
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 20-F/A

(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, 2012

OR

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

OR

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

Commission file number **0-28996**

ELBIT IMAGING LTD.

(Exact name of registrant as specified in its charter)

N/A

(Translation of registrant's name into English)

ISRAEL

(Jurisdiction of incorporation or organization)

5 KINNERET STREET, BNEI BRAK 51261, ISRAEL

(Address of principal executive offices)

DORON MOSHE

Tel: +972-3-608-6000

Fax: +972-3-608-6050

5 KINNERET STREET, BNEI BRAK 51261, 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, 2012.

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

EXPLANATORY NOTE

We are filing this Amendment No. 1 to our Annual Report on Form 20-F, or Form 20-F/A, solely to reflect the Restatement in our financial statements that our management decided to effect following discussions with the SEC, which resulted in reclassification of our trading property and corresponding borrowings from a current asset or liability to a non-current asset or liability. Conforming and resulting changes appear in each of Item 3.A - Selected Financial Data, Item 5.A – Operating Results, Item 5.B – Liquidity and Capital Resources of this Form 20-F/A, and in the financial statements and notes included herewith. Although we have re-filed our entire Annual Report on Form 20-F filed with the Securities and Exchange Commission on May 14, 2013, or the Original Form 20-F, as amended, for clarity, the amendments are limited in scope to such corrections and do not amend, update, or change any other items or disclosures contained in the Original Form 20-F.

Except as described above, this Form 20-F/A does not, and does not purport to, amend or restate any other information contained in the Original Form 20-F nor does this Form 20-F/A reflect any events that have occurred after the Original Form 20-F was filed.

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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 2012 has been translated from various foreign currencies to the U.S. dollar ("\$" or "U.S. dollar"), as of December 31, 2012, in accordance with the following exchange rates:

Currency	\$1.00 as of December 31, 2012
1 New Israeli Shekel (NIS)	0.267881
1 Euro	1.318136
1 Great British Pound (GBP)	1.617064
1 Hungarian Forint (HUF)	0.004526
1 Czech Republic Koruny (CZK)	0.052626
1 Romanian LEI (RON)	0.297084
1 Polish Zloty (PLN)	0.221958
1 Indian Rupee (INR)	0.018189
1 Crore (10 million INR)	181,891

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

EXCHANGE RATES

The exchange rate between the NIS and U.S. dollar published by the Bank of Israel was NIS 3.564 to the U.S. dollar on May 8, 2013. The exchange rate has fluctuated during the six month period beginning November 2012 through May 8, 2013 from a high of NIS 3.952 to the U.S. dollar to a low of NIS 3.564 to the U.S. dollar. The monthly high and low exchange rates between the NIS and the U.S. dollar during the six month period beginning November 2012 through May 8, 2013, as published by the Bank of Israel, were as follows:

MONTH	HIGH 1 U.S. dollar =NIS	LOW 1 U.S. dollar =NIS
November 2012	3.952	3.810
December 2012	3.835	3.726
January 2013	3.791	3.714
February 2013	3.733	3.663
March 2013	3.733	3.637
April 2013	3.633	3.592
May 2013 (through May 8)	3.587	3.560

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

PERIOD	AVERAGE EXCHANGE RATE
January 1, 2008 - December 31, 2008	3.586 NIS/\$1
January 1, 2009 - December 31, 2009	3.932 NIS/\$1
January 1, 2010 - December 31, 2010	3.735 NIS/\$1
January 1, 2011 - December 31, 2011	3.577 NIS/\$1
January 1, 2012 - December 31, 2012	3.857 NIS/\$1

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following selected consolidated financial data of Elbit Imaging Ltd. and its subsidiaries (together, "El," "Elbit," the "Company," "our," "we" or "us") are derived from our 2012 consolidated financial statements and are set forth below in table format. Our 2012 consolidated financial statements and notes included elsewhere in this report were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The 2012 consolidated financial statements were audited by Brightman Almagor Zohar & Co., a firm of certified public accountants in Israel and a member of Deloitte Touche Tohmatsu. Our selected consolidated financial data are presented in NIS. A convenience translation to U.S. dollars is presented for 2012 only.

The selected financial data for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 which are presented in the table below are derived from our consolidated financial statements prepared in accordance with IFRS and do not include consolidated financial data in accordance with U.S. GAAP.

