equity securities (either pursuant to or not pursuant to any publicly announced plans or programs) were made by or on behalf of us during 2011.

In October 2008, our board of directors approved the repurchase of up to NIS 50 million of our Series A through F Notes, to be made from time to time in the open market, privately negotiated transactions or a combination of the two. In December 2008, an amount of NIS 1.7 million representing 3 million units of Series C Notes were purchased by Elscint Ltd. (a former subsidiary that was merged and consolidated into us). These notes were sold in June 2009 for a total sum of NIS 2.7 million.

In May 2010, our board of directors approved the repurchase of up to NIS 30 million of our ordinary shares, to be made from time to time in the open market, through one of our wholly-owned subsidiaries. Such repurchases were for an aggregate purchase price of NIS 30 million.

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. To date, we have purchased approximately NIS 23.7 million par value of our notes for an amount of approximately NIS 25.5 million (approximately \$6.7 million). Notes repurchased will be canceled and removed from trading and will not be permitted to be reissued.

In addition, our subsidiary has purchased approximately NIS 43.9 million par value of our notes for an amount of approximately NIS 27.6 million (approximately \$7.2 million) and PC's subsidiary has purchased approximately NIS 129.7 million par value of its Series A and B Notes for an amount of approximately NIS 119.3 million (approximately \$31.2 million).

In May 2011, PC's Board of Directors approved a repurchase plan in the aggregate amount of up to NIS 150 million (approximately \$39 million) of its Series A and B Notes. Following the expiration of the repurchase plan, on December 23, 2011, PC's Board of Directors approved another repurchase plan of up to NIS 150 million (approximately \$39 million) of its Series A and B Notes.

The repurchases were and will be made either on the open market, privately negotiated transactions, or a combination of the two.

PC's subsidiary has secured a credit facility provided by a bank by granting first ranking charges on the repurchased debentures.

As of December 31, 2011, PC, directly and indirectly through its subsidiary, has purchased a total of NIS 168 million par value of the notes for an amount of approximately NIS 152 million (approximately \$40 millions). A total of NIS 35.5 million par value of the notes repurchased have been fully redeemed.

During 2011, Europe-Israel purchased our ordinary shares in various transactions on the TASE, as disclosed in a Schedule 13D filed by Europe-Israel and Mr. Zisser on May 10, 2011, as follows:

<u>Period</u>	<u>(a) Total number of shares purchased</u>	<u>(b) Average price paid per share (in U.S. dollars)</u>
March 9-March 31, 2011	116,273	11.59
April 3-April 28, 2011	58,994	12.03
May 1-May 8, 2011	16,137	11.38

We were not provided with information regarding the purchases of our ordinary shares executed by Europe-Israel and Mr. Zisser in 2011 subsequent to the date of the filing of the Schedule 13D.

#### ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

#### ITEM 16G. CORPORATE GOVERNANCE

We follow the Companies Law, the relevant provisions of which are summarized in this annual report, rather than comply with the NASDAQ requirements relating to: (i) the quorum for adjourned shareholder meetings, as described in "Item 10.B. Memorandum and Articles of Association - Voting Rights"; (ii) executive sessions of independent directors, which are not required under the Companies Law; and (iii) shareholder approval with respect to issuance of securities under equity based compensation plans. NASDAQ rules generally require shareholder approval when an equity based compensation plan is established or materially amended, but we follow the Companies Law, which requires approval of the board of directors or a duly authorized committee thereof, unless such arrangements are for the compensation of directors, in which case they also require audit committee and shareholder approval.

#### ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

#### ITEM 17. FINANCIAL STATEMENTS

In lieu of responding to this item, we have responded to Item 18 of this annual report.

#### ITEM 18. FINANCIAL STATEMENTS

The information required by this item is set forth in our current report on Form 6-K filed with the SEC on March 29, 2012, and is incorporated by reference herein.

### PART III

#### ITEM 19. EXHIBITS

- 1.1 Amended and Restated Memorandum of Association (incorporated by reference to Appendix B to Exhibit 99.1 of Elbit Imaging Ltd.'s Report on Form 6-K filed with the Securities and Exchange Commission on April 2, 2009).
- 1.2 Amended and Restated Articles of Association.
- 2.1 Form of share certificate of Elbit Imaging Ltd. (incorporated by reference to Exhibit 2.1 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 26, 2009).
- 4.1 Framework Transaction Agreement dated July 29, 2005, among Klepierre S.A., Plaza Centers N.V. and others (incorporated by reference to Exhibit 4.15 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 30, 2006).
- 4.2 English summary of Share Purchase Agreement dated June 14, 2007, among ELS Trust Ltd., Elscint Ltd. and Manofim Finances for Israel (Mapal) Ltd. for the sale of the Arena commercial and entertainment center in Israel (incorporated by reference to Exhibit 4.14 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on July 2, 2007).
- 4.3 English translation of Agreement for the Provision of Consultancy Services for the Development of Real Estate Projects dated May 31, 2006, between Elbit Imaging Ltd. and Control Centers Ltd. (incorporated by reference to Exhibit 4.13 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on July 2, 2007).
- 4.4 English translation of Deed of Trust dated January 31, 2008, between Plaza Centers N.V. and Reznik Paz Nevo, as amended on February 17, 2008 (incorporated by reference to Exhibit 4.6 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 30, 2008).
- 4.5 English translation of Employees, Directors and Offices Incentive Plan of 2006, as amended (incorporated by reference to Exhibit 4.6 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 26, 2009).
- 4.6 Framework Agreement dated April 22, 2010, among EPN GP, LLC, Macquarie DDR Management Limited, Macquarie DDR Management LLC, Developers Diversified Realty Corporation, DDR MDT Holdings II Trust, DDR Macquarie Fund LLC, DDR MDT PS LLC, DDR MDT MV LLC, Macquarie DDR U.S. Trust Inc., Macquarie DDR U.S. Trust II Inc., Macquarie MDT Holdings Trust, Macquarie MDT Holdings Inc., Belike Nominees Pty Limited and Macquarie Group Services Australia Pty Limited (incorporated by reference to Exhibit 4.6 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on May 10, 2010).
- 4.7 English translation of Management Services Agreement dated May 31, 2006, between Elbit Imaging Ltd. (formerly Elbit Medical Imaging Ltd.) and Europe-Israel (M.M.S.) Ltd. (incorporated by reference to Exhibit 4.7 of Elbit Imaging Ltd.'s Current Report on Form 6-K filed with the Securities and Exchange Commission on June 16, 2010).
- 4.8 Share Purchase Agreement dated December 29, 2010, among B.E.A. Hotels N.V., PPHE Hotel Group Limited and Park Plaza Hotels Europe Holdings B.V. (incorporated by reference to Exhibit 4.8 of Elbit Imaging Ltd.'s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 6, 2011).
- 4.9 Warrant issued by Elbit Imaging Ltd. to Eastgate Property LLC, dated September 22, 2011 (incorporated by reference to Exhibit 4.3 of Elbit Imaging Ltd.'s Current Report on Form 6-K filed with the Securities and Exchange Commission on September 23, 2011).
- 4.10 Agreement of Purchase and Sale, dated as of January 10, 2012, among certain sellers and BRE DDR RETAIL HOLDINGS LLC.
- 4.11 First Amendment to Agreement of Purchase and Sale, dated as of January 24, 2012, among certain sellers and BRE DDR RETAIL HOLDINGS LLC.
- 4.12 Share Purchase Agreement, dated as of March 30, 2012, by and among B.E.A. Hotels N.V., PPHE Netherland N.V. and PPHE Hotel Group Limited.
- 4.13 Amendment No. 1, dated as of April 5, 2012, to the Warrant issued by Elbit Imaging Ltd. to Eastgate Property LLC on September 22, 2011 (incorporated by reference to Exhibit 4.4 of our Current Report on Form 6-K filed with the Securities and Exchange Commission on April 6, 2012).

8.1 List of subsidiaries.

12.1 Certification of the Co-Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

12.2 Certification of the Co-Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

12.3 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

13.1 Certification of the Co-Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

13.2 Certification of the Co-Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

13.3 Certificate of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

15.1 Annual Consolidated Financial Statements for the years ended December 31, 2011, 2010 and 2009 (incorporated by reference to Exhibit 99.1 of Elbit Imaging Ltd.'s Current Report on Form 6-K filed with the Securities and Exchange Commission on March 29, 2012).

15.2 Auditor Report of Brightman Almagor Zohar & Co.

15.3 Attestation Report of Brightman Almagor Zohar & Co.

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to hereby sign this annual report on its behalf.

**Ebit Imaging Ltd.**

By:	<u>/s/ Dudi Machluf</u>
Name:	Dudi Machluf
Title:	Co-Chief Executive Officer
By:	<u>/s/ Ran Shtarkman</u>
Name:	Ran Shtarkman
Title:	Co-Chief Executive Officer

Date: April 25, 2012

**THE ISRAELI COMPANIES LAW**  
**A COMPANY LIMITED BY SHARES**  
**AMENDED AND RESTATED**  
**ARTICLES OF ASSOCIATION**  
**OF**  
**Elbit Imaging Ltd.**  
**GENERAL PROVISIONS**

1. **Definitions**

a) In these Articles the following terms shall bear the meaning ascribed to them below:

"**Alternate Director**" is defined in Article 41.

"**Annual General Meeting**" shall have the meaning assigned to such term in the Companies Law.

The "**Articles**" shall mean these Articles of Association of the Company, as amended from time to time.

"**Audit Committee**" shall mean the Audit Committee of the Board of Directors.

"**Board of Directors**" shall mean Board of Directors of the Company.

The "**Company**" shall mean Elbit Imaging Ltd.

The "**Companies Law**" shall mean the Israeli Companies Law, 1999, as amended from time to time.

A "**Director**" shall mean a member of the Board of Directors.

"**External Director**" shall have the meaning assigned to such term in the Companies Law.

"**Extraordinary General Meeting**" shall mean any General Meeting other than the Annual General Meeting.

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"General Counsel" shall mean the General Counsel of the Company.

"General Manager(s)" is defined in Article 46.

"General Meeting" shall mean a general meeting of the shareholders of the Company, which may be an Annual General Meeting or an Extraordinary General Meeting.

The "Memorandum" shall mean the Memorandum of Association of the Company, as amended from time to time.

"NIS" shall mean New Israeli Shekel.

"Office" means the registered office of the Company.

"Ordinary Majority" shall mean a simple majority of the votes cast by shareholders at a General Meeting in person or by means of a proxy.

"Ordinary Shares" shall mean the ordinary shares of the Company, par value NIS 1.00 per share.

"Person" shall mean any individual or firm, corporation, partnership, association, trust or other entity.

"Register of Shareholders" shall mean a register of the shareholders of the Company.

The "Secretary" shall mean the corporate secretary of the Company.

"Shareholders Resolution" shall mean a resolution adopted by votes of shareholders of the Company at a General Meeting.

- b) The captions in these Articles are for convenience only and shall not be deemed a part hereof or affect the construction of any provision hereof.
- c) Unless the subject or the context otherwise requires, words and expressions not defined herein shall have the respective meanings set forth in the Companies Law in force on the date when these Articles or any amendment thereto, as the case may be, first became effective; words and expressions importing the singular shall include the plural and vice versa; and words and expressions importing the masculine gender shall include the feminine gender.

2. Object and Purpose of the Company

(a) The object and purpose of the Company shall be as set forth in the Company's Memorandum, as the same shall be amended from time to time in accordance with applicable law.

(b) In accordance with Section 11(a) of the Companies Law, the Company may donate reasonable amounts to any cause it deems worthy. The Board of Directors or an authorized Committee of the Board of Directors may from time to time determine the policy and amounts within which such donations may be made by the Company, and the Person or Persons authorized to approve any such specific donation.

3. Limitation of Liability

The liability of the shareholders is limited to the payment of the nominal value of the shares in the Company issued to them and which remains unpaid, and only to that amount. If the Company's share capital shall include at any time shares without a nominal value, the shareholders' liability in respect of such shares shall be limited to the payment of up to NIS 1.00 for each such share issued to them and which remains unpaid, and only to that amount.

SHARE CAPITAL

4. Authorized Share Capital

The authorized share capital of the Company is fifty million New Israeli Shekels (NIS 50,000,000) divided into fifty million (50,000,000) Ordinary Shares, par value NIS 1.00 per share.

5. Increase of Authorized Share Capital

(a) The Company may, from time to time, by Shareholders Resolution, whether or not all the shares then authorized have been issued, and whether or not all the shares theretofore issued have been called up for payment, increase its authorized share capital by the creation of new shares through amending the Memorandum and these Articles. Any such increase shall be in such amount and shall be divided into shares of such nominal amounts (or no nominal amounts), and such shares shall confer such rights and preferences, and shall be subject to such restrictions, as such resolution shall provide.

(b) Except to the extent otherwise provided in such resolution, such new shares shall be subject to all the provisions applicable to the shares prior to such resolution.

6. Rights of the Ordinary Shares

The Ordinary Shares confer upon the holders thereof all rights accruing to a shareholder of the Company, as provided in these Articles, including, *inter alia*, the right to receive notices of, and to attend meetings of shareholders; for each share held, the right to one vote at all meetings of shareholders; and to share equally, on a per share basis, in such dividend and other distributions to shareholders of the Company as may be declared by the Board of Directors in accordance with these Articles and the Companies Law, and upon liquidation or dissolution of the Company, in the distribution of assets of the Company legally available for distribution to shareholders in accordance with the terms of applicable law and these Articles. All Ordinary Shares rank *pari passu* in all respects with each other.

7. Special Rights: Modifications of Rights

(a) The Company may, from time to time, by Shareholders Resolution, provide for shares with such preferred or deferred rights or rights of redemption or other special rights and/or such restrictions, whether in regard to dividends, voting, repayment of share capital or otherwise, as may be stipulated in such resolution.

(b) (i) If at any time the share capital is divided into different classes of shares, the rights attached to any class, unless otherwise provided by these Articles and subject to applicable law, may be modified or abrogated by the Company, by Shareholders Resolution, subject to an approval by a resolution passed by the holders of a simple majority of the shares of such class voting at a separate General Meeting of the holders of the shares of such class.

(ii) The provisions of these Articles relating to General Meetings shall, *mutatis mutandis*, apply to any separate General Meeting of the holders of the shares of a particular class.

(iii) Unless otherwise provided by these Articles, the enlargement of an existing class of shares, or the issuance of additional shares thereof, shall not be deemed, for purposes of this Article 7(b), to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

8. Consolidation Subdivision Cancellation and Reduction of Share Capital

(a) The Company may, from time to time, by Shareholders Resolution (subject, however, to the provisions of Article 7(b) hereof and to applicable law):

(i) consolidate and divide all or any of its issued or unissued share capital into shares of larger nominal value than its existing shares;

(ii) subdivide its shares (issued or unissued) or any of them, into shares of smaller nominal value than is fixed by these Articles (subject, however, to the provisions of the Companies Law), and the Shareholders Resolution whereby any share is subdivided may determine that, as among the holders of the shares resulting from such subdivision, one or more of the shares may, as compared with the others, have any such preferred or deferred rights or rights of redemption or other special rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares;

(iii) cancel any shares which, at the date of the adoption of such resolution, have not been taken or agreed to be taken by any Person, and diminish the amount of its share capital by the amount of the shares so cancelled; or

(iv) reduce its share capital in any manner, and with and subject to any consent required by law.

(b) With respect to any consolidation of issued shares into shares of larger nominal value, and with respect to any other action which may result in fractional shares, the Board of Directors may settle any difficulty which may arise with regard thereto, as it deems fit, including, *inter alia*, resort to one or more of the following actions:

(i) determine, as to the holder of shares so consolidated, which issued shares shall be consolidated into each share of larger nominal value;

holdings; (ii) issue, in contemplation of or subsequent to such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional share

holdings; (iii) redeem, in the case of redeemable preference shares, and subject to applicable law, such shares or fractional shares sufficient to preclude or remove fractional share

(iv) subject to applicable law, cause the transfer of fractional shares by certain shareholders of the Company to other shareholders thereof so as to most expediently preclude or remove any fractional shareholdings, and cause the transferees to pay the transferors the fair value of fractional shares so transferred, and the Board of Directors is hereby authorized to act as agent for the transferors and transferees with power of substitution for purposes of implementing the provisions of this sub-Article 8(b)(iv); or

(v) cause the aggregation of fractional shares and the sale thereof so as to most expediently preclude or remove any fractional shareholding and cause the proceeds thereof, less expenses, to be paid to the former holders of the fractional shares.

(c) Notwithstanding the foregoing, if a class of shares has no nominal value, then any of the foregoing actions may be taken with respect to such class without regard to nominal value.

#### SHARES

##### 9. Issuance of Share Certificates: Replacement of Lost Certificates

(a) Share certificates shall be issued under the seal or stamp of the Company and shall bear the signature of any two (2) Directors or any two (2) of the following: the General Manager, the Chief Financial Officer, the General Counsel, the Secretary, the Chairman of the Board of Directors, the Vice Chairman of the Board of Directors, or of any other Person or Persons authorized thereto by the Board of Directors. For the avoidance of doubt, any transfer agent designated by the Company may issue share certificates on behalf of the Company even if the signatories on the share certificate no longer serve in the relevant capacities at the time of such issuance.

(b) The Company may issue un-certified shares, provided, however, that each holder of shares shall be entitled to one numbered certificate for all the shares of any class registered in his name, and if reasonably requested by such holder, to several certificates, each for one or more of such shares.

(c) A share certificate registered in the names of two or more Persons shall be delivered to the Person first named in the Register of Shareholders in respect of such co-ownership.

(d) If a share certificate is defaced, lost or destroyed, it may be replaced, upon payment of such fee, and upon the furnishing of such evidence of ownership and such affidavit and indemnity or security, as the Company's Secretary may deem fit.

##### 10. Issuance of Shares: Registered Holders of Shares

(a) The unissued shares from time to time shall be under the control of the Board of Directors, who shall have the power to issue shares or otherwise dispose of them to such Persons, on such terms and conditions (including *inter alia* terms relating to calls as set forth in Article 11(f) hereof), and either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount, and at such times, as the Board of Directors may deem fit, and the power to give to any Person the option to acquire from the Company any shares, either at par or at a premium, or, subject to the provisions of the Companies Law, at a discount, during such time and for such consideration as the Board of Directors may deem fit.

(b) Except as otherwise provided in these Articles, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof, and, accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by statute, be bound to recognize any trust or equitable or other claim to, or interest in such share on the part of any other Person.

(c) Subject to and in accordance with the provisions of the Companies Law and to all orders and regulations issued thereunder, the Board of Directors may elect to maintain one or more Registers of Shareholders outside of Israel in addition to its principal Register of Shareholders, and each such register shall be deemed a Register of Shareholders for purposes of these Articles, and, subject to all applicable requirements of law, the Board of Directors may from time to time adopt such rules and procedures as it may think fit in connection with the keeping of such branch registers.

11. Calls on Shares

(a) The Company may, from time to time, make such calls as the Board of Directors may determine upon holders of shares in respect of any sum unpaid for shares held by such holders which is not, by the terms of issuance thereof or otherwise, payable at a fixed time, and each such holder shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the Person(s) and at the time(s) and place(s) designated by the Board of Directors, as any such time(s) may be thereafter extended and/or such Person(s) or place(s) changed. Unless otherwise stipulated in the resolution of the Board of Directors (and in the notice hereafter referred to), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all shares in respect of which such call was made.

(b) Notice of any call shall be given in writing to the holder(s) in question not less than fourteen (14) days prior to the time of payment, specifying the time and place of payment, and designating the Person to whom such payment shall be made, provided, however, that before the time for any such payment, the Company upon approval of the Board of Directors may, by notice in writing to such holder(s), revoke such call in whole or in part, extend such time, or alter such Person and/or place. In the event of a call payable in installments, only one notice thereof need be given.

(c) If, by the terms of issuance of any share or otherwise, any amount is made payable at any fixed time, every such amount shall be payable at such time as if it were a call duly made by the Company and of which due notice had been given, and all the provisions herein contained with respect to such calls shall apply to each such amount.

(d) The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof and all interest payable thereon.

(e) Any amount unpaid in respect of a call shall bear interest from the date on which it is payable until actual payment thereof, at such rate (not exceeding the then prevailing debitory rate charged by leading commercial banks in Israel), and at such time(s) as the Board of Directors may prescribe.

(f) Upon the issuance of shares, the Board of Directors may provide for differences among the holders of such shares as to the amount of calls and/or the times of payment thereof.

(g) With the approval of the Board of Directors, any holder of shares may pay to the Company any amount not yet payable in respect of his shares. The Board of Directors may at any time cause the Company to repay all or any part of the money so advanced, without premium or penalty.

12. **Forfeiture and Surrender**

(a) If any holder fails to pay any amount payable in respect of a call, or interest thereon as provided for herein, on or before the day fixed for payment of the same, the Company, by resolution of the Board of Directors, may at any time thereafter, so long as the said amount or interest remains unpaid, forfeit all or any of the shares in respect of which said call had been made. Any expense incurred by the Company in attempting to collect any such amount or interest, including, *inter alia*, attorneys' fees and costs of suit, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of the amount payable to the Company in respect of such call.

(b) Upon the adoption of a resolution of forfeiture, the Board of Directors shall cause notice thereof to be given to such holder, which notice shall state that, in the event of the failure to pay the entire amount so payable within a period stipulated in the notice (which period shall not be less than fourteen (14) days and which may be extended by the Company with the approval of the Board of Directors), such shares shall be *ipso facto* forfeited, provided, however, that, prior to the expiration of such period, the Board of Directors may nullify such resolution of forfeiture, but no such nullification shall estop the Board of Directors from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

(c) Whenever shares are forfeited as herein provided, all dividends theretofore declared in respect thereof and not actually paid shall be deemed to have been forfeited at the same time.

(d) The Company, by resolution of the Board of Directors, may accept the voluntary surrender of any share.

(e) Any shares forfeited or surrendered as provided herein shall become Dormant Shares and the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-issued or otherwise disposed of as the Board of Directors deems fit.

(f) Any holder whose shares have been forfeited or surrendered shall cease to be a holder in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 11(e) above, and the Company, in its discretion, may enforce the payment of such moneys, or any part thereof, but shall not be under any obligation to do so. In the event of such forfeiture or surrender, the Company, by resolution of the Board of Directors, may accelerate the date(s) of payment of any or all amounts then owing by the holder in question (but not yet due) in respect of all shares owned by such holder, solely or jointly with another.

(g) The Board of Directors may at any time, before any share so forfeited or surrendered shall have been sold, re-issued or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it deems fit, but no such nullification shall estop the Board of Directors from re-exercising its powers of forfeiture pursuant to this Article 12.

13. Lien

(a) Except to the extent the same may be waived or subordinated in writing, to the extent permitted by applicable law, the Company shall have a first and paramount lien upon all the shares (other than shares which are fully paid up) registered in the name of each holder (without regard to any equitable or other claim or interest in such shares on the part of any other Person), and upon the proceeds of the sale thereof, for his debts and liabilities, solely or jointly with another, to the Company in respect of such shares, whether the period for the payment, fulfillment or discharge thereof shall have actually arrived or not. Such lien shall extend to all dividends from time to time declared in respect of such share. Unless otherwise provided, the registration by the Company of a transfer of shares shall be deemed to be a waiver on the part of the Company of the lien (if any) existing on such shares immediately prior to such transfer.

(b) The Board of Directors may cause the Company to sell any shares subject to such lien when any such debt or liability has matured, in such manner as the Board of Directors may deem fit, but no such sale shall be made unless such debt or liability has not been satisfied within fourteen (14) days after written notice of the intention to sell shall have been served on such holder, his executors or administrators.

(c) The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of such debts or liabilities of such holder (whether or not the same have matured), or any specific part of the same (as the Company may determine), and the residu (if any) shall be paid to the holder, his executors, administrators or assigns.

14. Sale after Forfeiture or Surrender or in Enforcement of Lien

Upon any sale of shares after forfeiture or surrender or for enforcing a lien, the Board of Directors may appoint some Person to execute an instrument of transfer of the shares so sold and cause the purchaser's name to be entered in the Register of Shareholders in respect of such shares, and the purchaser shall not be bound to see to the propriety of the proceedings, or to the application of the purchase money, and after his name has been entered in the Register of Shareholders in respect of such shares, the validity of the sale shall not be impeached by any Person, and the remedy of any Person aggrieved by the sale shall be in damages only and against the Company exclusively.

15. Redeemable Shares

The Company may, subject to applicable law, issue redeemable shares and redeem the same upon the conditions and terms determined by the Board of Directors.

#### TRANSFER OF SHARES

##### 16. Effectiveness and Registration

(a) No transfer of shares shall be registered in the Register of Shareholders unless a proper instrument of transfer (in form and substance satisfactory to the Secretary) has been submitted to the Company or its agent, together with any share certificate(s) and such other evidence of title as the Secretary may reasonably require, and unless such transfer complies with applicable law and these Articles. Until the transferee has been registered in the Register of Shareholders in respect of the shares so transferred, the Company may continue to treat the transferor as the owner thereof. The Board of Directors may, from time to time, prescribe a fee for the registration of a transfer.

(b) The Company shall be entitled to refuse to recognize a transfer deed until the certificate of the transferred share is attached to it together with any other evidence which the Board of Directors or the Secretary shall require as proof of the transferor's right to transfer the share and payment of any transfer fee determined by the Board of Directors. Registered transfer deeds shall remain with the Company, but any transfer deed which the Company refused to register shall be returned to the transferor upon demand.

(c) The Board of Directors may close the Register of Shareholders for a period of up to thirty (30) days in each year.

#### TRANSMISSION OF SHARES

##### 17. Decedents' Shares

(a) In case of a share registered in the names of two or more holders, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article 17(b) have been effectively invoked.

(b) Any Person becoming entitled to a share in consequence of the death of any individual, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board of Directors or the Secretary may reasonably deem sufficient of the capacity in which he proposes to act under this Article), shall be registered as a holder in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share.

##### 18. Receivers and Liquidators

(a) The Company may recognize the receiver or liquidator or similar official of any corporate shareholder in winding-up or dissolution, or the receiver or trustee or similar official in bankruptcy or in connection with the reorganization of any shareholder, as being entitled to the shares registered in the name of such shareholder.

(b) The receiver or liquidator or similar official of a corporate shareholder in winding-up or dissolution, or the receiver or trustee or similar official in bankruptcy or in connection with the reorganization of any shareholder, upon producing such evidence as the Board of Directors or the Secretary may deem sufficient of the capacity in which he proposes to act under this Article, shall with the consent of the Secretary, be registered as a shareholder in respect of such shares, or may, subject to the provisions as to transfer herein contained, transfer such shares.

#### RECORD DATE WITH RESPECT TO OWNERSHIP OF SHARES

##### 19. Record Dates

(a) Notwithstanding any provision to the contrary in these Articles, for the determination of the holders entitled to receive notice of and to participate in and vote at a General Meeting or to express consent to or dissent from any corporate action in writing, the Board of Directors may fix, in advance, a record date which shall neither be earlier nor later than is permitted under applicable law. No Persons other than holders of record of Ordinary Shares as of such record date shall be entitled to notice of and to participate in and vote at such General Meeting, or to exercise such other right, as the case may be. A determination of holders of record with respect to a General Meeting shall apply to any adjournment of such meeting, provided that the Board of Directors may fix a new record date for an adjourned meeting.

(b) Subject to the applicable law, the holders entitled to receive payment of any dividend or other distribution or issuance of any rights, shall be the shareholders on the date upon which it was resolved to distribute the dividend or at such later date as shall be determined by, or pursuant to a resolution of, the Board of Directors.

#### GENERAL MEETINGS

##### 20. Annual General Meeting

An Annual General Meeting shall be held once in every calendar year at such time (within a period of not more than fifteen (15) months after the last preceding Annual General Meeting) and at such place either within or without the State of Israel as may be determined by the Board of Directors.

##### 21. Extraordinary General Meetings

The Board of Directors may, whenever it deems fit, convene an Extraordinary General Meeting at such time and place, within or without the State of Israel, as may be determined by the Board of Directors, and shall be obliged to do so upon a demand in writing in accordance with Section 63(b) of the Companies Law, if the proposed resolution is suitable for determination by shareholders.

##### 22. Notice of General Meetings

(a) The Company is required to give such prior notice of a General Meeting as required by applicable law, but in any event not less than fourteen (14) days. The Company is not required to deliver personal notice to every shareholder except to the extent required by applicable law. In any event, the accidental omission to give notice of a meeting to any shareholder or the non-receipt of notice by any of the shareholders shall not invalidate the proceedings at any meeting.

(b) The notice of the meeting shall set forth the agenda of the meeting.

(c) A shareholder desiring to request that the Board of Directors include a certain item on the agenda of the meeting pursuant to Section 66(b) of the Companies Law, shall, as a condition to such proposal being considered by the Board of Directors, make such request to the Company in writing at least eight (8) weeks prior to the date of the meeting (or such shorter period as may be determined by the Board of Directors).

(d) Notwithstanding anything to the contrary in these Articles, unless otherwise provided by applicable law, notice by the Company of a General Meeting which is published in one (1) daily newspaper in the State of Israel, if at all, shall be deemed to have been duly given on the date of such publication to any shareholder whose address as registered in the Register of Shareholders (or as designated in writing for the receipt of notices and other documents) is located in the State of Israel or whose shares of the Company are registered with a transfer agent, or listed for trade on a stock exchange, that is located in the State of Israel.

(e) Notwithstanding anything to the contrary in these Articles, unless otherwise provided by applicable law, notice by the Company of a General Meeting or any other matter which is published via one international wire service shall be deemed to have been duly given on the date of such publication to any shareholder whose address as registered in the Register of Shareholders (or as designated in writing for the receipt of notices and other documents) is located outside the State of Israel or whose shares of the Company are registered with a transfer agent, or listed for trade on a stock exchange that is located outside the State of Israel.

#### PROCEEDINGS AT GENERAL MEETINGS

##### 23. Quorum

(a) Two or more holders of Ordinary Shares (not in default in payment of any sum referred to in Article 12(a) hereof), present in person or by proxy and holding shares conferring in the aggregate at least one-third of the voting power of the Company shall constitute a quorum at General Meetings. Except as set forth in this Article 23, no business shall be transacted at a General Meeting, or at any adjournment thereof, unless the requisite quorum is present when the meeting proceeds to business.

(b) If within an hour from the time set for the meeting a quorum is not present, in person or by proxy, the meeting shall stand adjourned to the same day in the next week, at the same time and place, or, if not set forth in the notice of the meeting, to such day and at such time and place as the Chairman may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. No business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called. At such adjourned meeting, if a quorum is not present, in person or by proxy, within a half hour from the time set, any two (2) holders of Ordinary Shares (not in default as aforesaid) present in person or by proxy, shall constitute a quorum. Notwithstanding anything in this Article 23 to the contrary, if the meeting was convened upon requisition pursuant to Section 63 or 64 of the Companies Law, the quorum requirement at any adjournment thereof shall be governed by the provisions of the Companies Law.

24. Chairman of Meetings

The Chairman, if any, of the Board of Directors shall preside as Chairman at every General Meeting of the Company. If there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes after the time fixed for the meeting or is unwilling to act as Chairman or has notified the Company that he will not attend such meeting, the holders of Ordinary Shares present (or their proxies) shall choose someone else to be Chairman. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any General Meeting (without derogating, however, from the rights of such Chairman to vote as a holder of Ordinary Shares or proxy of a shareholder if, in fact, he is also a shareholder or a proxy).

25. Adoption of Resolutions at General Meetings

(a) Unless otherwise indicated herein or required by applicable law, any Shareholders Resolution shall be deemed adopted if approved by an Ordinary Majority, including without limitation, a Merger of the Company or an amendment to these Articles or the Memorandum of Association, to the extent permitted by applicable law.

(b) Every question submitted to a General Meeting shall be decided by a show of hands, without derogating from voting by written ballot to the extent permitted, pursuant to applicable law.

(c) A declaration by the Chairman of the meeting that a resolution has been carried unanimously, or carried by a particular majority, or defeated, and an entry to that effect in the minutes book of the Company, shall be conclusive evidence of the fact without need of proof of the number or proportion of the votes recorded in favor of or against such resolution.

26. Power to Adjourn

The Chairman of a General Meeting at which a quorum is present may, with the consent of the holders of a majority of the voting power represented in person or by proxy and voting on the question of adjournment (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting as originally called.

27. Voting Power

Subject to applicable law, and subject to any provision hereof conferring special rights as to voting, or restricting the right to vote, every holder of Ordinary Shares shall have one vote for each share registered in his name in the Register of Shareholders upon any resolution put to a vote of the holders of Ordinary Shares.

28. Voting Rights

(a) The shareholders entitled to vote at a General Meeting shall be the shareholders listed in the Company's Register(s) of Shareholders on the record date, as specified in Article 19.

(b) A company or other entity which is not an individual being a holder of Ordinary Shares of the Company may be represented by an authorized individual at any meeting of the Company. Such authorized individual shall be entitled to exercise on behalf of such holder all the power, which the latter could have exercised if it were an individual shareholder. Upon the request of the Chairman of the meeting, written evidence of such authorization (in form acceptable to the Chairman in his sole discretion) shall be delivered to him.

(c) Any holder of Ordinary Shares entitled to vote at the General Meeting may vote thereat either personally or by proxy (who need not be a shareholder of the Company), or, if the shareholder is a company or other corporate body, by a representative authorized pursuant to Article 28(b).

(d) If two or more Persons are registered in the Register of Shareholders as joint holders of any Ordinary Share, the vote of the senior who tenders a vote, in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s); and for this purpose seniority shall be determined by the order in which the names stand in the Register of Shareholders, all subject to applicable law.

(e) No shareholders shall be entitled to vote at any General Meeting (or be counted as a part of the quorum thereat), unless all calls and other sums then payable by him in respect of his shares in the Company have been paid.

(f) The Board of Directors may determine, in its discretion, the matters, if any, that may be voted upon by written ballot delivered to the Company (without attendance in person or by proxy) at a General Meeting, in addition to the matters on which shareholders are entitled to do so pursuant to applicable law.

(g) Subject to the provisions of applicable law, the Secretary of the Company may, in his discretion, disqualify proxies, proxy cards, written ballots or any other similar instruments.

**PROXIES**

29. Instrument of Appointment

(a) The instrument appointing a proxy shall be substantially in the form provided below or any other usual or customary form or such other form as may be approved by the Board of Directors from time to time. It shall be duly signed by the appointer or his duly authorized attorney or, if such appointer is a company or other corporate body, under its common seal or stamp or the hand of its duly authorized agent(s) or attorney(s).

"I, the undersigned, \_\_\_\_\_, being a

(name of shareholder)

shareholder of Elbit Imaging Ltd. hereby appoint

\_\_\_\_\_ of \_\_\_\_\_

(name of proxy)

(address of proxy)

as my proxy to attend and vote on my behalf at [any General Meeting of the Company] [the General Meeting of the Company to be held on the \_\_\_\_\_ day of \_\_\_\_\_, 2\_\_\_\_\_] and at any adjournment thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_, 2\_\_\_\_\_.  
\_\_\_\_\_  
(signature of shareholder)

(b) The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall be delivered to the Company (at its registered office, or at its principal place of business or at the offices of its registrar and/or transfer agent or at such place as the Board of Directors may specify) not less than forty-eight (48) hours before the time fixed for the meeting at which the Person named in the instrument proposes to vote, unless otherwise determined by the Chairman of the meeting.

(c) The rights of a shareholder who is legally incapacitated to attend and/or vote at a General Meeting may be exercised by his guardian.

30. Effect of Death of Appointer or Revocation of Appointment

A vote cast pursuant to an instrument appointing a proxy shall be valid notwithstanding the previous death of the appointing shareholder (or of his attorney-in-fact, if any, who signed such instrument) or the revocation of the appointment, provided that no written notice of such death or revocation shall have been received by the Company or by the Chairman of the meeting before such vote is cast and provided, further, that the appointing shareholder, if present in person at said meeting, may revoke the authority granted by the execution of a proxy by filing with the Company a duly executed instrument appointing another proxy, on or prior to the deadline for the delivery of proxies, or by voting in person at the General Meeting.

## BOARD OF DIRECTORS

### 31. Powers of Board of Directors

#### (a) In General

The oversight of the management of the business of the Company shall be vested in the Board of Directors, which may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do, and are not hereby or by law required to be exercised or done by the Company in a General Meeting. The authority conferred on the Board of Directors by this Article 31 shall be subject to the provisions of the Companies Law, of these Articles and any resolution consistent with the Companies Law and these Articles adopted from time to time by a General Meeting, provided, however, that no such resolution shall invalidate any prior act done by or pursuant to a decision of the Board of Directors which would have been valid if such resolution had not been adopted.

#### (b) Borrowing Power

The Board of Directors may from time to time, in its discretion, cause the Company to borrow or secure the payment of any sum or sums of money for the purposes of the Company, and also may cause the Company to secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions in all respects as it deems fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid share capital for the time being.

#### (c) Reserves

The Board of Directors may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) which the Board of Directors, in its absolute discretion, shall deem fit, and the Company may invest any sum so set aside in any manner and from time to time deal with and vary such investments, and dispose of all or any part thereof, and employ any such reserve or any part thereof in the business of the Company without being bound to keep the same separate from other assets of the Company, and may subdivide or redesignate any reserve or cancel the same or apply the funds therein for another purpose, all as the Board of Directors may from time to time deem fit.

### 32. Exercise of Powers of Directors

(a) A meeting of the Board of Directors at which a quorum is present (in person, by means of a conference call or any other device allowing each director participating in such meeting to hear all the other directors participating in such meeting) shall be competent to exercise all the authorities, powers and discretions vested in or exercisable by the Board of Directors.

(b) A resolution proposed at any meeting of the Board of Directors shall be deemed adopted if approved by a simple majority of the Directors present and lawfully entitled to vote thereon (as conclusively determined by the Secretary or General Counsel, and in the absence of such determination, by the Chairman of the Audit Committee) and voting thereon.

(c) A resolution may be adopted by the Board of Directors without convening a meeting if all Directors then in office and lawfully entitled to participate in the meeting and vote thereon (as conclusively determined by the Secretary or General Counsel, and in the absence of such determination, by the Chairman of the Audit Committee), have given their written consent (in any manner whatsoever) not to convene a meeting to discuss such matter. Such resolution shall be adopted if approved by a majority of the Directors lawfully entitled to vote thereon (as determined as aforesaid). The Chairman of the Board of Directors shall sign the instrument evidencing any resolutions so adopted, including the decision to adopt said resolutions without a meeting.

33. Delegation of Powers

(a) The Board of Directors may, subject to the provisions of the Companies Law and these Articles, delegate any of its powers to committees, each consisting of two or more Persons (all of whose members must be Directors), and it may from time to time revoke such delegation or alter the composition of any such committee. Any Committee so formed (in these Articles referred to as a "Committee of the Board of Directors"), shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board of Directors. The meetings and proceedings of any such Committee of the Board of Directors shall, *mutatis mutandis*, be governed by the provisions herein contained for regulating the meetings of the Board of Directors, so far as not superseded by the Companies Law or any regulations adopted by the Board of Directors under this Article. Notwithstanding the foregoing, the Chairman of a Committee of the Board of Directors shall not have a casting vote. Unless otherwise expressly provided by the Board of Directors in delegating powers to a Committee of the Board of Directors, such Committee shall not be empowered to further delegate such powers.

(b) Without derogating from the provisions of Article 46, the Board of Directors may, subject to the provisions of the Companies Law, from time to time appoint a Secretary to the Company, as well as any officers of the Company, and may terminate the service of any such Person, and also may cause the Company to engage employees, agents and independent contractors and to terminate the service of any such Person, all as the Board of Directors may deem fit. Without derogating from the provisions of Article 46, the Board of Directors may, subject to the provisions of the Companies Law, determine the powers and duties, as well as the compensation terms of all such Persons, and may require security in such cases and in such amounts as it deems fit.

34. Number of Directors

(a) The Board of Directors shall include at least four (4) Directors.

(b) The requirements of the Companies Law applicable to an External Director shall prevail over the provisions of these Articles to the extent that these Articles are inconsistent with the Companies Law, and shall apply to the extent that these Articles are silent.

35. Election and Removal of Directors

(a) The Directors shall be elected at each Annual General Meeting and shall serve in office until the close of the next Annual General Meeting at which one or more Directors are elected, unless their office becomes vacant earlier in accordance with the provisions of these Articles. Each Director shall be elected by a Shareholders Resolution at the Annual General Meeting by the vote of the holders of a simple majority of the voting power represented at such meeting in person or by proxy and voting on such election; provided, however, that External Directors shall be elected in accordance with the Companies Law. The elected Directors shall commence their terms immediately upon election, unless a later effective date is stated in the resolution with respect to their election.