CONSOLIDATED STATEMENTS OF OPERATIONS IN ACCORDANCE WITH IFRS
(in thousands, except share and per share data)

	FOR THE YEAR ENDED DECEMBER 31					
	2012	2012	2011	2010	2009	2008
	Convenience translation (\$'000)				(NIS '000)	
Income revenues and gains						
Revenues						
Revenues from sale of commercial centers	34,050	127,109	3,525	4,345	-	439,339
Revenue from hotel operations and management	59,692	222,828	286,548	403,822	396,736	384,220
Revenue from fashion merchandise and other	39,109	145,996	185,082	174,817	118,386	102,736
Total revenues	179,771	495,933	475,155	582,984	515,122	926,295
Gains and other						
Rental income from commercial centers	46,920	175,153	111,745	98,550	85,466	84,824
Gains from sale of real estate assets	14,432	53,875	-	198,777	-	-
Gains from changes of shareholding in investees	2,510	9,369	-	-	31,106	49,122
Total income revenues and gains	196,713	734,330	586,900	880,311	631,694	1,060,241
Expenses and losses						
Commercial centers	73,081	272,810	159,626	156,745	169,253	431,667
Hotel operations and management	54,154	202,158	240,784	341,291	353,229	355,049
Cost of fashion merchandise and other	41,728	155,772	211,743	197,574	134,142	118,040
General and administrative expenses	13,096	48,886	61,857	65,292	66,153	54,944
Share in losses of associates, net	2,337	8,726	7,568	8,275	14,039	12,952
Financial expenses	47,088	175,778	164,001	316,706	283,546	296,527
Financial income	(8,327)	(31,083)	(65,571)	(40,927)	(92,725)	(135,278)
Change in fair value of financial instruments measured at fair value through profit and loss	13,455	50,229	(275,537)	53,016	70,702	(225,244)
Write-down, charges and other expenses, net	110,267	411,625	290,276	83,660	256,802	68,797
	346,879	1,294,901	794,747	1,181,632	1,255,141	977,454
Profit (loss) before income taxes	(150,166)	(560,571)	(207,847)	(301,321)	(623,447)	82,787
Income taxes (tax benefits)	(2,745)	(10,248)	63,283	3,992	(35,571)	24,736
Profit (loss) from continuing operations	(147,421)	(550,323)	(271,130)	(305,313)	(587,876)	58,051
Profit from discontinued operations, net	25,401	94,823	24,101	378,838	(63,129)	(81,218)
Profit (loss) for the year	(122,020)	(455,500)	(247,029)	73,525	(651,005)	(23,167)
Attributable to:						
Equity holders of the Company	(78,647)	(293,590)	(264,919)	61,998	(530,942)	(103,170)
Non-controlling interest	(43,373)	(161,910)	17,890	11,527	(120,063)	80,003
	(122,020)	(455,500)	(247,029)	73,525	(651,005)	(23,167)
Earnings per share - (in NIS)						
Basic earnings (loss) per share:						
From continuing operations	(4.22)	(15.75)	(11.44)	(12.21)	(21.51)	(4.25)
From discontinued operations	1.06	3.95	0.79	14.67	0.65	0.19
	(3.16)	(11.80)	(10.65)	2.45	(20.86)	(4.05)
Diluted earnings (loss) per share:						
From continuing operations	(4.22)	(15.75)	(11.44)	(12.21)	(21.53)	(4.30)
From discontinued operations	1.06	3.95	0.79	14.41	0.65	0.19
	(3.16)	(11.80)	(10.65)	2.13	(20.88)	(4.11)
Dividend declared per share	0	0	0	0	0	6.60

SELECTED BALANCE SHEET DATA IN ACCORDANCE WITH IFRS

	DECEMBER 31					
	2012	2012	2011	2010	2009	2008
	Convenience translation (\$ '000)				(NIS '000)	
Current Assets	290,492	1,084,410	1,258,227	2,123,961	2,384,465	2,572,610
Non-current Assets	1,609,966	6,010,001	9,112,840	8,578,752	7,023,724	6,119,102
Total	1,900,458	7,094,411	10,371,067	10,702,713	9,408,189	8,691,712
Current Liabilities	479,003	1,788,117	2,226,971	2,799,122	2,353,973	1,825,486
Non-current Liabilities	1,040,762	3,885,167	6,605,226	5,726,070	4,906,045	4,428,443
Shareholders' equity Attributable to:						
Equity holders of the company	82,938	309,606	359,630	760,740	946,450	1,373,692
Non-controlling interest	297,755	1,111,523	1,179,240	1,416,781	1,201,721	1,064,091
Total	1,900,458	7,094,411	10,371,067	10,702,713	9,408,189	8,691,712

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

If the proposed arrangement of our current debt does not come into effect, our failure to meet certain payment obligations and comply with certain financial covenants relating to certain of our bank loans, our recent ceasing to make payments of principal and interest outstanding under our Notes, our entering into the Letter of Undertakings, the resulting cross-defaults under our subsidiaries' loan agreements (for which we serve as guarantor) and the lawsuits that have recently been filed against us and additional creditor lawsuits that will be filed against us may materially harm our operations and financial results and may result in our liquidation. Accordingly, there is substantial doubt about our ability to continue as a going concern.

As of December 31, 2012, we failed to comply with certain financial covenants relating to our bank loans in the aggregate amount of NIS 290 million (approximately \$78 million). In addition, as discussed below in "Item 4. History and Development of the Company – Recent Events" in February 2013 we ceased making payments of outstanding principal under our publicly-traded Series A and Series B notes and payments of interest under all our outstanding publicly-traded Series 1 and Series A to Series G notes (collectively, the "Notes") in the aggregate outstanding principal amount of NIS 2,404 million (approximately \$644 million) as of March 31, 2013. Thereafter we ceased to make payments of outstanding principal under all our Notes, and on March 19, 2013, we entered into a letter of undertakings (the "Letter of Undertakings") with the trustees of our Series 1, C, D, E, F and G note holders that includes a provision that we not make any further payments to our Note holders and (except for certain payments to our secured creditors) to our creditors. Our obligations under the Letter of Undertakings caused a failure to meet certain payment obligations under bank loan agreements to which we are a party. These defaults also triggered cross-defaults under the loan agreements of our subsidiaries, for which we serve as guarantor.

On April 4, 2013, trustees of our Series B notes, which represented an outstanding balance of approximately NIS 16.5 million (approximately \$4.4 million), submitted a motion to the Tel Aviv District Court (the "Court") to appoint a temporary liquidator and liquidate our company due to our suspending of making payments of principal and interest under the Notes. On April 14, 2013, we submitted a statement of defense with respect to the motion to appoint a temporary liquidator, and on May 7, 2013 the trustees submitted a request to withdraw the motion to appoint a temporary liquidator which was accepted by the Court. The Court has scheduled a hearing on July 3, 2013 for the motion to liquidate our company. In the event the Court approves this motion, this will result in the liquidation and dissolution of our company. Upon liquidation, our ordinary shares would be delisted from trading and would almost certainly have no value.

In addition, two class action lawsuits have been filed against us by our Note holders due to our suspending of making payments of principal and interest under the Notes and, in regards to one claim, the repurchase of our Notes that we effected in 2012. For details regarding our ceasing to make payments of principal and interest outstanding under our Notes and the lawsuits filed against us, see "Item 4.A History and Development of the Company – Recent Events" below.

On May 8, 2013, we filed a motion with the Court to convene meetings of our unsecured creditors and shareholders for the approval of the proposed restructuring of our Unsecured Financial Debt (as defined below) pursuant to a plan of arrangement (the "Arrangement") under Section 350 of the Israeli Companies Law, 5759-1999 (the "Companies Law"). It is possible that we will not receive all requisite approvals for the Arrangement and that the Arrangement will not come into effect, and that challenges by third parties or other events outside our control could prevent or delay the effectiveness or the implementation of the Arrangement or result in its not becoming effective or its termination. In the event the Arrangement does not come into effect this may result in the Court ordering the liquidation of our company.

As of the date of this annual report there is substantial doubt about our ability to continue as a going concern as a result of our failure to comply with the financial covenants under certain of our bank loans, our defaults under our Notes, the resulting cross-defaults under the loan agreements for our subsidiaries, the lawsuits that have been filed against us and any additional lawsuits that may be filed against us in regards to our outstanding indebtedness, and the uncertainty whether the Arrangement will come into effect, and these could materially harm our operations and financial results and result in the Court ordering our liquidation.

If the Arrangement does not come into effect, we may request a stay of all legal proceedings instituted against us, which could adversely affect our business and operations and may result in our liquidation.