(b) Notwithstanding the other provisions of these Articles, one or more Directors may be elected by a Shareholders Resolution at an Extraordinary General Meeting. Any Director appointed or elected in such manner (excluding an External Director) shall serve in office until the next Annual General Meeting at which one or more Directors are elected, unless his office becomes vacant earlier in accordance with the provisions of these Articles.

(c) An elected External Director shall commence his term from the date of, and shall serve for the period stated in, the resolution of the General Meeting at which he was elected, unless his office becomes vacant earlier in accordance with the provisions of the Companies Law.

(d) A Director may serve for multiple terms, provided, however, that the terms of an External Director shall be limited in accordance with applicable law.

(e) The General Meeting shall be entitled to remove any Director(s) from office by a Shareholder Resolution, all subject to applicable law. The Board of Directors shall be entitled to remove from office any Director(s) appointed by the Board of Directors.

36. Qualification of Directors

No Person shall be disqualified to serve as a Director by reason of his not holding shares in the Company.

37. Vacancies in the Board of Directors

(a) Notwithstanding anything to the contrary in these Articles, any vacancy in the Board of Directors, however occurring, including a vacancy resulting from an enlargement of the Board of Directors by resolution of the Board of Directors, may be filled by resolution of the Board of Directors. A Director elected to fill a vacancy shall be elected to hold office until the next Annual General Meeting at which one or more Directors are elected, unless his office becomes vacant earlier in accordance with the provisions of these Articles.

(b) In the event of one or more vacancies in the Board of Directors, the continuing Directors may continue to act in every matter, provided, however, that if they number less than the minimum number set forth in Article 34(a) hereof, they may only act in an emergency (as determined in their absolute discretion), may appoint one or more Directors and call one or more General Meetings for any purpose.

38. Vacation of Office

(a) The office of a Director shall be vacated, *ipso facto*, upon his death, or if he be found mentally incapacitated, or upon the conviction of a crime enumerated in the Companies Law or as otherwise provided by applicable law.

(b) The office of a Director shall be vacated by his written resignation. Such resignation shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

39. Remuneration of Directors

No Director shall be paid any remuneration by the Company for his services as Director except as may be approved pursuant to the provisions of the Companies Law. Except as otherwise provided by applicable law, reimbursement of expenses incurred by a Director in carrying out his duties as such shall be made pursuant to the policy in this respect as determined by the Board of Directors and in effect from time to time.

40. Conflict of Interests

(a) Subject to the provisions of the Companies Law, the Company may enter into any contract or otherwise transact any business with any Director in which contract or business such Director has a Personal Interest, directly or indirectly; and may enter into any contract or otherwise transact any business with any third party in which contract or business a Director has a Personal Interest, directly or indirectly.

(b) A Transaction (other than an Extraordinary Transaction) between the Company and an Office Holder or Controlling Person of the Company, or in which an Office Holder or Controlling Person of the Company has a Personal Interest, may be approved by:

(i) the Audit Committee – without any monetary limit; or

(ii) the Board of Directors – without any monetary limit; or

(iii) the Company's authorized officer(s) in accordance with the Company's signatory rights (provided that no such approval may be given by any signatory who has a Personal Interest in the transaction). Any such approval may relate to a specific Transaction or to a general category of Transactions.

41. Alternate Directors

(a) A Director may, by written notice to the Company, appoint an individual as an alternate for himself ("Alternate Director"), remove such Alternate Director and appoint another Alternate Director in place of any Alternate Director appointed by him whose office has been vacated for any reason whatsoever. The appointment of an Alternate Director by any Director other than the Chairman of the Board of Directors shall be subject to the consent of the Chairman of the Board of Directors, and the appointment of an Alternate Director by the Chairman of the Board of Directors shall be valid unless objected to by a majority of the other Directors. Unless the appointing Director, by the instrument appointing an Alternate Director or by written notice to the Company, limits such appointment to a specified period of time or restricts it to a specified meeting or action of the Board of Directors, or otherwise restricts its scope, the appointment shall be for an indefinite period and for all purposes.

(b) Any notice given to the Company pursuant to Article 41(a) shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

(c) An Alternate Director shall have all the rights and obligations of the Director who appointed him, provided, however, that he may not in turn appoint an alternate for himself, and provided further that an Alternate Director shall have no standing at any meeting of the Board of Directors or any committee thereof while the Director who appointed him is present at such meeting.

(d) An Alternate Director shall alone be responsible for his own acts and omissions, and he shall not be deemed the agent of the Director who appointed him.

(e) The office of an Alternate Director shall be vacated under the circumstances, *mutatis mutandis*, set forth in Article 38, and such office shall *ipso facto* be vacated if the Director who appointed such Alternate Director ceases to be a Director.

(f) Notwithstanding Article 41(a), (i) no Person shall be appointed as the Alternate Director for more than one Director and (ii) except as otherwise specifically permitted by the Companies Law, (A) no External Director may appoint an Alternate Director and (B) no Director may serve as an Alternate Director.

#### PROCEEDINGS OF THE BOARD OF DIRECTORS

##### 42. Meetings

(a) The Board of Directors may meet and adjourn its meetings according to the Company's needs but at least once in every three (3) months, and otherwise regulate such meetings and proceedings as the Directors think fit. Notice of the meetings of the Board of Directors shall be sent to each Director at the last address that the Director provided to the Company, or via telephone, facsimile or e-mail message, to the last telephone number, fax number or e-mail address, as applicable, that the Director provided to the Company.

(b) Any two (2) Directors may, at any time, convene a meeting of the Board of Directors, but not less than seventy-two (72) hours' notice shall be given of any meeting so convened, provided that the Chairman of the Board of Directors or the Vice Chairman of the Board of Directors may convene a meeting of the Board of Directors upon not less than twenty-four (24) hours written notice, and further provided, that the Board of Directors may convene a meeting without such prior notice with the consent of all of the Directors who are lawfully entitled to participate in and vote at such meeting (as conclusively determined by the Secretary or General Counsel, and in the absence of such determination, by the Chairman of the Audit Committee). The notice of a meeting of the Board of Directors shall describe the agenda for such meeting in reasonable detail, as determined by those convening such meeting. The failure to give notice to a Director in the manner required hereby may be waived by such Director. In urgent situations, a meeting of the Board of Directors can be convened without any prior notice with the consent of a majority of the Directors, including a majority of those who are lawfully entitled to participate in and vote at such meeting (as conclusively determined by the Secretary or General Counsel, and in the absence of such determination, by the Chairman of the Audit Committee).

43. Quorum

Unless otherwise unanimously decided by the Board of Directors, a quorum at a meeting of the Board of Directors shall be constituted by the presence in person or by any other means of communication by which the Directors may hear each other simultaneously, of at least a majority of the Directors then in office who are lawfully entitled to participate in the meeting and vote thereon (as conclusively determined by the Secretary or General Counsel, and in the absence of such determination, by the Chairman of the Audit Committee). No business shall be transacted at a meeting of the Board of Directors unless the requisite quorum is present as aforesaid.

44. Chairman of the Board of Directors

(a) The Board of Directors may from time to time elect one of its members to be the Chairman of the Board of Directors, remove such Chairman from office and appoint another in his place.

(b) The Chairman, if any, of the Board of Directors shall preside at every meeting of the Board of Directors, but if there is no such Chairman, or if at any meeting he is not present within fifteen (15) minutes after the time fixed for the meeting, or is unwilling to act as Chairman or has notified the Company that he will not attend such meeting, the Directors present shall choose one of their number to be the Chairman of such meeting. The office of Chairman shall not, by itself, entitle the holder thereof to vote at any meeting of the Board of Directors nor shall it entitle such holder to a second or casting vote (without derogating, however, from the rights of such Chairman to vote as a Director of the Company).

45. Validity of Acts Despite Defects

Subject to the provisions of the Companies Law, all acts done bona fide at any meeting of the Board of Directors, or of a Committee of the Board of Directors, or by any Person(s) acting as Director(s), shall, notwithstanding that it may afterwards be discovered that there was some defect in the process or in the appointment of the participants in such meetings or any of them or any Person(s) acting as aforesaid, or that they or any of them were disqualified, be as valid as if there were no such defect or disqualification.

**GENERAL MANAGER**

46. General Manager

(a) The Board of Directors may from time to time appoint one or more Persons, whether or not Directors, as general managers (the "General Manager(s)") of the Company and may confer upon such Person(s), and from time to time modify or revoke, such title(s) (including Managing Director, President, Chief Executive Officer, Director General or any similar or dissimilar title) and such duties and authorities of the Board of Directors as the Board of Directors may deem fit, subject to such limitations and restrictions as the Board of Directors may from time to time prescribe. Such appointment(s) may be either for a fixed term or without any limitation of time, and the Board of Directors may from time to time (subject to the provisions of the Companies Law and of any contract between any such Person and the Company) fix his or their compensation terms, remove or dismiss him or them from office, or assume his or their authorities with respect to a specific matter or period of time.

(b) The General Manager shall have the authority, in his discretion, to appoint any Person to become an Office Holder (other than a Director) and fix his remuneration. The General Manager shall have the authority, in his discretion, to promote or demote, or to increase or decrease any remuneration of, any other Office Holder (other than a Director) who reports directly or indirectly to the General Manager, provided that such matter is not considered an Extraordinary Transaction. Nothing in this Article 46(b) shall derogate from the authority of the Board of Directors.

MINUTES

47. Minutes

(a) Minutes of each General Meeting and of each meeting of the Board of Directors and any Committees thereof shall be recorded and duly entered in books provided for that purpose. Such minutes shall, in all events, set forth the names of the persons present at the meeting and all resolutions adopted thereat.

(b) Any minutes as aforesaid, if purporting to be signed by the Chairman of the meeting, shall constitute *prima facie* evidence of the matters recorded therein.

DIVIDENDS

48. Declaration and Payment of Dividends

(a) Subject to the Companies Law, the Board of Directors may from time to time declare, and cause the Company to pay, such dividend as may appear to the Board of Directors to be appropriate. Subject to the Companies Law, the Board of Directors shall determine the time for payment of such dividends, and the record date for determining the shareholders entitled thereto.

(b) The Company's obligation to pay dividends or any other amount in respect of shares, may be set-off by the Company against any indebtedness, however arising, liquidated or non-liquidated, of the Person entitled to receive the dividend. The provisions contained in this Article shall not prejudice any other right or remedy vested with the Company pursuant to these Articles or otherwise.

49. Amount Payable by Way of Dividends

Subject to the rights of the holders of shares with special rights as to dividends, any dividend paid by the Company shall be allocated among the shareholders entitled thereto in proportion to their respective holdings of the shares in respect of which such dividend is being paid.

50. Interest

No dividend shall carry interest as against the Company.

51. Form of Dividend

Upon the declaration of the Board of Directors, a dividend may be paid, wholly or partly, by the distribution of cash or specific assets of the Company or by distribution of securities of the Company or of any other companies, or in any one or more of such ways.

52. Retention of Dividends

The Board of Directors may retain any dividend or other moneys payable or property distributable in respect of a share in respect of which any Person is, under Articles 17 or 18, entitled to become a shareholder, or which any Person is, under said Articles, entitled to transfer, until such Person shall become a shareholder in respect of such share or shall transfer the same.

53. Unclaimed Dividends

All unclaimed dividends or other moneys payable in respect of a share may be invested or otherwise made use of by and for the benefit of the Company until claimed. The payment by the Company of any unclaimed dividend or such other moneys into a separate account shall not constitute the Company a trustee in respect thereof, and any dividend unclaimed after a period of seven (7) years from the date of declaration of such dividend, and any such other moneys unclaimed after a like period from the date the same were payable, shall be forfeited and shall revert to the Company, provided, however, that the Board of Directors may, at its discretion, cause the Company to pay any such dividend or such other moneys, or any part thereof, to a Person who would have been entitled thereto had the same not reverted to the Company.

#### FINANCIAL STATEMENTS

54. Financial Statements

The Board of Directors shall cause accurate books of account to be kept in accordance with the provisions of applicable law. Such books of account shall be kept at the Registered Office of the Company, or at such other place or places as the Board of Directors may think fit, and they shall always be open to inspection by all Directors. No shareholder, not being a Director, shall have any right to inspect any account or book or other similar document of the Company, except as conferred by law or authorized by the Board of Directors or by a Shareholders Resolution. The Company shall not be required to send copies of its financial statements to the shareholders.

## AUDITORS

### 55. Outside Auditor

The outside auditor of the Company shall be recommended by the Audit Committee and elected by Shareholder Resolution at each Annual General Meeting and shall serve until the next Annual General Meeting or its earlier removal or replacement by Shareholder Resolution. The Board of Directors shall have the authority to fix, in its discretion, the remuneration of the auditor for audit and any other services, or to delegate such authority to the Audit Committee.

### 56. Internal Auditor

The internal auditor of the Company shall be subject to the administrative supervision of the Chairman of the Board of Directors and shall present all its proposed work plans to the Audit Committee, which shall have the authority to approve them subject to any modifications in its discretion.

## EXEMPTION, INSURANCE AND INDEMNITY

### 57. Exemption, Insurance and Indemnity

#### (a) Insurance of Office Holders:

- i. The Company may insure the liability of any Office Holder therein to the fullest extent permitted by law.
- ii. Without derogating from the aforesaid the Company may enter into a contract to insure the liability of an Office Holder therein for an obligation imposed on him in consequence of an act done in his capacity as an Office Holder therein, in any of the following cases:
  1. A breach of the duty of care vis-à-vis the Company or vis-à-vis another Person;
  2. A breach of the duty of loyalty vis-à-vis the Company, provided that the Office Holder acted in good faith and had reasonable basis to believe that the act would not harm the Company;
  3. A monetary obligation imposed on him in favor of another Person;
  4. Reasonable litigation expenses, including attorney fees, incurred by the Office Holder as a result of an administrative enforcement proceeding instituted against him. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the Office Holder in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 1968, as amended (the "Securities Law") and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees; or

5. Any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of an Office Holder in the Company.

(b) Indemnity of Office Holders:

- i. The Company may indemnify an Office Holder therein, retroactively or pursuant to an advance undertaking, to the fullest extent permitted by law. Without derogating from the aforesaid the Company may indemnify an Office Holder in the Company for liability or expense imposed on him in consequence of an action made by him in the capacity of his position as an Office Holder in the Company, as follows:
  1. Any financial liability he incurs or imposed on him in favor of another Person in accordance with a judgment, including a judgment given in a settlement or a judgment of an arbitrator, approved by a court.
  2. Reasonable litigation expenses, including legal fees, incurred by the Office Holder or which he was ordered to pay by a court, within the framework of proceedings filed against him by or on behalf of the Company, or by a third party, or in a criminal proceeding in which he was acquitted, or in a criminal proceeding in which he was convicted of a criminal offense which does not require proof of criminal intent.
  3. Reasonable litigation expenses, including legal fees he incurs due to an investigation or proceeding conducted against him by an authority authorized to conduct such an investigation or proceeding, and which was ended without filing an indictment against him and without being subject to a financial obligation as a substitute for a criminal proceeding, or that was ended without filing an indictment against him, but with the imposition of a financial obligation, as a substitute for a criminal proceeding relating to an offence which does not require proof of criminal intent, within the meaning of the relevant terms in the Companies Law, or in connection with an administrative enforcement proceeding or a financial sanction. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the Office Holder in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Securities Law, and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees.

- ii. **Advance Indemnity** The Company may indemnify an Office Holder therein, except as provided by applicable law. The Company may give an advance undertaking to indemnify an Office Holder therein in respect of the following matters:
  - 1. Matters as detailed in Article 57(b)(i)(1), provided, however, that the undertaking is restricted to events, which in the opinion of the Board of Directors, are foreseeable in light of the Company's actual activity at the time of granting the obligation to indemnify and is limited to a sum or measurement determined by the Board of Directors as reasonable under the circumstances. The indemnification undertaking shall specify the events that, in the opinion of the Board of Directors are foreseeable in light of the Company's actual activity at the time of grant of the indemnification and the sum or measurement, which the Board of Directors determined to be reasonable under the circumstances;
  - 2. Matters as detailed in Article 57(b)(i)(2) and 57(b)(i)(3); and
  - 3. Any matter permitted by applicable law.
- iii. The aggregate indemnification amount paid pursuant to Article 57(b)(ii) shall not exceed the lower of (i) 25% of the shareholders' equity of the Company as of the date of actual payment by the Company of the indemnification amount (as set forth in the Company's most recent consolidated financial statements prior to such payment); and (ii) 40 million USD, in excess of any amounts paid (if paid) by insurance companies pursuant to insurance policies maintained by the Company, with respect to matters covered by such indemnification.

(c) **Exemption of Office Holders**. The Company may exempt an Office Holder therein in advance and retroactively for all or any of his liability for damage in consequence of a breach of the duty of care vis-à-vis the Company, to the fullest extent permitted by law.

(d) **Insurance Exemption and Indemnity – General**.

- i. The provisions of this Article 57 with regard to insurance, exemption and indemnity are not and shall not limit the Company in any way with regard to its entering into an insurance contract and/or with regard to the grant of indemnity and/or exemption in connection with a person who is not an Office Holder of the Company, including employees, contractors or consultants of the Company, all subject to any applicable law.
- ii. Articles 57(a) through 57(d) shall apply mutatis mutandis in respect of the grant of insurance, exemption and/or indemnification for Persons serving on behalf of the Company as Office Holders in companies controlled by the Company, or in which the Company has an interest.

- iii. An undertaking to insure, exempt and indemnify an Office Holder in the Company as set forth above shall remain in full force and effect even following the termination of such Office Holder's service with the Company.
- iv. Any amendment to the Companies Law, the Securities Law or any other applicable law adversely affecting the right of any Office Holder to be indemnified or insured pursuant to this Article 57 shall be prospective in effect, and shall not affect the Company's obligation or ability to indemnify or insure an Office Holder for any act or omission occurring prior to such amendment, unless otherwise provided by the Companies Law, the Securities Law or such other applicable law.

#### NOTICES

##### 58. Notices

(a) Any written notice or other document may be served by the Company upon any shareholder either personally, or by facsimile transmission, or by sending it by prepaid mail (airmail or overnight air courier, if being sent from any country to a destination outside such country) or electronic mail addressed to such shareholder at his address as set forth in the Register of Shareholders or such other address as he may have designated in writing for the receipt of notices and other documents. Any written notice or other document may be served by any shareholder upon the Company by tendering the same in person to the Secretary or the General Manager of the Company at the principal office of the Company, or by facsimile transmission, or by sending it by prepaid registered mail (airmail or overnight air courier if being sent from any country outside Israel) to the Company at its registered office. Any such notice or other document shall be deemed to have been served (i) in the case of mailing, three (3) days after it has been posted, or when actually received by the addressee if sooner than three (3) days, after it has been posted; (ii) in the case of overnight air courier, on the second business day following the day sent; (iii) in the case of personal delivery, on the date such notice was actually tendered in person to such shareholder (or to the Secretary or the General Manager); (iv) in the case of facsimile transmission, on the date on which the sender receives automatic electronic confirmation that such notice was successfully transmitted; or (v) in the case of electronic mail, on the date on which the sender receives telephone or written confirmation that such notice was received. If a notice is, in fact, received by the addressee, it shall be deemed to have been duly served, when received, notwithstanding that it was defectively addressed or failed, in some respect, to comply with the provisions of this Article 58(a).

(b) All notices to be given to the shareholders shall, with respect to any share to which Persons are jointly entitled, be given to whichever of such Persons is named first in the Register of Shareholders, and any notice so given shall be sufficient notice to the holders of such share.

(c) Any shareholder whose address is not specified in the Register of Shareholders, and who shall not have designated in writing an address for the receipt of notices, shall not be entitled to receive any notice from the Company.

#### RIGHTS OF SIGNATURE

59. Rights of Signature

The Board of Directors shall be entitled to authorize any Person or Persons (who need not be officers or Directors) to act and sign on behalf of the Company, and the acts and signature of such Person(s) on behalf of the Company with the Company's stamp or printed name shall bind the Company insofar as such Person(s) acted and signed within the scope of his or their authority.

#### WINDING UP

60. Winding Up

(a) Notwithstanding anything to the contrary in these Articles, a Shareholders Resolution approved by 75% of the voting shares represented at such meeting in person or by proxy is required to approve the voluntary winding up of the Company.

(b) If the Company be wound up, liquidated or dissolved, then, subject to applicable law and to the rights of the holders of shares with special rights upon winding up, if any, the assets of the Company legally available for distribution among the shareholders, after payment of all debts and other liabilities of the Company, shall be distributed to the shareholders in proportion to the nominal value of their respective holdings of the shares in respect of which such distribution is being made, provided, however, that if a class of shares has no nominal value, then the assets of the Company legally available for distribution among the holders of such class shall be distributed to them in proportion of their respective holdings of the shares in respect of which such distribution is made.

This 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.

AGREEMENT OF PURCHASE AND SALE

among

THE SELLERS LISTED ON SCHEDULE A ATTACHED HERETO

and

BRE DDR RETAIL HOLDINGS LLC

Dated as of January 10, 2012

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## AGREEMENT OF PURCHASE AND SALE

AGREEMENT OF PURCHASE AND SALE (this "Agreement"), made as of the 10<sup>th</sup> day of January, 2012 (the "Effective Date"), by and between each of the entities listed in the column entitled "Sellers" on Schedule A attached hereto and made a part hereof (individually, a "Seller"; collectively, the "Sellers"), and BRE DDR Retail Holdings LLC, a Delaware limited liability company (the "Buyer").

### Background

A. The Sellers are the owners of the land, buildings and other improvements constituting the "Owned Properties" listed in the column entitled "Owned Properties" opposite their names on Schedule A attached hereto and made a part hereof (individually an "Owned Property"; collectively, the "Owned Properties") and hold a leasehold interest in the land, together with an ownership interest in the buildings and other improvements located thereon constituting the "Leased Properties" listed in the column entitled "Leased Properties" opposite their names on Schedule A attached hereto and made a part hereof (individually, a "Leased Property"; collectively, the "Leased Properties"); the Owned Properties and the Leased Properties, together with all Additional/Adjacent Land (as defined herein), collectively, the "Properties"; each a "Property").

B. The Owned Properties and the Leased Properties listed on Schedule A, together with the Asset-Related Property (as defined below) with respect to each Owned Property and each Leased Property shall be referred to herein, collectively, as the "Assets".

C. The Sellers desire to sell to the Buyer, and the Buyer desires to purchase from the Sellers, the Assets on the terms and conditions hereinafter set forth.

## AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

### ARTICLE I

#### DEFINITIONS

Section 1.1 Defined Terms. The capitalized terms used herein will have the following meanings.

"Additional/Adjacent Land" shall have the meaning assigned thereto in Section 14.8.

"Additional Rent" shall have the meaning assigned thereto in Section 10.1(a).

"ADERTF" shall have the meaning assigned thereto in Section 3.6(b).

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"ADERTF Notice Date" shall have the meaning assigned thereto in Section 3.6(b).

"Agreed-Loan Reserves" shall have the meaning assigned thereto in Section 4.2(d).

"Agreement" shall mean this Agreement of Purchase and Sale and all amendments hereto, together with the exhibits and schedules attached hereto, as the same may be amended, restated, supplemented or otherwise modified, from time to time.

"Applicable Law" means all statutes, laws, common law, rules, regulations, ordinances, codes or other legal requirements of any Governmental Authority, board of fire underwriters and similar quasi-governmental agencies or entities, and any judgment, injunction, order, directive, decree or other judicial or regulatory requirement of any court or Governmental Authority of competent jurisdiction affecting or relating to the Person or Property in question.

"Approved Option Notice" shall have the meaning assigned thereto in Section 8.9.

"Asset-Related Property" shall have the meaning assigned thereto in Section 2.1(b).

"Assets" shall have the meaning assigned thereto in "Background" paragraph B.

"Assignment of Contracts" shall have the meaning assigned thereto in Section 6.1(a)(ii).

"Assignment of Leases" shall have the meaning assigned thereto in Section 6.1(a)(i).

"Assumed Contracts" shall mean all Contracts other than the Terminated Contracts.

"Assumed Loan Documents" shall mean all documents evidencing, securing or otherwise relating to the Assumed Loans, including, without limitation, security documents, guarantees, indemnities, and other credit support, if any.

"Assumed Loan Lender Parties" shall mean all applicable lenders, servicers, special servicers, controlling holders and rating agencies with respect to an Assumed Loan, and their respective successors and assigns.

"Assumed Loan Properties" shall have the meaning assigned thereto in Section 2.3(a).

"Assumed Loan Property Purchaser" shall mean each Buyer Affiliate Acquiror designated to acquire title to each Assumed Loan Property and assume the applicable Assumed Loan.

"Assumed Loans" shall have the meaning assigned thereto in Section 2.3(a).

"Balance of the Purchase Price" shall have the meaning assigned thereto in Section 2.2(c).

"Bill of Sale" shall have the meaning assigned thereto in Section 6.2(c)(ii).

"Bridge Loan" shall mean any short-term financing provided to a Seller by any Person, including, without limitation, JP Morgan Chase Bank or its affiliates, with respect to all or any portion of the Properties.

"Business Day" shall mean any day other than a Saturday, Sunday or other day on which banks are authorized or required by law to be closed in New York City, New York.

"Buyer" shall have the meaning assigned thereto in the Preamble to this Agreement.

"Buyer Affiliate Acquiror" shall have the meaning assigned thereto in Section 14.7.

"Buyer Elected Payoff" shall have the meaning assigned thereto in Section 2.3(d).

"Buyer Election Response Date" shall have the meaning assigned thereto in Section 7.2(c).

"Buyer Event of Default" shall have the meaning assigned thereto in Section 13.1(a).

"Buyer Expense Reimbursement Cap" shall have the meaning assigned thereto on Schedule E.

"Buyer Non-Recourse Parties" shall have the meaning assigned thereto in Section 11.6(h).

"Buyer-Related Entities" shall have the meaning assigned thereto in Section 11.3(a).

"Buyer's Knowledge" shall mean the actual knowledge of Nadeem Meghji, Phillip Solomond and Eric Staley. There shall be no duty imposed or implied to investigate, inquire, inspect, or audit any matters, and there shall be no personal liability on the part of such individuals. The Seller and DDR acknowledge that the individuals named above are named solely for the purpose of defining and narrowing the scope of the Buyer's Knowledge and not for the purpose of imposing any liability on or creating any duties running from such individuals to the Seller or DDR.

"Buyer's Leasing Costs" shall have the meaning assigned thereto in Section 10.8.

"Buyer's Maximum Liability" shall have the meaning assigned thereto on Schedule E.

"Buyer-Related Entities" shall have the meaning assigned thereto in Section 11.1.

**Buyer Representations** shall have the meaning assigned thereto in Section 4.1.

**CAM Charges** shall have the meaning assigned thereto in Section 10.1(c).

**Cash Deposit** shall have the meaning assigned thereto in Section 2.4(a).

**Closing** shall have the meaning assigned thereto in Section 2.8.

**Closing Date** shall have the meaning assigned thereto in Section 2.8.

**Closing Documents** shall mean any certificates, instruments or other documents delivered by the Buyer or Sellers, as the case may be, at Closing pursuant to this Agreement.

**Code** shall mean the Internal Revenue Code of 1986, as amended.

**Contracts** shall mean, collectively, all agreements or contracts of to which any Seller or DDR, as agent for any Seller, is a party and that relate to the ownership, operation, maintenance and management of the relevant Property owned by such Seller (or leased by such Seller, in the case of the Leased Properties) and the buildings and other improvements located thereon, or any portion thereof.

**DDR** shall mean DDR Corp, an Ohio corporation and DDR MDT Holdings II Trust, a Maryland real estate investment trust.

**DDR Affiliate Contracts** shall mean any Contracts between any Seller and any affiliate of DDR (other than the mezzanine loan relating to the Assumed Loan known as "Longhorn II") and any of its affiliates.

**DDR Environmental Reports** shall have the meaning assigned thereto in Section 3.7(i).

**DDR Indemnity Breach** shall have the meaning assigned thereto in Section 11.2.

**DDR Letter Agreement** shall mean that certain letter agreement dated as of the date of this Agreement by and among EPN GP, LLC, DDR Corp. and DDR MDT Holdings II Trust.

**DDR Maximum Liability** shall have the meaning assigned thereto on **Schedule E**.

**DDR Non-Recourse Parties** shall have the meaning assigned thereto in Section 11.6(i).

**DDR Options** shall have the meaning assigned thereto in Section 8.9.

**DDR Representations** shall have the meaning assigned thereto in Section 3.7.

"DDR's Knowledge" shall mean the actual knowledge of Ketan Patel, Kevin Kessinger and John Kokinchak. There shall be no duty imposed or implied to investigate, inquire, inspect, or audit any matters, and there shall be no personal liability on the part of such individuals. The Buyer acknowledges that the individuals named above are named solely for the purpose of defining and narrowing the scope of DDR's Knowledge and not for the purpose of imposing any liability on or creating any duties running from such individuals to the Buyer.

"DDR-Related Entities" shall mean DDR Corp, DDR MDT Holdings II Trust, and any of their respective affiliates associated with the Assets as a lender, manager, owner or otherwise.

"Deposit Guarantor" shall have the meaning assigned thereto in Section 2.4(b).

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

"Disclosed Assumed Loan Documents" shall mean all Assumed Loan Documents set forth on Schedule 3.2(h)-2 and any other immaterial Assumed Loan Documents.

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

"Due Diligence Objections" shall have the meaning assigned thereto in Section 7.2(c).

"EDT Scheduled Matter" shall have the meaning assigned thereto on Schedule E.

"Effective Date" shall have the meaning assigned thereto in the Preamble to this Agreement.

"Effective Date Allocated Purchase Price" shall have the meaning assigned thereto in Section 2.7(a).

"Employees" means all individuals who are employed by Sellers on a full-time or part-time basis at, or with respect to, the applicable Properties.

"Environmental Claims" means any claim for reimbursement or remediation expense, contribution, personal injury, property damage or damage to natural resources made by any Governmental Authority or other Person arising from or in connection with the presence or release of any Hazardous Substances over, on, in or under any Property, or the violation of any Environmental Laws with respect to any Property.

"Environmental Laws" means any Applicable Laws which regulate or control (i) Hazardous Substances, pollution, contamination, noise, radiation, water, soil, sediment, air or other environmental media, or (ii) an actual or potential spill, leak, emission, discharge, release or disposal of any Hazardous Substances or other materials, substances or waste into water, soil, sediment, air or any other environmental media, including, without limitation, (A) the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601 et seq., (B) the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 et seq., (C) the Federal Water Pollution Control Act, 33 U.S.C. § 2601 et seq., (D) the Toxic Substances Control Act, 15 U.S.C. § 2601 et seq., (E) the Clean Water Act, 33 U.S.C. § 1251 et seq., (F) the Clean Air Act, 42 U.S.C. § 7401 et seq., (G) the Hazardous Materials Transportation Act, 49 U.S.C. § 1801 et seq., and (H) the Occupational Safety and Health Act, 29 U.S.C. § 651 et seq. and similar state and local Applicable Law, as amended from time to time, and all regulations, rules and guidance issued pursuant thereto.

**Environmental Liabilities** means any liabilities or obligations of any kind or nature imposed on the Person in question pursuant to any Environmental Laws, including, without limitation, any (i) obligations to manage, control, contain, remove, remedy, respond to, clean up or abate any actual or potential release of Hazardous Substances or other pollution or contamination of any water, soil, sediment, air or other environmental media, whether or not located on any Property and whether or not arising from the operations or activities with respect to any Property, and (ii) liabilities or obligations with respect to the manufacture, generation, formulation, processing, use, treatment, handling, storage, disposal, distribution or transportation of any Hazardous Substances.

**Escrow Account** shall have the meaning assigned thereto in Section 14.5(a).

**Escrow Agent** shall have the meaning assigned thereto in Section 2.4.

**Estoppel Condition Properties** shall mean the Repaid Loan Properties, excluding the Property referred to as Winter Pak Palms (and Bank First).

**Estoppel Deviation** shall have the meaning assigned thereto in Section 3.4(b).

**Estoppel Disapproval Notice** shall have the meaning assigned thereto in Section 3.4(d).

**Estoppel Tenants** shall have the meaning assigned thereto in Section 3.4(a).

**Estoppel Threshold** shall have the meaning assigned thereto in Section 3.4(b).

**Excluded Seller Loan Expenses** shall mean all fees, costs and expenses relating to matters (i) occurring prior to the date of this Agreement with respect to the Assumed Loans (including as a result of an EDT Scheduled Matter), (ii) any amendments or modification with respect to the Assumed Loans made in violation of Section 3.3(g), or (iii) relating to any Bridge Loan provided by JP Morgan Chase Bank or its affiliates or the Sellers' efforts to refinance all or any portion of the Properties prior to the Closing.

**Excluded ROFR Asset** shall have the meaning assigned thereto in Section 8.9.

**Existing Options** shall have the meaning assigned thereto in Section 8.9.

**Failed Loan Assumption** shall have the meaning assigned thereto in Section 2.3(c).

**Fixed Rents** shall have the meaning assigned thereto in Section 10.1(a).

**Governmental Authority** shall mean any federal, state or local government or other political subdivision thereof, including, without limitation, any agency or entity exercising executive, legislative, judicial, regulatory or administrative governmental powers or functions, in each case to the extent the same has jurisdiction over the Person or Property in question.

**Ground Lease Assignment** shall have the meaning assigned thereto in Section 6.1(b).

**Ground Lease Personnel** shall have the meaning assigned thereto in Section 3.5.

**Ground Leases** shall mean those certain ground leases and all amendments, modifications and supplements thereto, pursuant to which a Seller has obtained its leasehold interest in a Leased Property.

**Ground Lessee** shall mean the applicable Sellers which owns the leasehold interest in the applicable Leased Property.

**Ground Lessor** shall mean the landlord under a Ground Lease.

**Guaranty** shall have the meaning assigned thereto in Section 2.4(b).

**Hazardous Substances** means any hazardous or toxic substances, materials or waste, whether solid, semisolid, liquid or gaseous, including, without limitation, asbestos, polychlorinated biphenyls, petroleum or petroleum by-products, radioactive materials, radon gas and any other material or substance which is defined as or included in the definition of a "hazardous substance", "hazardous waste", "toxic waste", "hazardous material", "toxic pollutant", "contaminant", "pollutant" or "toxic substance" or words of similar import, under any Environmental Law or that could result in the imposition of liability under any Environmental Laws.

**Independent Consideration** shall have the meaning assigned thereto in Section 2.6.

**IRS** shall mean the Internal Revenue Service.

**IRS Reporting Requirements** shall have the meaning assigned thereto in Section 14.4(c).

**Leased Properties** shall have the meaning assigned thereto in "Background" paragraph A.

**Leasing Costs** shall mean, with respect to a particular Space Lease, all capital costs, expenses incurred for capital improvements, equipment, painting, decorating, partitioning and other items to satisfy the initial construction obligations of the landlord under such Space Lease (including any expenses incurred for architectural or engineering services in respect of the foregoing), "tenant allowances" in lieu of or as reimbursements for the foregoing items, payments made for purposes of satisfying or terminating the obligations of the Tenant under such Space Lease to the landlord under another lease (i.e., lease buyout costs), relocation costs, temporary leasing costs, leasing commissions, brokerage commissions, legal, design and other professional fees and costs, in each case, to the extent the landlord is responsible for the payment of such cost or expense under the relevant Space Lease or any other agreement relating to such Space Lease.

"Liability Basket" shall have the meaning assigned thereto on Schedule F.

"Licenses and Permits" shall have the meaning set forth in Section 3.7(g)(i).

"Liquidated Damages Amount" shall mean an amount equal to \$25,000,000.

"Loan Assumption" shall mean (i) the transfer of the applicable Assumed Loan Properties to and the assumption of the applicable Seller's obligations accruing from and after the Closing Date under the Assumed Loans by the applicable Assumed Loan Property Purchaser, (ii) the release of the Sellers and all existing guarantors, indemnitors and other security providers from all liability first accruing from and after the Closing Date under the applicable Assumed Loan Documents, (iii) the replacement of the existing property management agreement with a new property management agreement between the Assumed Loan Property Purchaser and DDR, and (iv) to the extent required by the Assumed Loan Lender Parties, the approval of the entities offered by the Buyer pursuant to Section 4.2 below as borrower and new guarantors, indemnitors and security providers in substitution of the existing borrowers, guarantors, indemnitors and other security providers under the Assumed Loan Documents.

"Loan Assumption Consent" shall have the meaning assigned thereto in Section 3.3(g)(ii).

"Loan Assumption Costs" shall mean (i) any assumption or transfer fees owed pursuant to the applicable Assumed Loan Documents or otherwise charged by the Assumed Loan Lender Parties in connection with obtaining the Loan Assumption Consents by the Buyer, (ii) all processing fees charged by the Assumed Loan Lender Parties in order for the Buyer to submit application packages for each Loan Assumption, (iii) all applicable mortgage taxes, intangible taxes, documentary stamp taxes and recordation charges associated each Loan Assumption, and (iv) any third-party, out-of-pocket costs and expenses, including reasonable attorneys' fees, charged by the Assumed Loan Lender Parties in connection with the Loan Assumption, excluding, however, in each case, any Excluded Seller Loan Expenses.

"Loan Assumption Documents" shall mean the assumption documents to be executed by the applicable Seller, the Assumed Loan Property Purchaser as the assumptor, the new guarantors and indemnitors offered by the Buyer pursuant to Section 4.2 below and the applicable lender or servicer for such Assumed Loan on behalf of the applicable Assumed Loan Lender Parties; provided that, the "Loan Assumption Documents" shall not mean any Assumed Loan Documents that are not required to be assumed by the terms thereof or otherwise required by the applicable Assumed Loan Lender Party.

"Loan Assumption Election Period" shall have the meaning assigned thereto in Section 2.3(c).

"Losses" shall have the meaning assigned thereto in Section 11.1.

"Material Casualty Event" shall have the meaning assigned thereto in Section 9.2(a).

"Material Contracts" shall mean all Contracts, other than those Contracts which are either (i) terminable on 60 days' notice without cost or penalty, or (ii) require the payment of no more than \$100,000 in any calendar year.

"Monetary Title Exceptions" shall mean title exceptions affecting the fee estate of any Owned Property (or the Ground Lessee's interest in the leasehold estate of any Leased Property), excluding in all cases any liens or other matters that attach solely to the Tenant's interest in their leasehold estate under the Space Leases, which are not Permitted Exceptions or Required Removal Exceptions and which can be removed by the payment of a liquidated amount.

"New Cap Ex Expenditures" shall mean all capital expenditures (excluding Ongoing Cap Ex Expenditures) incurred by Sellers after the Effective Date which are commercially reasonable, including, without limitation, tenant improvement expenses (including all hard and soft construction costs, whether payable by the Sellers to the contractor or the Tenant) that are the obligations of the landlord under New Leases or amendments entered into after the Effective Date and during the pendency of this Agreement and approved by Buyer pursuant to this Agreement (or which are entered into without a requirement to obtain approval by Buyer pursuant to this Agreement), or renewals or expansion rights properly exercised after the Effective Date over which Sellers have no discretion regarding terms of such renewals or expansions.

"New Lease" shall have the meaning assigned thereto in Section 3.3(d).

"OFAC" shall have the meaning assigned thereto in Section 3.1(f).

"Ongoing Cap Ex Expenditures" shall have the meaning assigned thereto in Section 3.3(b).

"Ongoing Cap Ex Expenditure Estimate" shall have the meaning assigned thereto in Section 3.3(b).

"Open Schedules" shall mean all schedules and exhibits that are specifically referenced herein and not attached to this Agreement as of the Effective Date.

"Options" shall have the meaning assigned thereto in Section 8.9.

"Owned Properties" shall have the meaning assigned thereto in "Background" paragraph A.

"Payoff Election Notice" shall have the meaning assigned thereto in Section 2.3(d).

**Permitted Exceptions** shall mean (i) liens for current real estate taxes which are not yet due and payable or are due and payable but not yet delinquent, (ii) liens securing the Assumed Loans, (iii) with respect to all Properties, all exceptions to title set forth in the marked commitments delivered by the Buyer to the Sellers on or prior to the Due Diligence Expiration Time which are not marked to be omitted or deleted, (iv) any exceptions approved by the Buyer in accordance with this Agreement, (v) customary utility easements granted after the date hereof which (A) do not encroach any buildings or other improvements located at the applicable Property, (B) are within and do not violate any setback requirements or restrictions and (C) do not materially adversely impact the current use or value of the applicable Property, (vi) applicable zoning and building ordinances and land use regulations, (vii) any exclusions from coverage set forth in the jacket of the Title Policies, (viii) any exceptions caused by the Buyer, its agents, representatives or employees, (ix) such other exceptions as the Title Company shall commit to insure over in a manner satisfactory to the Buyer in the Buyer's reasonable discretion and without any additional cost to the Buyer, whether such insurance is made available in consideration of payment, bonding, indemnity of Sellers or otherwise, and (x) the rights of the Tenants under the Space Leases, as tenants only without options to purchase or rights of first refusal with respect to a purchase (other than the Space Lease Options).