If the Arrangement does not come into effect for any reason, we may file a petition with the Court for a stay of all legal proceedings instituted against us. Our filing of a petition for a stay of proceedings, even if denied, suspended or withdrawn, could adversely affect our business and operations in various ways. For example, negative events or publicity associated with our proposed stay of proceedings could adversely affect our sales and relationships with our existing and potential customers, as well as with vendors and employees, which in turn could adversely affect our operations and financial condition. In addition, normally during the period of a stay of proceedings, our business would continue to function under the supervision of a trustee appointed by the Court. The trustee would replace our Board of Directors and have full authority to control our business.

If the Court approves a stay of proceedings, our operations, including our ability to execute our business plan, would be subject to various risks and uncertainties, including the following:

- Actions and decisions of the trustee, or delays in taking important business decisions, may adversely affect our business;
- Actions and decisions of our various creditors (including the Note holders and, in particular, the holders of our Series A and Series B notes (which submitted the motion to the Court to liquidate our company, as described above)) and other third parties with interests in our stay of proceedings may be inconsistent with our business plan;
- Our secured creditors may likely take possession of the security we have provided under our loan agreements with them;
- Our business partners, third-party sources of financing, suppliers, customers and other third-party suppliers with whom we have established or developed business relationships;
- We could lose our ability to obtain and maintain commercially reasonable terms with vendors and service providers;
- Our ability to maintain customer contracts and sign new ones that are critical to our operations could be reduced;
- We might not be able to retain management and other key personnel; and
- Risks associated with third parties seeking and obtaining court approval to terminate or shorten the period for us to propose and confirm a plan of reorganization or to appoint a trustee.

Because of the risks and uncertainties associated with a petition for a stay of proceedings, such a stay of proceedings could materially harm our operations and financial results and may result in our liquidation.

If the Arrangement comes into effect, holders of our ordinary shares will experience significant dilution as a result of the conversion of our Notes into our ordinary shares under the terms of the Arrangement. In addition, there may not be sufficient liquidity for our ordinary shares, and the market price for our ordinary shares may fluctuate and decline significantly.

According to the terms of the Arrangement, the outstanding balance under the Notes and any of our other unsecured loans (which together, as of March 31, 2013, equaled approximately NIS 2,464 million (approximately \$660 million) would be converted into ordinary shares, representing immediately following such conversion 86% of our total share capital on a fully diluted basis (excluding any warrants to purchase ordinary shares, any new warrants issued as part of the Arrangement and any stock options to purchase ordinary shares (either currently outstanding or that may be issued following the Arrangement) granted under our stock option plans), and new notes (for details regarding the terms of the Arrangement, see "Item 10.C Additional Information – Material Contracts"). As a result, in the event that the Arrangement comes into effect holders of our ordinary shares will experience significant dilution.

In addition, there may be an adverse effect on the market price of our shares as a result of a substantial number of shares being sold or available for sale in the future. If our shareholders sell substantial amounts of our ordinary shares, including shares issued upon the conversion of the Notes, the market price of our ordinary shares may fall. The ordinary shares that may be issued as a result of conversion of Notes by our Note holders are expected to be freely tradable, and the Note holders may promptly try to sell such shares. There is no assurance that there will be sufficient liquidity to enable such sales. Such sales, and the potential for such sales, could cause the market price of our ordinary shares to decline significantly. They also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

We have significant capital needs and additional financing may not be available, even if the Arrangement comes into effect.

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 yielding asset 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 almost fully leased to tenants and sold. Accordingly, we require substantial amounts of cash and financing for our operations. Likewise, our subsidiary Plaza Centers N.V. ("PC"), of which we own approximately 62.5% of its share capital, requires substantial amounts of cash and financing for its operations and to make payments on its outstanding indebtedness. Even if the Arrangement comes into effect we cannot be certain that our own capital will be sufficient to support such future development or 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.

Even if the Arrangement comes into effect, as a result of our suspension of making payments on the principal and outstanding interest under our outstanding Notes discussed below in Item 4.A "History and Development of the Company – Recent Events," we may experience difficulties raising additional financing through issuances of new Israeli traded notes at attractive terms or at all. In addition, PC may still be required to raise additional financing to fund its operations and to make payments on its outstanding indebtedness. Also, during 2008 the world markets experienced a financial crisis from which they have not recovered that, among other things, 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, which may impact the development of our projects as well as the ability of the potential purchasers thereof to finance such purchases. 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, if necessary, which may have a material adverse effect on our results of operations and cash flow.

In addition, as discussed in the risk factor below "- Our annual and quarterly results may fluctuate, which may cause the market price of our shares and Notes to decline." our quarterly and annual operating results have fluctuated, and may in the future continue to fluctuate, significantly. 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.

Conditions and changes in the local and global economic environments including recent financial crises may adversely affect our business and financial results including our ability to comply with certain financial covenants.

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, employment levels, purchasing power and the size and amount of transactions. The duration, 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 and Cyprus, each of 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) 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, including but not limited to as a result of the decrease in the value of our collateral loan to value (LTV) (including the decrease in the value of real estate or securities which are pledged to banks), (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 yielding assets market, (iii) 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, 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. For additional information on pledged assets as stated above, please see Item 5.B "Liquidity and Capital Resources" below.

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, unless and until such time as the Arrangement comes into effect, Notes issued in public offerings to investors in Israel. As a result of this high leverage, we have filed the Arrangement and are seeking its approval in order to restructure this outstanding indebtedness, provided however that the final terms of the Arrangement may differ from what we have proposed and include a higher amount of indebtedness. In addition, we may incur additional debt from time to time to finance acquisitions or the development of projects, for capital expenditures or for other purposes. Even if the Arrangement comes into effect 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. As of December 31, 2012, we failed to comply with certain financial covenants relating to our bank loans. In addition, in February 2013 we ceased making payments of outstanding principal under our Series A and Series B notes and payments of interest under Notes. Thereafter we ceased to make payments of outstanding principal under all our Notes, and on March 19, 2013, we entered into the Letter of Undertakings with the trustees of our Series 1, C, D, E, F and G Note holders that includes a provision that we not make any further payments to our Note holders and (except for certain payments to our secured creditors) to our creditors. Our obligations under the Letter of Undertakings caused a failed to meet certain payment obligations under bank loan agreements to which we are a party. These defaults also triggered cross-defaults under certain of our other loan agreements and for those of our subsidiaries, for which we serve as guarantor. As discussed in the risk factor above "If the proposed arrangement of our current debt does not come into effect, our failure to meet certain payment obligations and comply with certain financial covenants relating to certain of our bank loans, our recent ceasing to make payments of principal and interest outstanding under our Notes, our entering into the Letter of Undertakings, the resulting cross-defaults under our subsidiaries' loan agreements (for which we serve as guarantor) and the lawsuits that have recently been filed against us and additional creditor lawsuits that will be filed against us may materially harm our operations and financial results and may result in our liquidation. Accordingly, there is substantial doubt about our ability to continue as a going concern.", there is substantial doubt about our ability to continue as a going concern and these lawsuits and any additional lawsuits that may be filed against us in regards to our outstanding indebtedness could materially harm our operations and financial results and result in the Court ordering our liquidation. As a result of our default under the loan agreements, our failure to comply with the financial covenants under certain bank loans, our defaults under our Notes, which resulted in cross-defaults 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. As discussed below in "Item 4.A – History and Development of the Company – Recent Events", on March 20, 2013, we received a letter from Bank Leumi le-Israel B.M. ("Bank Leumi") demanding repayment within ten days of the outstanding balance of approximately \$14.1 million (approximately NIS 53 million) due primarily under the loans made by Bank Leumi to us. Furthermore, as a result of the default under the loan agreements we have reclassified the loans as current liabilities, which may improperly reflect our working capital ratio as well as other financial indicators.

As a result of our substantial indebtedness and the uncertainty regarding the final terms and conditions of the Arrangement (if it comes into effect):

- 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 not be able to refinance our Notes.

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 Notes and PC's notes were subject to several rating downgrades during 2012 and 2013. Our Notes were rated, as of February 2013, by Midroog Ltd., an affiliate of Moody's Investors Services, at a "Ca/Negative" credit rating and by Maalot, the Israel Securities Rating Company Ltd., an affiliate of Standard and Poors, at a "D" credit rating. PC's notes traded on the TASE were rated, as of March 2013, by Midroog at a "Ba1/Negative" credit rating and by Maalot at an "iBB+/Negative" credit rating on a local Israeli scale with exclusion from negative CreditWatch list and CCC+ on an international scale. As a result of the rating downgrades of our Notes and PC's notes and any further rating downgrade or suspension or withdrawal of the rating assigned by a rating agency to our Notes or PC's notes, 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.

We are no longer eligible to use Form F-3, which could impair our capital raising activities.