**Personal Property** shall have the meaning assigned thereto in Section 2.1(b)(ii).

**Person** shall mean a natural person, partnership, limited partnership, limited liability company, corporation, trust, estate, association, unincorporated association or other entity.

**Pre-Effective Date Tenant Easements** shall have the meaning assigned thereto in Section 3.4(c).

**Prepayment Fees** shall have the meaning set forth in Section 9.1.

**Properties** shall have the meaning assigned thereto in "Background" paragraph A.

**Purchase Price** shall have the meaning assigned thereto in Section 2.2(a).

**REA** shall have the meaning assigned thereto in Section 10.1(c).

**REA Parties** shall have the meaning assigned thereto in Section 10.1(d).

**Rents** shall have the meaning assigned thereto in Section 10.1(a).

**Renaid Loan Properties** shall have the meaning assigned thereto in Section 2.3(b).

**Renaid Loans** shall have the meaning assigned thereto in Section 2.3(b).

**Reporting Person** shall have the meaning assigned thereto in Section 14.4(c).

**Representation Update** shall have the meaning assigned thereto in Section 3.8(a).

"Representation Update Response Notice" shall have the meaning assigned thereto in Section 3.8(a).

"Required Estoppel Disapproval Period" shall have the meaning assigned thereto in Section 3.4(d).

"Required Estoppel Forms" shall have the meaning assigned thereto in Section 3.4(a).

"Required Removal Exceptions" shall mean (i) all title exceptions marked to be omitted or deleted on the marked title commitments delivered by Buyer to Sellers in Buyer's Due Diligence Objections which Sellers agree to remove pursuant to a Seller Election under Section 7.2(c), and (ii) mechanic's liens or notices of commencement created by or under a Seller.

"Required Representation Update Response Period" shall have the meaning assigned thereto in Section 3.8(a).

"Riverchase Promenade Loan" shall have the meaning assigned thereto in Section 3.6(d).

"Riverdale Village Ground Lease" shall mean the Ground Lease Agreement, dated as of May 14, 2004, between DDR MDT Riverdale Village Inner Ring LLC and DDR Corp. (f/k/a Developers Diversified Realty Corporation).

"Revised Allocated Purchase Price Proposal" shall have the meaning assigned thereto in Section 2.7(b).

"Seller Affiliate Contracts" shall mean any Contracts between Seller (or DDR, as agent for any Seller) and any affiliate of a Seller.

"Seller Election Response date" shall have the meaning assigned thereto in Section 7.2(c).

"Seller Escrow Holdback" shall have the meaning assigned thereto in Section 11.7.

"Seller Event of Default" shall have the meaning assigned thereto in Section 13.2(a).

"Seller Indemnity Breach" shall have the meaning assigned thereto in Section 11.1.

"Seller General Representations" shall have the meaning assigned thereto in Section 3.1.

"Seller Non-Recourse Parties" shall have the meaning assigned thereto in Section 11.6(g).

"Seller Property Representations" shall have the meaning assigned thereto in Section 3.2.

"Seller-Related Entities" shall have the meaning assigned thereto in Section 11.3.

"Sellers" shall have the meaning assigned thereto in the Preamble to this Agreement.

"Sellers' Consultant" shall have the meaning assigned thereto in Section 14.3(a).

"Seller's Election" shall have the meaning assigned thereto in Section 7.2(c).

"Sellers' Knowledge" shall mean the actual knowledge of William Cohen, Jeff Rothbart and John Behling. There shall be no duty imposed or implied to investigate, inquire, inspect, or audit any matters, and there shall be no personal liability on the part of such individuals. The Buyer acknowledges that the individuals named above are named solely for the purpose of defining and narrowing the scope of Sellers' Knowledge and not for the purpose of imposing any liability on or creating any duties running from such individuals to the Buyer.

"Sellers' Leasing Costs" shall have the meaning assigned thereto in Section 10.8.

"Sellers' Maximum Liability" shall have the meaning assigned thereto on Schedule E.

"Seller's Property" shall mean, with respect to each Seller, the Property owned (or leased) by such Seller, as set forth in Schedule A.

"Seller's Representation Date" shall mean August 31, 2011.

"Shared DDR Representations" shall have the meaning assigned thereto in Section 11.8(a).

"Shared Losses" shall have the meaning assigned thereto in Section 11.8(a).

"Shared Seller Representations" shall have the meaning assigned thereto in Section 11.8(a).

"Space Lease Options" shall have the meaning assigned thereto in Section 3.7(b).

"Space Leases" shall mean all leases (other than the Ground Leases), licenses and other occupancy agreements for all or any portion of the Properties to which Sellers are a party or a successor as the landlord; provided that "Space Leases" shall not include agreements set forth in non-binding letters of intent, term sheets or other non-binding agreements.

"Survival Period" shall have the meaning assigned thereto in Section 11.4.

"Survival Provisions" shall have the meaning assigned thereto in Section 11.4.

**Taxes** shall mean any and all fees (including, without limitation, documentation, recording, license and registration fees), taxes (including, without limitation, net income, alternative, unitary, alternative minimum, minimum franchise, value added, ad valorem, income, receipts, capital, excise, sales, use, leasing, fuel, excess profits, turnover, occupation, property (including personal, real, tangible and intangible property taxes), transfer, recording and stamp taxes, levies, imposts, duties, charges, fees, assessments, or withholdings of any nature whatsoever, general or special, ordinary or extraordinary, and any transaction privileges or similar taxes) imposed by or on behalf of a Governmental Authority, together with any and all penalties, fines, additions to tax and interest thereon, whether disputed or not.

**Tenant CAM Charges** shall have the meaning assigned thereto in Section 10.1(a).

**Tenant Easopel** shall mean the tenant estoppels delivered by Sellers pursuant to Section 3.4.

**Tenant Notices** shall have the meaning assigned thereto in Section 6.1(a)(iii).

**Tenants** shall mean the tenants under the Space Leases.

**Terminated Contracts** shall mean the Contracts the Buyer desires terminated as set forth in Schedule D attached hereto and any Seller Affiliate Contracts or DDR Affiliate Contracts (other than the Riverdale Village Ground Lease).

**Third Party Loans** shall mean the loans described on Schedule B attached hereto.

**Title Affidavit** shall mean the owners affidavit to be delivered by the Sellers at Closing in connection with the issuance of the Title Policy, in the form attached hereto as Exhibit N.

**TJF Related Assignments** shall have the meaning assigned thereto in Section 6.1(c).

**Title Company** shall mean Fidelity National Title Insurance Company, Chicago Title Insurance Company, First American Title Insurance Company (acting through its authorized agent National Land Tenure, Inc.), and Stewart Title (acting through its agent Title Associates Inc.) or such other title company co-insurers designated by the Buyer.

**Title Policy** shall mean an ALTA 2006 extended coverage Owner's Policy of Title Insurance with respect to each Property, insuring as of the Closing Date, in an amount equal to the Allocated Purchase Price for such Property, that the Buyer owns fee simple with respect to the Owned Properties or leasehold with respect to the Leased Properties title to such Property, subject only to the Permitted Exceptions, and with such endorsements as may reasonably be required by the Buyer, including, without limitation, an ALTA form of zoning endorsement, if available; provided, however, that the failure of the Title Company to issue any such endorsements shall not affect the Buyer's obligations under this Agreement (other than as a result of the Sellers' failure to deliver the owner's affidavit required under Section 8.5), nor shall obtaining such endorsements be a condition to Closing.

"Transfer Taxes" shall have the meaning assigned thereto in Section 9.1.

"Treasury Regulations" shall mean the regulations promulgated pursuant to the Code.

"Voluntary Title Exemptions" shall mean with respect to each Property (i) liens securing any Bridge Loan, any Repaid Loans and the lien of any mortgage affecting such Property, whenever created, other than the lien of any mortgage securing an Assumed Loan and (ii) title exceptions affecting such Property that are knowingly and intentionally created by the Sellers after the date of this Agreement through the execution by the Sellers of one or more instruments creating or granting such title exceptions; provided, however, that the term "Voluntary Title Exemptions" as used in this Agreement shall not include the following: (a) any Permitted Exceptions; (b) any title exception created pursuant to a Space Lease for a Property by a Tenant thereunder; (c) any title exceptions that are approved, waived or deemed to have been approved or waived by the Buyer or that are created in accordance with the provisions of this Agreement; and (d) any title exceptions which, pursuant to a Space Lease for the Property or otherwise, are to be discharged by a Tenant or occupant of the Property.

## ARTICLE II

### SALE, CONSIDERATION AND CLOSING

#### Section 2.1 Sale of Assets

(a) On the Closing Date and pursuant to the terms and subject to the conditions set forth in this Agreement, the Sellers shall sell to the Buyer, and the Buyer shall purchase from each of the Sellers, all of the Assets and the applicable Assumed Loan Property Purchasers shall assume all of the Assumed Loans. It is understood and agreed that the closing of the purchases of the Assets shall occur contemporaneously and, except as explicitly set forth in Section 8.9 of this Agreement, none of the purchases of the Assets shall close unless the purchase of all of the Assets closes contemporaneously.

(b) The transfer of the Assets to the Buyer shall include the transfer of all Asset-Related Property with respect to such Asset. For purposes of this Agreement, "Asset-Related Property" shall mean, with respect to each Property all of the relevant Seller's right, title and interest in and to:

(i) all easements, covenants and other rights appurtenant to said Property and all right, title and interest of the relevant Seller, if any, in and to any land lying in the bed of any street, road, avenue or alley, open or closed, in front of or adjoining said Property and to the center line thereof;

(ii) all personal property and furniture, fixtures, equipment, tools, supplies and other personal property (collectively, the "Personal Property") (except items owned or leased by Tenants or which are leased by the relevant Seller) which are now, or may hereafter prior to the Closing Date be, placed in or attached to the Property;

(iii) to the extent they may be transferred under Applicable Law without consent, all licenses, permits and authorizations presently issued in connection with the operation of all or any part of the Property as it is presently being operated;

(iv) to the extent assignable without consent, all warranties (including all roof warranties), issued to the relevant Seller by any manufacturer or contractor in connection with construction or installation of equipment or any component of the improvements included as part of the Property;

(v) to the extent assignable without consent, all other intangibles associated with the Properties, including, without limitation, goodwill, all logos, designs, trade names, building names, trademarks related to the property and other general intangibles relating to the Property, and all telephone exchange numbers specifically dedicated and identified with the Properties;

(vi) all Space Leases and Assumed Contracts and all security and escrow deposits held by the relevant Seller in connection with any such Space Lease or Assumed Contract, subject to prorations of same pursuant to Article X;

(vii) all books and record, tenant files, tenant lists and tenant marketing information relating to the Properties; and

(viii) the plans and specifications, engineering drawings and prints with respect to the improvements, all operating manuals, and all books, data and records regarding the physical components systems of the improvements at the Properties, each to the extent in the Sellers' possession (or reasonably obtainable by the Sellers).

Section 2.2 Purchase Price.

(a) The purchase price is One Billion Four Hundred Twenty Eight Million Dollars (\$1,428,000,000), as such amount may be reduced for the exclusion of any Excluded ROFR Assets pursuant to Section 8.9 below (the "Purchase Price").

(b) This Agreement is intended to be a single unitary agreement and, except as otherwise provided in Section 8.9 of this Agreement, the Sellers are required to sell all of the Properties to the Buyer pursuant to the terms and provisions of this Agreement, and the Buyer is required to purchase all of the Properties from the Sellers pursuant to the terms and provisions of this Agreement.

(c) At Closing, Buyer shall pay the Sellers an amount, which amount shall be subject to adjustments and credits as provided in Article X below, equal to the positive difference between the Purchase Price for all of the Properties (which, for the avoidance of doubt shall exclude any Excluded ROFR Assets pursuant to this Agreement) less (i) a credit in the amount of the principal balance plus all accrued and unpaid interest on such loans of the Assumed Loans to the extent actually assumed by the Buyer or its affiliates; and (ii) the Cash Deposit (said amount, the "Balance of the Purchase Price").

Section 2.3

Assumed Loan Properties and Repaid Loan Properties

(a) The parties acknowledge and agree that, except as otherwise provided in this Agreement, the Buyer agrees that the applicable Assumed Loan Property Purchaser will take title to each of the Properties listed on Exhibit A (the "Assumed Loan Properties") and expressly assume the obligations under and with respect to the Third Party Loans as set forth on Exhibit A. Each of the Third Party Loans listed on Exhibit A are hereinafter, each, individually, an "Assumed Loan" and, collectively, the "Assumed Loans"; and each of the Assumed Loan Lender Parties listed on Exhibit A are hereinafter, each, individually, an "Assumed Loan Lender Party" and, collectively, the "Assumed Loan Lender Parties".

(b) The Buyer is not assuming the Third Party Loans encumbering the Properties set forth on Exhibit B (the "Repaid Loan Properties") and, subject to the Buyer's payment of the Prepayment Fees pursuant to Section 9.1 below, the applicable Seller shall cause the liens of the Third Party Loans encumbering said Properties (the "Repaid Loans") to be released at or, at Sellers' election, prior to Closing.

(c) In the event that Buyer and Sellers mutually agree, in their respective sole and absolute discretion, that any Assumed Loan Lender Party with respect to an Assumed Loan will not provide a Loan Assumption Consent (as defined below) with respect to such Assumed Loan (a "Failed Loan Assumption"), then the Buyer shall have the right to terminate this Agreement with respect to all Properties by delivering written notice of such termination to the Seller within ten (10) Business Days after Buyer and Sellers agree that a Failed Loan Assumption has occurred (the "Loan Assumption Election Period"), upon which termination the Cash Deposit shall be promptly (but in no event more than five (5) Business Days after such termination) released to the Buyer and the Guaranty shall immediately terminate, and neither the Sellers nor the Buyer nor DDR shall have any liability hereunder with regard to this Agreement, except for the obligations hereunder which expressly survive termination of this Agreement; provided that the Cash Deposit shall not be released to the Buyer and the Guaranty shall not be terminated (and the procedures of Section 14.5(b) shall apply) if (i) the Seller sends an objection notice to the Escrow Agent within five (5) Business Days in accordance with Section 14.5(b) claiming in good faith that such Failed Loan Assumption was caused by the Buyer not complying in all material respects with its obligations under Sections 4.2(a), (b), (c), (d) and (f) and (ii) there exists no Seller Event of Default at such time.

(d) Notwithstanding Section 2.3(c) above, the Buyer shall have the right, but not the obligation, to repay, or cause the repayment of, any Assumed Loan which is subject to a Failed Loan Assumption, in which event Buyer shall pay all Prepayment Fees associated therewith (herein, a "Buyer Elected Payoff"). If a Failed Loan Assumption occurs as determined by Section 2.3(c) above, then Buyer shall send a written notice to Sellers (a "Payoff Election Notice") prior to the last day of the Loan Assumption Election Period stating whether Buyer elects to make the Buyer Elected Payoff. If Buyer elects not to make a Buyer Elected Payoff or Buyer fails to deliver a Payoff Election Notice, then Sellers shall have the right to terminate this Agreement with respect to all Properties by delivering written notice of such termination to the Buyer, upon which termination the Cash Deposit shall be promptly (but in no event more than five (5) Business Days after such termination) released to the Buyer and the Guaranty shall immediately terminate, and neither the Sellers nor the Buyer shall have any liability hereunder with regard to this Agreement, except for the obligations hereunder which expressly survive termination of this Agreement; provided that the Cash Deposit shall not be released to the Buyer (and the procedures of Section 14.5(b)) and the Guaranty shall not be terminated if (i) the Seller sends an objection notice to the Escrow Agent within five (5) Business Days in accordance with Section 14.5(b) claiming in good faith that such Failed Loan Assumption was caused by the Buyer not complying in all material respects with its obligations under Sections 4.2(a), (b), (c), (d) and (f) and (ii) there exists no Seller Event of Default at such time.

Section 2.4

Deposit and Guaranty.

(a) The Buyer shall deposit with the Escrow Agent (as hereinafter defined), by wire transfer received by the Escrow Agent on or before January 13, 2012, immediately available federal funds in an amount equal to Twenty-Five Million Dollars (\$25,000,000) (such amount, the "Cash Deposit"). As used in this Agreement, "Escrow Agent" shall mean Fidelity National Title Insurance Company, having an office at 1 Park Avenue, Suite 1402, New York, NY 10016; Attn: Kenneth C. Cohen; Phone: (212) 845-3135; Fax: (646) 742-0733; Email: [kcohen@fnf.com](mailto:kcohen@fnf.com).

(b) Blackstone Real Estate Partners VII L.P., a Delaware limited partnership ("Deposit Guarantor") has executed simultaneously with the Buyer's execution and delivery of this Agreement an irrevocable guaranty in favor of the Sellers (the "Guaranty") for the funding of an amount equal to the Liquidated Damages Amount. At any time that Sellers are entitled to receive the Cash Deposit pursuant to the terms of this Agreement, Deposit Guarantor shall be required pursuant to the Guaranty to fund and deposit the Liquidated Damages Amount with the Escrow Agent in immediately available funds, with such funds becoming a part of the Cash Deposit and held in escrow and disbursed in accordance with the terms of this Agreement.

Section 2.5 Interest Bearing. The Cash Deposit shall be held in an interest-bearing escrow account by the Escrow Agent in accordance with Section 14.5 below. All interest earned on the Cash Deposit shall be credited and delivered to the party receiving the Cash Deposit, provided however, that if the transaction closes, at Closing any interest earned on the Cash Deposit shall be credited to the Buyer by applying the same against the Purchase Price.

Section 2.6 Independent Consideration. One Hundred Dollars (\$100.00) (the "Independent Consideration") out of the Cash Deposit is the amount the parties bargained for and agreed to as consideration for the Sellers' grant to the Buyer of the Buyer's right to purchase the Properties pursuant to the terms hereof and for the Sellers' execution, delivery and performance of this Agreement. The Independent Consideration is in addition to and independent of any other consideration or payment provided in this Agreement, is not refundable under any circumstances, and shall be retained by the Sellers notwithstanding any other provisions of this Agreement. In the event the transaction contemplated by this Agreement closes, the Independent Consideration shall be applied to the Purchase Price.

Section 2.7

Allocated Purchase Price.

(a) The Sellers and the Buyer hereby agree that subject to Section 2.7(b), the Purchase Price shall be allocated among the Owned Properties and the Leased Properties as set forth on Schedule 2.7(a) (the "Effective Date Allocated Purchase Price") in accordance with the rules under Section 1060 of the Code and Treasury Regulations promulgated thereunder and also for the purposes set forth in Section 8.9 hereof. The Sellers and the Buyer agree to act in accordance with the computations and allocations as determined pursuant to this Section 2.7 in any relevant tax returns or filings, including any forms or reports required to be filed pursuant to Section 1060 of the Code, the Treasury Regulations promulgated thereunder or any provisions of Applicable Law, and to cooperate in the preparation of any such forms and to file such forms in the manner required by Applicable Law. The Sellers and the Buyer acknowledge and agree that no portion of the Purchase Price is allocable to the Personal Property.

(b) On or prior to January 20, 2012, Sellers shall have the right to deliver to Buyer a revised allocation of the Purchase Price ("Revised Allocated Purchase Price Proposal"), in which event Buyer shall have the right, prior to the Due Diligence Expiration Time to either (X) accept the Revised Allocated Purchase Price Proposal, and upon such acceptance, the Purchase Price shall be allocated among the Owned Properties and the Leased Properties as set forth on the Revised Allocated Purchase Price Proposal and shall be deemed to be the "Allocated Purchase Price" for all purposes hereunder or (Y) notify Seller that it rejects the Revised Allocated Purchase Price Proposal and elects 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. In the event that Buyer does not deliver a written notice to Seller electing to proceed under subsection (X) or subsection (Y) pursuant to the immediately preceding sentence on or before the Due Diligence Expiration Time, then Buyer shall be deemed to have elected to proceed pursuant to subsection (X) of the immediately preceding sentence and Buyer shall have no further right to terminate this Agreement under this Section 2.7(b). In the event that Sellers do not deliver a Revised Allocated Purchase Price Proposal prior to January 20, 2012, then the Effective Date Allocated Purchase Price shall be deemed to be the "Allocated Purchase Price" for all purposes hereunder.

Section 2.8 **Date and Manner of Closing.** Subject to the satisfaction or waiver of the closing conditions in Article V, the closing contemplated by this Agreement (the "Closing") shall occur at 2:00 P.M. (Eastern Time) on June 28, 2012 or such earlier date as agreed to by Buyer and Sellers (the "Closing Date") at the offices of the Escrow Agent or through mutually acceptable escrow arrangements.

Section 2.9 **FIRPTA.** The Buyer shall be entitled to deduct and withhold from any payments made pursuant to this Agreement such amounts that are required to be deducted or withheld, if any, from the Purchase Price under any provision of Applicable Law as a result of any Seller's failure to deliver the affidavit required pursuant to Section 6.2(d)(v). To the extent amounts are so withheld and properly paid over to the applicable Governmental Authority pursuant to this Section 2.9, the withheld amounts shall be treated for all purposes of this Agreement as having been paid to the Seller in respect to which such deduction or withholding was made.

### ARTICLE III

#### REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE SELLERS AND DDR

Section 3.1. **General Seller Representations and Warranties.** Subject to Section 3.8 and Section 5.3(e), each Seller, for itself solely as it relates to such Seller, hereby represents and warrants to the Buyer as of the date hereof and as of the Closing Date as follows (said representations and warranties, the "Seller General Representations"):

(a) **Formation; Existence.** It is a limited partnership, general partnership, limited liability company or corporation, as set forth on Schedule 3.1(a), and is duly formed, validly existing and in good standing (if applicable) under the laws of the jurisdiction set forth on Schedule 3.1(a).

(b) **Power and Authority.** It has all requisite power and authority to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement and the consummation of the transactions provided for in this Agreement by such Seller have been duly authorized by all necessary action on its part. This Agreement has been duly executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights and by general principles of equity (whether applied in a proceeding at law or in equity).

(c) **No Consents.** Except as set forth on Schedule 3.1(c), no consent, license, approval, order, permit or authorization of any Governmental Authority is required to be obtained or made by such Seller in connection with the execution, delivery and performance of this Agreement by such Seller or any of the transactions required or contemplated hereby.

(d) **No Conflicts.** Except as set forth on Schedule 3.1(d), such Seller's execution, delivery and compliance with, and performance of the terms and provisions of, this Agreement, and the sale of such Seller's Assets as contemplated hereunder, will not (i) conflict with or result in any violation of its organizational documents, (ii) conflict with, or result in any violation of any provision of or any acceleration of any right under, any bond, note or other instrument of indebtedness, contract, indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which such Seller is a party in its individual capacity, (iii) violate any Applicable Law applicable to such Seller as of the date of this Agreement, or (iv) result in the creation or imposition of any lien or encumbrance on such Seller's Assets or any portion thereof.

(e) **Foreign Person.** Such Seller is not a "foreign person" as defined in Internal Revenue Code Section 1445 and the regulations issued thereunder.

(f) **OFAC Compliance.** Such Seller is currently in compliance with and shall at all times during the term of this Agreement remain in compliance with the regulations of the Office of Foreign Assets Control ("OFAC") of the Department of the Treasury (including those named on OFAC's Specially Designated and Blocked Persons List) and any statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other action by a Governmental Authority relating thereto.

(g) **Bankruptcy.** No insolvency proceeding of any character (including bankruptcy, receivership, reorganization, composition or arrangement with creditors (including any assignment for the benefit of creditors), voluntary or involuntary, relating to such Seller is pending.

Section 3.2 **Representations and Warranties of each Seller as to its Assets.** Subject to Section 3.8 and Section 5.3(e), each Seller, for itself solely as it relates to such Seller's Assets, hereby represents and warrants to the Buyer as of the date hereof and as of the Closing Date as follows (said representations and warranties, the "Seller Property Representations"):

(a) **Material Contracts.** All Material Contracts to which such Seller is a party and affecting such Seller's Assets (i) entered into, amended or supplemented on or after the Sellers' Representation Date, or (ii) to the Sellers' Knowledge, entered into, amended or supplemented prior to the Sellers' Representation Date, are set forth on Schedule 3.2(a) attached hereto and the same have not been amended, supplemented or otherwise modified, except as shown in such Schedule 3.2(a). No Seller has, since the Seller's Representation Date, given or received any written notice of any material breach or material default under any Material Contract which has not been cured and, to Seller's Knowledge, each Material Contract is in full force and effect as of the date hereof.

(b) **Options.** Except for the Space Lease Options and the DDR Options, no Seller nor any affiliate of any Seller has granted any options, rights of first refusal or rights of first offer or similar rights with respect to the Property on or after the Sellers' Representation Date or, to the Sellers' Knowledge, prior to the Sellers' Representation Date, in each case that grants to a third-party the right to purchase all or a portion of the Properties.

(c) **Casualty; Condemnation.** Except as set forth on Schedule 3.2(c), such Seller has not received written notice that there is a pending condemnation or similar proceedings affecting any Property owned by such Seller.

(d) **Taxes; Assessments.** Each Seller has paid, or by the Closing Date will pay, all real property and personal property Taxes and assessments due and payable and that would be delinquent if not paid on or before the Closing Date in connection with the ownership and operation of such Seller's Property. Except as set forth on Schedule 3.2(d), such Seller (i) is not a party to any action or proceeding to abate or reduce any real property Taxes nor is aware of any current proceeding by any Governmental Authority for enforcement or collection of such Taxes, (ii) has not granted any written waiver of any statute of limitation with respect to or any extension of a period for, the assessment of any Taxes and (iii) has not received any written notice of a special Tax or assessment to be levied against the Property after the date hereof.

(e) **Litigation.** Except as set forth on Schedule 3.2(e), there are no actions, suits or proceedings pending against or affecting such Seller in any court or before or by an arbitration tribunal or regulatory commission, department or agency which, if adversely determined, would materially adversely affect such Seller's ability to consummate the transactions contemplated by this Agreement.

(f) **Environmental Matters.** Such Seller has not, since the Seller's Representation Date, received any written notice from any Governmental Authority or other Person of any material Environmental Claims, Environmental Liabilities or violations of any Environmental Laws with respect to such Seller's Property.

(g) **Employees.** There are no employment, collective bargaining or similar agreements or arrangements between such Seller or any of its affiliates (excluding DDR and any DDR-Related Entities) and any of the Employees which will be binding upon the Buyer after the Closing.

(h) **Third Party Loans.** Schedule 3.2(h)-1 contains a true and complete list of all of the Third Party Loans of such Seller. Schedule 3.2(h)-2 contains a true and complete list of all material Assumed Loan Documents of such Seller (or any guarantor, indemnitor or security provider) and such Assumed Loan Documents have not been amended, supplemented or otherwise modified except as shown on such Schedule 3.2(h)-2. To Sellers' Knowledge, (i) the outstanding principal amount of such Assumed Loans and the amount of any cash reserves or escrow accounts held by the Assumed Loan Lender Parties in connection with such Assumed Loans is set forth on Schedule 3.2(h)-3 as of the date set forth in said Schedule 3.2(h)-3 and (ii) Seller has not, since the Seller's Representation Date, received a written notice of any material default, alleged material default or acceleration under the Assumed Loan Documents.

(i) **Ground Leases.** Except as disclosed on Schedule A-1, (i) no Ground Lease has been amended, modified or supplemented, (ii) such Ground Lease contains the entire agreement between the Ground Lessor and Ground Lessee, (iii) neither the Ground Lessee nor Ground Lessor has, since the Seller's Representation Date, delivered a written notice of default under the Ground Lease to the other that has not been cured, (iv) such Ground Lease is in full force and effect in accordance with its terms and (v) neither the Ground Lessee, nor to such Sellers' Knowledge the Ground Lessor, is in default in the performance of its material obligations under such Ground Lease.

(j) **Compliance with Law.** No Seller has received any written notice of a material violation of any Applicable Laws with respect to the Properties which has not been cured or dismissed.

(k) **Space Leases.** Except as set forth on Schedule 3.2(k), no Seller has received any written notice of a material default by any Seller, as landlord, nor has any Seller provided written notice of material default to a Tenant, under each Space Lease, in each case, which default remains uncured.

(l) **REAs.** The Sellers have not received any written notice alleging any material defaults by such Seller under any REAs which remain uncured.

**Section 3.3 Covenants of Each of the Sellers Prior to Closing.** From the date hereof until Closing, each of the Sellers shall:

(a) **Insurance.** Keep such Seller's Assets insured against fire and other hazards covered by the insurance policies maintained by such Seller on the date of this Agreement or similar replacements approved by Buyer, which approval shall not be unreasonably withheld, conditioned or conditioned. If the Buyer does not reject or approve such replacement insurance within five (5) Business Days after receipt of Sellers' request for such approval, then the Buyer shall be deemed to have approved such replacement insurance.

(b) Operation. Operate and maintain such Seller's Property in a businesslike manner and in accordance with such Seller's past practices with respect to such Seller's Property, continue the payment and performance of (i) all ongoing or scheduled capital expenditures projected through the Closing Date which are set forth on Schedule 3.3(b) (the "Ongoing Cap Ex Expenditures") and expend the sums with respect thereto in the amounts which are estimated for such Ongoing Cap Ex Expenditures through the month in which the Closing Date occurs, as set forth on Schedule 3.3(b) (the "Ongoing Cap Ex Expenditure Estimate") and (ii) any necessary maintenance of the Property contemplated by the 2012 budget for the Properties with respect to the matters listed on Schedule 3.3(b)(ii) or which are reasonably required in the ordinary course of business. In the event Sellers fail to spend the Ongoing Capital Ex Expenditures contemplated by this Section 3.3(b) and Sellers are required to be spent prior to the Closing Date, the Buyer shall not be entitled to terminate this Agreement as a result of such failure and the Buyer's sole remedy shall be to receive a credit at Closing in amount equal to the portion of the Ongoing Cap Ex Expenditure Estimate not expended. If, after the Effective Date, Sellers elect to make any New Cap Ex Expenditures (other than Ongoing Cap Ex Expenditures) to the Property which are commercially reasonable, then Sellers shall receive a credit for the costs of such capital expenditures in accordance with Section 10.1(c) below.

(c) New Contracts. Not enter into any new third party contracts relating to such Seller's Assets, nor amend, supplement, terminate or otherwise modify any Contract (except for the Terminated Contracts), without the prior written consent of the Buyer, which consent the Buyer shall not unreasonably withhold, condition or delay, provided, however:

(i) the Buyer's consent shall not be required with respect to any Contract that is entered into by such Seller in the ordinary course of business and on market terms at such Seller's Property, and either (1) is terminable on 60 days' notice without cost or penalty to the Buyer or its affiliates or (2) requires the payment of no more than \$100,000 in any calendar year;

(ii) the Buyer's consent shall not be required with respect to any Contract which does not meet the requirements of clause (i) above but is entered into by a Seller in connection with emergency maintenance or repairs at a Property; provided that such Contract is on market terms and Seller shall pay all of the costs of such emergency maintenance or repairs;

(iii) the Buyer's consent shall not be required with respect to any Contract which does not meet the requirements of clause (1) or (2) of clause (i) above but which is entered into by such Seller in connection with tenant improvement work such Seller is required to perform for a Tenant pursuant to a Space Lease, provided that such Contract is on market terms; and

(iv) the Buyer's consent shall not be required to enter into any Contract expressly set forth in the 2012 budgets for the Properties to the extent the Buyer has received copies of such budgets prior to the date of this Agreement, including, without limitation, all Ongoing Cap Ex Expenditures, provided that such Contract is on market terms and consistent with past practice.

If a Seller enters into any third party contract after the date of this Agreement with the approval of the Buyer or as permitted in clause (i) through (iii) above, then such contract shall be included in the definition of "Contract" herein and if such contract would have been a Material Contract if entered into as of the date hereof, such contract shall be added to Schedule 3.2(a). If the Buyer does not reject or approve a new third party contract or amendment, supplement, termination or other modification of any Contract by delivering written notice to such Seller thereof within five (5) Business Days after receipt of a copy thereof, then the Buyer shall be deemed to have approved such contract or amendment, supplement, termination or other modification. The Buyer acknowledges and agrees that Sellers shall not be obligated to enter into any contracts, amendments, supplements, terminations or other modifications requested by the Buyer.

(d) Space Leases. Continue its present rental program and efforts at such Seller's Property to rent vacant space; provided, that without the prior consent of the Buyer, which consent Buyer shall not unreasonably withhold, condition or delay (so long as such New Lease or such foregoing action is on market terms) no Seller shall (i) execute any new lease, license or other occupancy agreement, (ii) amend, supplement, terminate, voluntarily accept the early surrender of, renew or otherwise modify any existing Space Lease, or (iii) approve any assignment or sublease of any existing Space Lease; provided, however, that Sellers may enter into a modification of the existing Space Leases as a result of the Tenant's exercise of any rights granted to such Tenant in the Space Leases (e.g., renewal rights). If a Seller enters into any new leases, license or other occupancy agreement, or renews any existing Space Lease (each such new lease, license, occupancy agreement and renewal, a "New Lease") after the date of this Agreement with the approval of the Buyer, then each such lease, license, occupancy agreement and renewal shall be included in the definition of "Space Leases" as defined herein and, to the extent such agreement or other instrument evidencing the New Lease was provided to the Buyer prior to the execution thereof, shall be deemed added to Schedule 3.2(e) and to each other disclosure schedule to this Agreement to the extent disclosure on such schedule would be reasonably apparent on its face, and shall be assigned to and assumed by the Buyer at the Closing in accordance with this Agreement. If the Buyer does not reject or approve a New Lease, license, occupancy agreement, renewal or a Space Lease amendment by delivering written notice to such Seller within five (5) Business Days after receipt of a copy thereof, then the Buyer shall be deemed to have approved such New Lease, license, occupancy agreement, renewal or Space Lease amendment. Buyer acknowledges and agrees that Sellers shall not be obligated to enter into any contracts, amendments, supplements, terminations or other modifications requested by Buyer.

(e) Litigation. Advise, within five (5) Business Days after Sellers' receipt of written notice of the same, the Buyer of any litigation, arbitration proceeding or administrative hearing (including condemnation) before any Governmental Authority which affects such Seller's Property and is instituted after the date of this Agreement.

(f) Performance Under Space Leases, Ground Leases REAs and Assumed Loan Documents. Perform, or use commercially reasonable efforts to cause Seller's agents to perform (i) all obligations of landlord or lessor under the Space Leases of such Seller's Property, (ii) all obligations of such Seller as Ground Lessee under the Ground Leases, (iii) all obligations of the such Seller as borrower under the Assumed Loan Documents of such Seller's Third Party Loan and (iv) all obligations of such Seller under the REAs to which such Seller or such Seller's Property is bound.

(g) Assumed Loans

- (i) Not amend, supplement, or otherwise modify any of such Seller's Assumed Loans or the Assumed Loan Documents related to such Assumed Loans or make any partial principal prepayment of the Assumed Loan (other than scheduled amortization or pursuant to Section 2.3(d) or Section 8.9) without the prior written consent of the Buyer, which consent may be granted or withheld in the Buyer's sole discretion.
- (ii) With respect to each Assumed Loan Property owned by such Seller, within five (5) Business Days following the Due Diligence Expiration Time, request in writing that each Assumed Loan Lender Party consent to the assumption of such Assumed Loans by the applicable Assumed Loan Property Purchaser (if the Buyer has notified Sellers of such Assumed Loan Property Purchaser as of the date of this Agreement) (a "Loan Assumption Consent"). Such consent request shall be in a form determined by the applicable Seller.
- (iii) Not take an action, nor fail to take any action, that would result in a material breach of any covenant under any Assumed Loan Document.
- (iv) Subject to Section 4.2 below, authorize the Buyer and the Assumed Loan Property Purchaser to directly contact the Assumed Loan Lender Parties from time to time in order to engage in discussions and negotiations with respect to the Loan Assumption.
- (v) Make commercially reasonable efforts to assist the Buyer in the consummation of the Loan Assumptions with the Buyer and the Assumed Loan Lender Parties, including, without limitation, by (A) confirming, remaking and updating, as appropriate, any representations and warranties in the Assumed Loan Documents as of the Closing Date if required by the Assumed Loan Lender Parties, and (B) providing customary and reasonable releases to the Assumed Loan Lender Parties, if required by the Assumed Loan Lender Parties. Except for the payment of 50% of the Loan Assumption Costs, and 100% of the Excluded Seller Loan Expenses, the Sellers' obligations to "make all commercially reasonable efforts" shall not require the Sellers to incur any cost, expense or liability, including, without limitation, the Sellers shall not be required to pursue litigation against the holder of any Assumed Loans.
- (vi) Promptly supply, or use commercially reasonable efforts to cause its agents to supply, to the Assumed Loan Lender Parties upon request all financial and other information with respect to the applicable Seller and applicable Property as may be requested by the Assumed Loan Lender Parties from time to time and otherwise reasonably cooperate with requests of the Assumed Loan Lender Parties with respect to the Loan Assumptions.

(h) Terminated Contracts. Terminate the Terminated Contracts affecting such Seller's Property to which such Seller is party at or, in Sellers' discretion, prior to the Closing. All termination fees and any other costs and expenses relating to (i) the termination of any Seller Affiliate Contracts and DDR Affiliate Contracts shall be borne by Seller and (ii) to any other Terminated Contracts shall be the responsibility solely of the Buyer, and the Sellers shall have no responsibility or liability therefor. No Seller shall assign to, and the Buyer shall not assume, any Terminated Contracts.

(i) New Financing. Not create any deed of trust, lien, pledge or other encumbrance in any way affecting any portion of such Seller's Property, other than any Bridge Loans, or any modifications, amendments, supplements or replacements of the Bridge Loans, (any of which shall constitute Voluntary Title Exceptions), including, without limitation, a Bridge Loan on the Assets commonly referred to as Longhorn II and Longhorn III, and any Permitted Exceptions, without the prior written consent of the Buyer, which consent shall not be unreasonably withheld, conditioned or delayed.

(j) Taxes, Charges, etc. Continue to pay or cause to be paid all Taxes, water and sewer charges, utilities and obligations under the Contracts when due and payable.

(k) Transfers. Not transfer, sell or otherwise dispose of such Sellers' Property or any item of such Sellers' Personal Property without the prior written consent of the Buyer, which consent for transfers of Sellers' Personal Property shall not be unreasonably withheld, conditioned or delayed; provided, however that Sellers may make such transfers for the use and consumption of inventory and other supplies, or the replacement of worn out, obsolete and defective tools, equipment and appliances, in the ordinary course of business.

(l) Ground Leases. Not amend, supplement, terminate or otherwise modify any of such Seller's Ground Leases without the prior written consent of the Buyer, which consent Buyer shall not unreasonably withhold, condition or delay to any such action which is not adverse to the Ground Lessee thereunder.

Section 3.4

Tenant Estoppels.

(a) Subject to Section 3.4(c), on or before March 16, 2012 (or such earlier date if requested by the Buyer upon ten (10) Business Days notice at any time following the Due Diligence Expiration Time), the applicable Sellers shall prepare and deliver to each Tenant set forth on Schedule 3.4(a) (the "Estoppe<sup>l</sup> Tenant") an estoppel certificate in the form of Exhibit C-1 attached hereto, in the form as required pursuant to the applicable Space Lease (if applicable) or in the form previously delivered to Estoppel Tenants as described in Section 3.4(c) below (such forms, the "Required Estoppel Forms"), and request each Estoppel Tenant to execute and deliver the Tenant Estoppel in the form submitted by Sellers to such Seller. Each such Seller shall direct DDR (or the appropriate DDR-Related Party) to use commercially reasonable efforts to obtain the prompt return of the executed Tenant Estoppels in the form submitted (without the obligation to make any payments, grant any concessions under the Space Leases or otherwise incur any additional obligations, liabilities or expenses in connection therewith). If an Estoppel Tenant returns an executed Tenant Estoppel to a Seller, such Seller shall, within five (5) Business Days of Seller's receipt thereof, deliver to the Buyer a copy of such executed Tenant Estoppel five (5) Business Days following such Seller's receipt of such Tenant Estoppel.

(b) It shall be a condition to the Buyer's obligation to close the sale and purchase of the Assets that on or before the Closing, the Sellers deliver to the Buyer from with respect to the Estoppel Condition Properties, (A) Estoppel Tenants representing 70% or more of the leased gross leasable area of all of the anchor tenants at such Estoppel Condition Properties set forth on Schedule 3.4(b)(i)(A), and (B) Estoppel Tenants at such Estoppel Condition Properties leasing at least 70% of the occupied gross leasable area with respect to the Estoppel Tenants at such Estoppel Condition Properties (the thresholds set forth in (A) and (B) being referred to collectively as the "Estoppel Threshold") in the aggregate signed Tenant Estoppels that are substantially in the applicable Required Estoppel Form of the Tenant Estoppel and which do not contain any materially adverse deviations between (x) the information specified in said Tenant Estoppel and (y) (i) the DDR Representation set forth in Sections 3.7(b) and 3.7(l) of this Agreement made as of the date hereof or (ii) the Space Leases to which such Tenant Estoppel relate (any such deviation, an "Estoppel Deviation").

(c) The Buyer acknowledges that (i) Sellers have previously delivered Tenant Estoppels to the Estoppel Tenants identified on Schedule 3.4(c)(i) (the "Pre-Effective Date Tenant Estoppels"), (ii) the Buyer has received and accepted copies of signed copies of the Pre-Effective Date Tenant Estoppels identified on Schedule 3.4(c)(ii), and (iii) upon receipt of any Pre-Effective Date Tenant Estoppels not listed on Schedule 3.4(c)(ii) signed by Estoppel Tenants without an Estoppel Deviation, the Buyer shall be deemed to have accepted the additional Pre-Effective Date Tenant Estoppels. All Pre-Effective Date Tenant Estoppels accepted by the Buyer pursuant to the immediately preceding sentence shall be used to calculate the satisfaction of Estoppel Threshold.

(d) The Buyer shall notify Sellers in writing, within five (5) Business Days following the Buyer's receipt of a Tenant Estoppel or by the Closing Date, whichever is earlier (each such period, the "Required Estoppel Disapproval Period"), of the Buyer's disapproval of any Estoppel Deviation contained therein, and the basis of such disapproval (an "Estoppel Disapproval Notice"). If the Buyer fails to deliver to Sellers an Estoppel Disapproval Notice within the applicable Required Estoppel Disapproval Period, then the Buyer shall be deemed to accept the Tenant Estoppel delivered to the Buyer. Sellers shall the right, but not the obligation, to cure any Estoppel Deviation disapproved in an Estoppel Disapproval Notice within five (5) Business Days from Sellers' receipt of the Estoppel Disapproval Notice, and the Closing Date shall be extended, at Sellers' option, to allow for the full 5-Business Day cure period.

(e) Within a reasonable time after the Due Diligence Expiration Time, the Sellers agree to deliver estoppel forms in substantially the same forms of the Tenant Estoppels submitted pursuant to Section 3.4(a) to other tenants of the Properties (including requests for updates to the Pre-Effective Date Tenant Estoppels if requested by the Buyer), but in no event will receipt of such other estoppels be a condition precedent to the Buyer's obligation to Close.

(f) Subject to Section 3.4(b) above, obtaining Tenant Estoppels shall not be a condition to the Closing, nor shall the Sellers be deemed to be in default of this Agreement or otherwise incur any liability in connection with failing to obtain any Tenant Estoppels. The Buyer's sole and exclusive remedy in connection with any failure of Tenant Estoppels satisfying the Estoppel Threshold shall be as set forth in Section 3.4(b) above.

(g) An e-mail of an electronic copy of a signed Tenant Estoppel shall be considered a properly delivered Tenant Estoppel for purposes of this Section 3.4.

Section 3.5 Ground Lease Estoppels. Within ten (10) Business Days following the Due Diligence Expiration Time, each Ground Lessee shall prepare and deliver to each Ground Lessor under the applicable Ground Lease an estoppel certificate in the form provided by the Buyer and reasonably approved by the Seller (the "Ground Lease Estoppel") and request each such Ground Lessor to execute and deliver the Ground Lease Estoppel to the Ground Lessee. Each Ground Lessee shall direct DDR (or the appropriate DDR-Related Party) use commercially reasonable efforts to obtain the prompt return of the executed Ground Lease Estoppels from each Ground Lessor under the applicable Ground Lease (without the obligation to make any payments or grant any concessions under the Ground Leases or otherwise incur any additional obligations, liabilities or expenses in connection therewith). If a Ground Lessor returns an executed Ground Lease Estoppel to such Ground Lessee, such Ground Lessee shall, within five (5) Business Days of Seller's receipt thereof, deliver to the Buyer a copy of such executed Ground Lease Estoppel following such Ground Lessee's receipt of such Ground Lease Estoppel (an e-mail of an electronic copy of a signed Ground Lease Estoppel shall be considered a properly delivered Ground Lease Estoppel for purposes of this Section 3.5). Obtaining Ground Lease Estoppels shall not be a condition to the Closing, nor shall the Sellers be deemed to be in default of this Agreement or otherwise incur any liability in connection with failing to obtain any Ground Lease Estoppels.

Section 3.6

Cooperating with the Buyer

(a) Each of the Sellers shall reasonably cooperate with the Buyer in connection with the Buyer's arrangement of financing with respect to the Properties (other than with respect to the Loan Assumption Consents which are separately addressed in Section 3.3(g)) and authorizes and directs DDR to cooperate with the Buyer in connection therewith (provided that (i) the Buyer shall first work with DDR to obtain any such cooperation that is required in connection with such financing, and (ii) such cooperation does not unreasonably interfere with the ongoing operations of the Sellers or the rights of any Tenants of the Properties under their respective Space Leases).

(b) On or before January 20, 2012 (the "ADERTF Notice Date"), Sellers shall notify Buyer whether Sellers are willing to use reasonable efforts to cause the Property known as "Riverchase Promenade" to be enrolled in the Alabama Drycleaner Environmental Response Trust Fund ("ADERTF"). If Sellers do not send such notice to Buyer on or before the ADERTF Notice Date, then Sellers shall be deemed to elect not to use reasonable efforts to cause the Property known as "Riverchase Promenade" to be enrolled in the ADERTF. If Sellers elect not to (or deemed to elect not to) use reasonable efforts to cause the Property known as "Riverchase Promenade" to be enrolled in the ADERTF, then Buyer may terminate this Agreement in accordance with Section 7.2(c) by delivering written notice of such termination prior to the the Due Diligence Expiration Time. If the Sellers send such notice to Buyer on the ADERTF electing to use reasonable efforts to cause the Property known as "Riverchase Promenade" to be enrolled in the ADERTF, then the Sellers shall, or shall authorize and direct DDR to, use commercially reasonable efforts to cause the Property known as "Riverchase Promenade" to be enrolled in the ADERTF, including the submission of the required notification of election coverage forms and enrollment forms. Without limiting the generality of Section 3.6(b) below, Buyer shall pay all costs associated with enrolling the Property known as "Riverchase Promenade" the ADERTF at the time such costs are to be paid (i.e., Sellers shall not be obligated to pay such costs first and then seek reimbursement from Buyer).

(c) The Sellers shall, or shall authorize and direct DDR to, use commercially reasonable efforts to cause all roof warranties to be assigned to Buyer and to satisfy the technical requirements which may be a condition to the assignment of such warranties.

(d) In the event Buyer elects to pursue a Loan Assumption of the existing Third Party Loan related to the Property known as "Riverchase Promenade" (the "Riverchase Promenade Loan") by the applicable Assumed Loan Property Purchaser, Seller shall and shall authorize and direct DDR to use commercially reasonable efforts to cooperate with Buyer in connection with such assumption of the Riverchase Promenade Loan. In no event shall obtaining a Loan Assumption Consent with respect to the Riverchase Promenade Loan be a condition precedent to Buyer's obligation to consummate the transactions under this Agreement. Buyer shall be responsible for 100% of any Loan Assumption Costs related to the an assumption of the Riverchase Promenade Loan.

(e) The Sellers' obligations to "reasonably cooperate with the Buyer", "use reasonable efforts" or other like undertakings in this Section 3.6 shall not require the Sellers to incur any out-of-pocket cost, expense or liability and if the Buyer fails to obtain financing or any of the other actions, consents or other results referenced in this Section 3.6 for any reason, such failure shall have no effect on the rights, obligations and liabilities of Sellers and the Buyer under this Agreement or be considered to be a default by the Sellers under this Agreement so long as Sellers have satisfied the foregoing cooperation obligations in all material respects. The foregoing cooperation by the Sellers shall be at the Buyer's sole cost and expense, and the Buyer shall promptly reimburse the Sellers for any reasonable out-of-pocket, third-party costs incurred in performing their obligations under this Section 3.6 within five (5) Business Days after Sellers notify Buyer of such costs in writing. Buyer's obligation to pay such costs shall survive the termination of this Agreement. In no event shall any damage or destruction caused to any Property by the Buyer, its representatives, any potential lender or any agent of any such potential lender in the exercise of the rights granted pursuant to this Section 3.6 give rise to any rights or remedies of the Buyer hereunder, and the Buyer shall promptly reimburse the Sellers for any reasonable out-of-pocket, third-party costs incurred by the Sellers in order to repair any such damage or destruction.

Section 3.7 Representations and Warranties of DDR as to the Assets. Subject to Section 3.8 and Section 5.3(e), DDR hereby represents and warrants to the Buyer as of the date hereof and as of the Closing Date as follows (said representations and warranties, the "DDR Representations"):

(a) Material Contracts. To DDR's Knowledge, all Material Contracts to which DDR or its affiliates is a party and affecting the Assets are set forth on Schedule 3.7(a) attached hereto and the same have not been amended, supplemented or otherwise modified, except as shown in such Schedule 3.7(a). To DDR's Knowledge, such Material Contracts contain the entire agreement between DDR or its affiliates and the contract vendors and lessors named therein. To DDR's Knowledge, each Material Contract is in full force and effect. DDR has not, on behalf of such Seller, given or received any written notice of any breach or default under any Material Contract which has not been cured. To DDR's Knowledge, no party is in default of any of its obligations under such Material Contracts. To DDR's Knowledge, DDR has delivered or made available to the Buyer true and complete copies of all of such Material Contracts.

(b) **Space Leases.** True and complete copies of all Space Leases, as listed on Schedule 3.7(b)-7, for all or any portion of each Seller's Property have been delivered or made available to the Buyer. Such Space Leases (i) constitute all of the leases as of the date of this Agreement relating to the Properties under which the relevant Seller is the holder of the landlord's interest, (ii) such Space Leases have not been amended, supplemented or otherwise modified except such amendments, supplements and modification as have been provided to the Buyer, and (iii) contain the entire agreement between the relevant landlord and the Tenants named therein (or their successors in interest). To DDR's Knowledge, except as set forth in Schedule 3.7(b)-1, Fixed Rent and Additional Rent are currently being collected under such Space Leases without offset, counterclaim or deduction. To DDR's Knowledge, except as set forth on Schedule 3.7(b)-2, all tenant improvements and other construction work to be performed by each Seller under the Space Leases have been completed. To DDR's Knowledge, except as set forth on Schedule 3.7(b)-2, there are no outstanding tenant inducement costs with respect to the Space Leases of such Seller's Assets or any renewal thereof which have not been paid in full by the Sellers. No party has any purchase option, right of first refusal, right of first offer or similar right under the Space Leases, in each case that grants to a third-party the right to purchase all or a portion of the Properties under the Space Leases (collectively, "Space Lease Options"), except as set forth in Schedule 3.7(b)-4 with respect to Space Lease Options relating to the purchase of all or a portion of the Properties. Except as set forth on Schedule 3.7(b)-5, DDR has received no written notice of a default by any Seller, as landlord, nor has DDR provided written notice of default to a Tenant, under each Space Lease. Except as set forth on Schedule 3.7(b)-6, to DDR's Knowledge there exists no material default (disregarding any notification requirement with respect to such material default) by a Seller, as landlord under the relevant Space Lease, or, to DDR's Knowledge, the Tenant, under each applicable Space Lease.

(c) **Options.** To DDR's Knowledge, except for the Space Lease Options and the DDR Options, no Seller nor any affiliate of any Seller has granted any options, rights of first refusal or rights of first offer or similar rights with respect to the Property, in each case that grants to a third-party the right to purchase all or a portion of the Properties.

(d) **Brokerage Commissions.** To DDR's Knowledge, there are no brokerage commissions, tenant inducement costs or finders' fees payable by Sellers with respect to the leasing of any Asset, other than those set forth on Schedule 3.7(d) attached hereto and neither the Sellers nor DDR has any agreement with any broker with respect to the leasing of any Asset except as set forth in Schedule 3.7(d).

(e) **Property Litigation.** Except as set forth on Schedule 3.7(e), there are no actions, suits or proceedings pending against or affecting Sellers in any court or before or by an arbitration tribunal or regulatory commission, department or agency, which, if adversely determined, would materially adversely affect (i) the ownership of an Asset, or (ii) the operation of a Property.

(f) **Compliance with Law.** Except as set forth on Schedule 1.7(f), DDR has not received any written notice of a material violation of any Applicable Laws with respect to the Properties which has not been cured or dismissed.

(g) **Licenses and Permits.**

(i) DDR has not received any written notice from any Governmental Authority or other Person of (1) any violation, non-renewal, suspension or revocation of any of the licenses, permits, approvals, qualifications and the like with respect to the Properties (the "Licenses and Permits") that has not been dismissed or cured, or (2) any failure by any Seller to obtain any Licenses and Permits required for the use, occupancy or operation of such Seller's Property that has not been dismissed or cured.

(ii) To DDR's Knowledge, valid and subsisting certificates of occupancy are in effect with respect to each Property and the operation of each Property. DDR has not received written notice that any uses being made of the improvements at any Seller's Property that are in violation of certificates of occupancy.

(h) **Taxes.** To DDR's Knowledge, except as set forth on Schedule 3.2(h), (i) no Seller is a party to any action or proceeding to abate any real property taxes, (ii) there is no proceeding by any Governmental Authority for enforcement of collection of such taxes against Sellers, and (iii) DDR has not received any written notice of a special tax or assessment to be levied against the Properties after the date hereof.

(i) **Environmental Matters.** Schedule 3.7(i) sets forth a list of the most recent environmental assessments, reports and studies relating to the Properties received by DDR (the "DDR Environmental Reports"), and, to DDR's Knowledge, Schedule 3.7(i) sets forth a true, correct and complete list of the DDR Environmental Reports, and DDR has made available to the Buyer a true and complete copy of the DDR Environmental Reports. Except as disclosed in the DDR Environmental Reports, DDR has not received any written notice from any Governmental Authority or other Person of any Environmental Claims, Environmental Liabilities or violations of any Environmental Laws with respect to any of the Sellers' Properties. To DDR's Knowledge, except as disclosed in the DDR Environmental Reports, there has been no material violation of any Environmental Laws at or relating to any of the Properties.

(j) **Insurance.** Schedule 3.7(j) sets forth a true, correct and complete list of all insurance coverage maintained by Sellers as of the date of this Agreement in connection with the Properties and the operation thereof; provided, however, that Sellers shall have the right to replace such insurance pursuant to Section 3.3(a). All such insurance coverage is in full force and effect (with no overdue premiums) in the amounts set forth on Schedule 3.7(j).

(k) **Security Deposits.** Attached hereto as Schedule 3.7(k) is a true and complete list of the security deposits (whether in the form of cash, letter of credit or otherwise) under the Space Leases being held by the Sellers or DDR, as agent for Sellers.

(l) Rent Rolls; Delinquency Report. The rent rolls with respect to the Properties as of the date of this Agreement or as of the date set forth on such rent rolls are attached hereto as Schedule 3.7(l)-1, and are true, correct and complete, in all material respects except as otherwise described on Schedule 3.7(l)-1. Attached hereto as Schedule 3.7(l)-2 is a true and complete report setting forth, as of the date of this Agreement or as of the date set forth on such delinquency reports, all arrearages in excess of thirty (30) days under the Space Leases.

(m) REAs. DDR has not received any written notice alleging any material defaults by the Sellers under any REAs which remain uncured.

(n) Additional/Adjacent Land. To DDR's Knowledge, there are no parcels of vacant or undeveloped land that are adjacent, contiguous or within a reasonable minor distance of any Property (which parcels do not constitute a part of the Property that is the subject of this transaction) that are (i) currently being utilized by a Tenant pursuant to a right in an existing Space Lease or (ii) otherwise owned by Seller or any affiliate of Seller (excluding DDR).

Section 3.8 Updates to Representations and Warranties: Buyer's Knowledge.

(a) From the date hereof until the Closing Date, Sellers and DDR shall have the right from time to time disclose to the Buyer in writing any inaccuracies or variances with respect to the Seller General Representations, Seller Property Representations and the DDR Representations in the form of an update or modification to the applicable disclosure schedules in a "blackline comparison" or other manner which clearly identifies the specific inaccuracy or variance (each a "Representation Update"). Within ten (10) Business Days after delivery of the Representation Update, or if delivered less than ten (10) Business Days prior the Closing Date, at any time up to and including the Closing Date (said period, the "Required Representation Update Response Period"), the Buyer shall provide the Seller and DDR with written notice (each, a "Representation Update Response Notice") if, the Buyer claims in the Buyer's good faith judgment, that (i) such Representation Update is reasonably expected to result in any Losses and Buyer's reasonable estimation of such Losses, and (ii) such Representation Update (when taken together with the inaccuracies or variances of all prior Representation Updates delivered pursuant this Section 3.8) would reasonably be expected to result in the failure of the closing condition set forth in Section 5.2(a) or 5.2(b). If Buyer fails to deliver a Representation Update Response Notice within the applicable Required Representation Update Response Period, then the applicable Seller General Representations, Seller Property Representations and DDR Representations shall be deemed reformed by the Representation Update and Buyer shall not be entitled to claim any Losses with respect to such Representation Update. Notwithstanding anything to the contrary contained herein, any Losses arising from a Representation Update for which Buyer has delivered a Representation Update Response Notice within the applicable Required Representation Update Response Period shall be included in Losses for purposes of Section 5.2(a) and (b).

(b) If on the Effective Date, Seller's General Representations, Seller's Property Representations and/or DDR's Representations are inaccurate, untrue or incorrect in any way to Buyer's Knowledge, then such representations and warranties shall be deemed modified to reflect such knowledge and the Buyer shall not have any claim (whether for indemnification or with respect to Section 5.2(a) or Section 5.2(b)) against the Seller or DDR, as applicable, for such variance or inaccuracy (provided that such variance or inaccuracy was not the result of a knowing and intentional misrepresentation when made). If on the Closing Date, the Seller's General Representations, the Seller's Property Representations, the DDR Representations and/or a Representation Update are inaccurate, untrue or incorrect in any way to Buyer's Knowledge and the Closing occurs, then Buyer shall not have any claim (whether for indemnification or otherwise) against the Seller or DDR, as applicable, for such variance or inaccuracy (provided that such variance or inaccuracy was not the result of a knowing and intentional misrepresentation when made).

Section 3.9 **Schedules.** Any information disclosed in a specific schedule attached hereto and referenced to a specific section or subsection hereof shall be deemed disclosed against the representations and warranties contained in each other section or subsection to the extent that it is reasonably apparent that such disclosure is relevant to such other section or subsection.

#### ARTICLE IV

##### REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE BUYER

Section 4.1 **Representations and Warranties of the Buyer.** The Buyer hereby represents and warrants to the Sellers as of the date hereof and as of the Closing Date as follows (the "Buyer Representations"):

- (a) **Formation; Existence.** It is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware.
- (b) **Power; Authority.** It has all requisite power and authority to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement, the purchase of the Assets and the consummation of the transactions provided for herein have been duly authorized by all necessary action on the part of the Buyer. This Agreement has been duly executed and delivered by the Buyer and constitutes the legal, valid and binding obligation of the Buyer enforceable against the Buyer in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights and by general principles of equity (whether applied in a proceeding at law or in equity).
- (c) **No Consents.** No consent, license, approval, order, permit or authorization of, or registration, filing or declaration with, any court, administrative agency or commission or other Governmental Authority or instrumentality, domestic or foreign, is required to be obtained or made in connection with the execution, delivery and performance of this Agreement or any of the transactions required or contemplated hereby.
- (d) **No Conflicts.** The execution, delivery and compliance with, and performance of the terms and provisions of, this Agreement, and the purchase of the Assets, will not (a) conflict with or result in any violation of its organizational documents, (b) conflict with or result in any violation of any provision of any bond, note or other instrument of indebtedness, contract, indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party in its individual capacity, or (c) violate any existing term or provision of any order, writ, judgment, injunction, decree, statute, law, rule or regulation applicable to it or its assets or properties.

(e) Financial Capacity of the Buyer As of the Closing, the Buyer shall have the financial capacity to pay the Balance of the Purchase Price and complete the transactions contemplated by this Agreement.

(f) Bankruptcy No insolvency proceeding of any character (including bankruptcy, receivership, reorganization, composition or arrangement with creditors (including any assignment for the benefit of creditors), voluntary or involuntary, relating to the Buyer or Deposit Guarantor is pending, or, to the Buyer's Knowledge, is being threatened in writing against the Buyer or the Deposit Guarantor by any Person.

Section 4.2 Covenants of the Buyer The Buyer covenants and agrees as follows:

(a) The Buyer shall use commercially reasonable efforts to submit complete application packages to all Assumed Loan Lender Parties for the Loan Assumptions within ten (10) Business Days following the date that form application packages are provided to the Buyer after the Due Diligence Expiration Time;

(b) The Buyer shall as soon as reasonably practical supply to the Assumed Loan Lender Parties (i) all financial information with respect to Assumed Loan Property Purchaser, and its direct and indirect owners, as may be reasonably requested by the Assumed Loan Lender Parties, (ii) documentation, supporting information and other items required by the Assumed Loan Documents or otherwise reasonably requested or reasonably required by the Assumed Loan Lender Parties in connection with each Loan Assumption, (iii) at the Closing, evidence that the applicable Assumed Loan Property Purchasers are special purpose entities, to the extent required by the Assumed Loan Documents, and (iv) at the Closing, to the extent required by the Assumed Loan Lender Parties, opinions of counsel with respect to the valid formation, due authority and good standing of the applicable Assumed Loan Property Purchasers, the enforceability of the Loan Assumption Documents, non-consolidation matters and such other matters reasonably requested by the Assumed Loan Lender Parties;

(c) The Buyer shall continually make all commercially reasonable efforts to consummate all Loan Assumptions with the applicable Sellers and the applicable Assumed Loan Lender Parties;

(d) Without limiting the generality of the foregoing, the Buyer shall (i) offer to the applicable Assumed Loan Lender Parties the applicable Assumed Loan Property Purchaser as the new borrower and assignee of the borrower's obligations under the Disclosed Assumed Loan Documents and shall offer such replacement guarantors, indemnitors and other parties to the existing Disclosed Assumed Loan Documents for the Assumed Loan Properties, as more particularly set forth on Schedule 4.2(d)(i); (ii) replace on the Closing Date all existing guarantees, environmental indemnities, and other like indemnities, guarantees and/or credit support set forth in the Disclosed Assumed Loan Documents with respect to matters arising from and after the Closing Date; provided that such replacement guarantees are not recourse as a result of the assumption of the Disclosed Assumed Loan Documents resulting in a default under the Disclosed Assumed Loan Documents or events occurring prior to the Closing Date; (iii) use commercially reasonable efforts to perform and satisfy all other assumption requirements and conditions specified in the Disclosed Assumed Loan Documents or otherwise reasonably imposed by the Assumed Loan Lender Parties, including, without limitation, the requirements and conditions set forth in the Disclosed Assumed Loan Documents and the requirements and conditions set forth in Schedule 4.2(d)(iii); and (iv) provide such reserves as expressly required by the terms of the existing Disclosed Assumed Loan Documents and such other reserves more particularly described on Schedule 4.2(d)(iii) (the "Agreed-Upon Reserves");

(e) The Buyer shall use commercially reasonable efforts to keep the Sellers reasonably informed of the progress of obtaining the Loan Assumptions, including using commercially reasonable efforts to provide the Sellers status updates from time to time upon the Sellers' reasonable request, deliver to the Sellers copies of draft Loan Assumption Documents received from the Assumed Loan Lender Parties and provide the Sellers with notice of, and an opportunity to participate in, scheduled material conversations with the Assumed Loan Lender Parties. The Buyer shall also provide the Sellers with written notice of any requirements or conditions for the Loan Assumptions that the Buyer cannot satisfy, in which case the Sellers shall have the right, but not the obligation, at its election to satisfy such requirements or conditions.

(f) Except for changes that are substantially consistent with the matters set forth in Schedule 4.2(f), the Buyer shall not request any material changes or any changes that are not commercially reasonably necessary to evidence the Loan Assumption, provided that in the event Buyer does make such requests it shall have the right to retract such requests in the event of disapproval by the Assumed Loan Lender Parties.

(g) Notwithstanding anything to the contrary contained herein, the Buyer shall not be obligated to do any of the following in order to obtain the Loan Assumption Consent: (i) repay any portion of the Assumed Loans, (ii) fund any reserves other than the Agreed-Upon Reserves, (iii) provide any guarantee with respect to the Assumed Loans, other than the replacement of existing guarantees, environmental indemnities, and other like indemnities or guarantees in accordance with Section 4.2(d) above, (iv) otherwise amend the Assumed Loans to increase the obligations or reduce the rights of the borrower and the guarantors thereunder other than to a de minimis extent, (v) assume any Assumed Loan Document that is not a Disclosed Assumed Loan Document or (vi) assume any Assumed Loan that is in default on the Closing Date if the Assumed Loan Property Purchaser or its affiliates would be liable for such default from and after the Closing Date or such default would otherwise be binding upon the Assumed Loan Property Purchaser from and after the Closing Date.

## ARTICLE V

### CONDITIONS PRECEDENT TO CLOSING

Section 5.1 Conditions Precedent to the Sellers' Obligations. The obligation of the Sellers to consummate the transfer of the Assets to the Buyer on the Closing Date is subject to the satisfaction (or waiver by the Sellers) as of the Closing of the following conditions:

(a) Each of the representations and warranties made by the Buyer in this Agreement shall be true and correct in all respects when made and on and as of the Closing Date as though such representations and warranties were made on and as of the Closing Date (not giving any effect to any "material" or "material adverse effect" or other similar qualifiers contained therein), except where the failures of such representations and warranties to be true and correct would not, individually or in the aggregate, reasonably be expected to result in a Loss to the Sellers in excess of \$5,000,000;

- (b) There exists no continuing Buyer Event of Default as of the Closing Date;
- (c) The Sellers shall have received all of the documents required to be delivered by the Buyer under Article VI;
- (d) The Sellers shall have received the Balance of the Purchase Price in accordance with Section 2.2(c) and all other amounts due to the Sellers hereunder;
- (e) All transactions set forth in the DDR Letter Agreement have been consummated (or simultaneously with Closing, will be consummated) in accordance with the DDR Letter Agreement, and DDR and each of its affiliates has performed its obligations under the DDR Letter Agreement in all material respects;
- (f) No order or injunction of any Governmental Authority shall be in effect as of the Closing which restrains or prohibits the transfer of the Assets or the consummation of any other transaction contemplated hereby; and

(g) The Loan Assumption Consents and the Loan Assumption Documents with respect to the Assumed Loan Properties shall have been executed by the Buyer (and the applicable affiliates of the Buyer) and the applicable Assumed Loan Lender Parties in form and substance reasonably satisfactory to the Sellers.

Section 5.2 Conditions Precedent to the Buyer's Obligations. The obligation of the Buyer to purchase and pay for the Assets is subject to the satisfaction (or waiver by the Buyer) as of the Closing of the following conditions:

- (a) Each of the Seller General Representations and Seller Property Representations shall be true and correct in all respects when made and on and as of the Closing Date as though such Seller General Representations and Seller Property Representations were made on and as of the Closing Date (not giving any effect to any "material" or "material adverse effect" or other similar qualifiers contained therein), except where the failures of the Seller General Representations and Seller Property Representations to be true and correct would not, individually or in the aggregate, reasonably be expected to result in a Loss (as determined in accordance with Section 11.8 below) to the Buyer in excess of \$5,000,000;
- (b) Each of the DDR Representations shall be true and correct in all respects when made and on and as of the Closing Date as though such DDR Representations were made on and as of the Closing Date (not giving any effect to any "material" or "material adverse effect" or other similar qualifiers contained therein), except where the failures of the DDR Representations to be true and correct would not, individually or in the aggregate, reasonably be expected to result in a Loss (as determined in accordance with Section 11.8 below) to the Buyer in excess of \$5,000,000;

(c) There exists no continuing Seller Event of Default as of the Closing Date;

(d) No order or injunction of any Governmental Authority shall be in effect as of the Closing which restrains or prohibits the transfer of the Assets or the consummation of any other transaction contemplated hereby;

(e) Title to all of the Properties shall be delivered to the Buyer in the manner required under Section 8.1;

(f) The Buyer shall have received all of the documents required to be delivered by the Sellers under Article VI and the Title Companies shall be irrevocably committed to issue the Title Policies (subject only to the payment by the Buyer of the applicable title insurance premiums and other related charges);

(g) The Buyer shall have received the Tenant Estoppels required pursuant to Section 3.4; and

(h) Subject to the Buyer timely and fully performing its covenants under Section 4.2, the Buyer shall have obtained the Loan Assumption Consents and the Loan Assumption Documents shall have been executed by the Assumed Loan Lender Parties in form and substance reasonably satisfactory to the Buyer.

**Section 5.3      Conditions Generally.**

(a) The conditions Section 5.1 and Section 5.2 are for the benefit only of the Sellers and the Buyer, respectively, and such party may, in its sole discretion, waive any or all of such conditions in writing and close title under this Agreement without any increase in, abatement of or credit against the Purchase Price and in which case, notwithstanding the nonsatisfaction of such condition, there shall be no liability on the part of the other party for breaches of representations and warranties of which the party electing to close had knowledge as of the Closing as a result of a Representation Update.

(b) The Sellers shall have the right to terminate this Agreement by written notice to the Buyer in the event any of the conditions set forth in Section 5.1 are not satisfied as of the Closing Date.

(c) The Buyer shall have the right to terminate this Agreement by written notice to Sellers in the event any of the conditions set forth in Section 5.2 are not satisfied as of the Closing Date.

(d) If this Agreement is terminated by (1) the Buyer due to the failure of any of the conditions set forth in Section 5.2 (except to the extent there exists a Seller Event of Default, in which case Section 13.2 shall govern) or (2) by the Sellers due to the failure of any of the conditions set forth in Section 5.1 (except to the extent there exists a Buyer Event of Default, in which case Section 13.1 shall govern), then the Cash Deposit shall be promptly (but in no event more than five (5) Business Days after such termination) returned to the Buyer, the Guaranty shall automatically terminate and the parties shall have no further obligations one to the other, except to the extent the same expressly survive such termination. In addition to terminating this Agreement and the Guaranty and receiving the Cash Deposit, if this Agreement is terminated as a result of Section 5.2(a) or 5.2(b), then the Buyer can seek reimbursement of its reasonable actual out-of-pocket expenses incurred in conducting due diligence activities and pursuing the transactions contemplated hereunder (including any payments or reimbursements made by Buyer hereunder and costs incurred in connection with the pursuit of new financing and the Loan Assumptions) (not to exceed the Buyer Expense Reimbursement Cap) from Sellers and DDR, such reimbursement to be paid by Sellers and DDR in proportion to the Losses for which the Buyer terminated (such proportion to be determined in accordance with the Losses attributed to Sellers and DDR pursuant to Section 11.8 below). For the avoidance of doubt, in no event will the Buyer be entitled to receive more than the Buyer Expense Reimbursement Cap as reimbursement of its reasonable actual out-of-pocket expenses incurred in conducting due diligence activities and pursuing the transactions contemplated hereunder (including any payments or reimbursements made by Buyer hereunder and costs incurred in connection with the pursuit of new financing and the Loan Assumptions).

(e) The Buyer acknowledges and agrees that the Seller General Representations, the Seller Property Representations and the DDR Representations as set forth in this Agreement are, by their nature, made as of the date of this Agreement. To the extent that any such facts or circumstances change after the date hereof in connection with the Sellers or DDR making the Seller General Representations, the Seller Property Representations and the DDR Representations, as the case may be, as of the Closing Date due to any of the following shall not be factored into determining whether the closing conditions set forth in Section 5.2(a) and Section 5.2(b) have been satisfied, so long as the Seller General Representations, Seller Property Representations and DDR Representations, as the case may be, were true and correct in all material respects as of the Effective Date:

- (i) changes in circumstances or status of tenants under Space Leases occurring after the Effective Date (e.g., tenant defaults, bankruptcies, or other adverse matters relating to a tenant or any termination of any Lease by the applicable tenant) other than as a result of (1) any landlord default thereunder or (2) a termination or surrender agreed to by any of the Sellers in violation of Section 3.3 occurring after the Effective Date;
- (ii) changes to the disclosure schedules in accordance with Section 3.3(d) to reflect any New Leases which the Buyer has approved or is deemed to have approved pursuant to the provisions of Section 3.3;
- (iii) updates to the information set forth in the rent rolls and any changes thereto or to any other exhibit or schedule to this Agreement arising after the Effective Date as a result of the matters set forth in clauses (i) and (ii) of this Section 5.3(e);
- (iv) updates to the information set forth in the delinquency reports with respect to matters occurring after the Effective Date;

- (v) changes to the schedule of litigation set forth on Schedule 3.2(e) or Schedule 3.7(e) with respect to any litigation commenced after the Effective Date and any threatened litigation of which the Sellers or DDR, as applicable, first obtained knowledge after the Effective Date;
- (vi) the commencement of any condemnation proceeding against the Properties after the Effective Date (which matters shall be governed by the provisions of Article IX);
- (vii) the occurrence of any casualty at any of the Properties after the Effective Date (which matters shall be governed by the provisions of Article IX);
- (viii) any notices of special taxes or assessment to be levied or assessed with respect to any Property received by any of the Sellers or DDR, as applicable, after the Effective Date;
- (ix) any notices of non-compliance of, or default under, any Applicable Laws, Ground Leases, Space Leases, REAs, Contracts or the Assumed Loan Documents with respect to the Properties which notices are received after the Effective Date by any of the Sellers or DDR, as applicable, which result from actions which are expressly permitted by this Agreement or are consented to or deemed consented to by Buyer after the Effective Date in accordance with Section 3.3 of this Agreement;
- (x) any notices of non-compliance of, or default under, any Applicable Laws with respect to the Properties which notices are received after the Effective Date by any of the Sellers or DDR, as applicable, which result from the physical condition of the Properties as of the Effective Date; and
- (xi) any other actions taken by Sellers or DDR that are expressly permitted by this Agreement or otherwise consented to or deemed consented to by Buyer after the Effective Date in accordance with Section 3.3 of this Agreement.

## ARTICLE VI

### CLOSING DELIVERIES

Section 6.1 **Buyer Deliveries**. The Buyer shall deliver the following documents at Closing:

(a) with respect to each Owned Property and Leased Property:

- (i) an assignment and assumption of landlord's interest in the Space Leases (an "Assignment of Leases") duly executed by the Buyer in substantially the form of Exhibit D hereto;

(ii) an assignment and assumption of the Assumed Contracts (an "Assignment of Contracts") duly executed by the Buyer in substantially the form of Exhibit F hereto; and

(iii) a notice letter to each Tenant (the "Tenant Notices") duly executed by the Buyer, in the form of Exhibit F attached hereto.

(b) with respect to each Leased Property, an assignment and assumption of each Ground Lease (the "Ground Lease Assignment") duly executed by the Buyer in substantially the form of Exhibit G hereto:

(c) with respect to the Assumed Loans, the Loan Assumption Documents; and

(d) with respect to the transactions contemplated hereunder:

(i) such other assignments, instruments of transfer, and other documents as the Sellers may reasonably require in order to complete the transactions contemplated hereunder;

(ii) a duly executed and sworn Secretary's Certificate from the Buyer certifying that the Buyer has taken all necessary action to authorize the execution of all documents being delivered hereunder and the consummation of all of the transactions contemplated hereby and that such authorization has not been revoked, modified or amended;

(iii) an executed and acknowledged Incumbency Certificate from the Buyer certifying the authority of the officers of the Buyer (or the general partner of the Buyer, where appropriate) to execute this Agreement and the other documents delivered by the Buyer to the Sellers at the Closing;

(iv) all transfer tax returns, to the extent required by Applicable Law which are required to be filed by the transferee of such property, in connection with the payment of all state or local real property transfer taxes that are payable or arise as a result of the consummation of the transactions contemplated by this Agreement;

(v) an executed closing statement approved by the Sellers and the Buyer; and

(vi) a closing certificate in the form of Exhibit L hereto; and

(c) with respect to Midway Marketplace, an assignment and assumption agreement of the Development Agreement and Shortfall Agreement (each as more particularly described on Schedule 6.1(e) (the "TIF Related Assignments") duly executed by the applicable Buyer Affiliate Acquiror; and

(f) the Escrow Holdback Agreement, duly executed by the Buyer.

Section 6.2 Seller Deliveries. The Sellers shall deliver the following documents at Closing:

- (a) with respect to each Owned Property, a deed in substantially the form of Exhibit H hereto with respect to each applicable state, duly executed by the relevant Seller;
- (b) with respect to each Leased Property, a Ground Lease Assignment with respect to each Ground Lease duly executed by the relevant Seller;
- (c) with respect to each Owned Property and Leased Property:
  - (i) an Assignment of Leases duly executed by the relevant Seller;
  - (ii) a bill of sale (a "Bill of Sale") duly executed by the relevant Seller in substantially the form of Exhibit I hereto;
  - (iii) an Assignment of Contracts duly executed by the relevant Seller;
  - (iv) an assignment of all other Asset Related Property in the form of Exhibit I attached hereto; and
  - (v) the Tenant Notices duly executed by the relevant Seller.
- (d) with respect to the transactions contemplated hereunder:
  - (i) such other assignments, instruments of transfer, and other documents as the Buyer may reasonably require in order to complete the transactions contemplated hereunder;
  - (ii) a duly executed and sworn Secretary's Certificate from each Seller (or the general partners of such Seller, where appropriate) certifying that such Seller has taken all necessary action to authorize the execution of all documents being delivered hereunder and the consummation of all of the transactions contemplated hereby and that such authorization has not been revoked, modified or amended;
  - (iii) an executed and acknowledged Incumbency Certificate from each Seller (or the general partners of such Seller, where appropriate) certifying the authority of the officers of such Seller (or the general partner of such Seller, where appropriate) to execute this Agreement and the other documents delivered by such Seller to the Buyer at the Closing;
  - (iv) all transfer tax returns which are required by Applicable Law (other than those required to be filed by the transferee of such property) in connection with the payment of all state or local real property transfer taxes that are payable or arise as a result of the consummation of the transactions contemplated by this Agreement;

(v) an affidavit that the relevant Seller is not a "foreign person" within the meaning of the Foreign Investment in Real Property Tax Act of 1980, as amended, in substantially the form of Exhibit K hereto;

(vi) an executed closing statement approved by the Sellers and the Buyer; and

(vii) a closing certificate in the form of Exhibit L hereto;

(e) the TIF Related Assignments duly executed by the relevant Seller; and

(f) the Escrow Holdback Agreement, duly executed by the Sellers.

**Section 6.3                   Non-Assignment Asset-Related Property.** In the event any Asset-Related Property is not assignable (such as a letter of credit that is not transferable), the Sellers shall use commercially reasonable efforts to provide the Buyer, at no cost to the Sellers, with the economic benefits of such property by enforcing such property (solely at the Buyer's direction) for the benefit and at the expense of the Buyer.

## ARTICLE VII

### INSPECTION

**Section 7.1                   General Right of Inspection.** Prior to Closing, the Buyer and its agents shall have the right to inspect each Property during business hours on Business Days, including the right to interview the Tenants under Space Leases; provided that (a) the Buyer shall first give the Sellers reasonable advance written notification of its intention to conduct any such inspection or interview, (b) the Buyer shall permit a representative of the Sellers to accompany the Buyer and/or its agents during any such inspection or interview, and (c) such inspection or interview shall not unreasonably impede the normal day-to-day business operation of such Property. The Buyer's right of inspection of each Property shall be subject to the rights of Tenants and the terms and provisions of the Space Leases and the Ground Leases. The Sellers authorize and direct DDR to (i) cooperate with the Buyer through the Closing Date or earlier termination of this Agreement, and (ii) to make available or provide to the Buyer copies of all studies, leases, ground leases, reciprocal easement agreements, contracts, loan documents, surveys, historical operating statements, operating budgets, billing statements and other financial information, environmental and physical condition reports, zoning reports, material landlord/tenant disputes and material litigation in DDR's possession or control related to the Properties, excluding, however, any internal financial analysis or other like confidential information of Sellers. The Buyer may not conduct any intrusive physical testing of the Properties without Sellers' prior written approval, which approval may be withheld or conditioned in Sellers' sole and absolute discretion. The Buyer hereby indemnifies and agrees to defend and hold the Sellers and the Seller-Related Entities, harmless from all losses, costs (including, without limitation, reasonable attorneys' fees), claims and damages arising in connection with or from any such inspection by the Buyer or its agents, representatives, employees, contractors or prospective lenders. The Buyer and the Buyer's agents shall provide the Sellers with certificates of liability insurance naming the Sellers as additional insured and with an insurer and insurance limits and coverage reasonably satisfactory to the Sellers. The Buyer's obligation to restore and indemnify under this Section 7.1 shall survive the termination of this Agreement or the Closing for the Survival Period.