As of the date of filing this annual report, we are not eligible to use Form F-3 as a result of the defaults under our Notes. As a result, we cannot use the SEC's "short form" Form F-3 to register resales of our and we are limited in our ability to file primary shelf registration statements on Form F-3. Moreover, our public float is below \$75 million and may remain below \$75 million for the foreseeable future. As a result, we may not be fully eligible to use Form F-3 for primary offerings even though we otherwise would regain the ability to use the form for resale registration statements. Any such limitations may harm our ability to raise the capital we need. Under these circumstances, until we are again eligible to use Form F-3, we will be required to use a registration statement on Form F-1 to register securities with the SEC or issue such securities in a private placement, which could increase the cost of raising capital.

Our financial instruments (mainly our loans and Notes) 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 most of our debt facilities expose us to increases in market interest rates and subsequent increases in interest costs. To the extent that at any time we do not have any hedges or our hedges are insufficient against interest rate fluctuations, our earnings and balance sheet position may be negatively impacted. Currently we do not have any material hedges against interest rate fluctuations. 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 at any time we do not have any hedges or our hedges are insufficient against currency exchange rates, our earnings and balance sheet position may be negatively impacted. Currently we do not have any material hedges against exchange rate fluctuations.

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. Currently we do not have any material hedges against fluctuations in the CPI.

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. Changes in accounting standards or evaluation methods for the determination of fair value or for valuing and assessing the fair value of our assets might result in capital decreases in our financial statements, affect our profits and losses and have a material effect on our results. In addition, such decreases may result in failure to meet financial covenants under bank loans that include LTV ratio covenants.

The fair value of our real estate assets (including commercial shopping centers, hotels, residential projects and others) may be harmed by certain factors that may entail impairment losses not previously recorded, which would affect our financial results and the satisfaction of financial covenants.

Certain circumstances may affect the fair value of our real estate assets (whether operating or under construction), including, among other things, (i) the absence of or modifications to permits or approvals required for the construction and/or operation of any real estate asset; (ii) in commercial 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, and agreements which may be interpreted by governmental authorities so as to shorten the term of use of real estate, which may be accompanied with a demolition or nationalization 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, which would impact our ability to satisfy financial covenants under our bank loans.

Since market conditions and other parameters (such as macroeconomic and microeconomic environment trends, and others) that 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 certain 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.

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 terminate the employment of workers whom we think we no longer need 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 business systems, procedures and controls. There can be no assurance that the implementation of such systems, procedures, controls and other internal systems can be implemented 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. Our PFIC status is determined based on several factors, including our market capitalization, the valuation of our assets, the assets of companies held by us in certain cases and certain assumptions and methodologies upon which we base our analysis. 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 a purported class action lawsuits filed against us by our Note holders on February 25, 2013 and April 11, 2013 arising out of, among other things, our suspending principal and interest payments on our Series A and B notes. In addition, litigation was initiated against us 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. On May 28, 2012, the Supreme Court certified the lawsuit as a class action with respect to the claim that the hotels were allegedly sold to us at a price higher than the then-current fair value and that Elron Electronic Industry Ltd. (an unrelated third party) had breached certain minority rights in the framework of the sale of Elscint's shares to Europe Israel, and the case was remanded to the Court for hearing the case without prejudicing the parties' rights and arguments with respect to a derivative action. For details regarding the recent class action lawsuits filed against us see "Item 4.A – History and Development of the Company – Recent Events" and for details regarding our litigation in general see note 23B 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 (as well as on the consumer activity in our commercial and entertainment centers.

Our annual and quarterly results may fluctuate, which may cause the market price of our shares and Notes 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 Notes to decline. These fluctuations may be caused by various factors including, among other things, significant sales of our properties, the frequency of such transactions 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, which has harmed 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 are restricted in the amount of distributions we may receive from PC during 2013. In addition, on January 31, 2013, PC published a letter that it received from the trustees and representatives of the holders of PC's Series A and Series B notes that demanded that PC desist from distributing a dividend to its shareholders and stated that legal proceedings may be taken in the event that PC proceeds with the distribution of the dividend. The expected delay in the distribution of the dividend from PC, as well as the decline in the price of PC stock in the recent period, impairs our ability to comply with our business plan according to the planned time schedule. In addition, this has reduced one of our cash resources and has affected our liquidity. See "Item 4.A History and Development of the Company – Recent Events" below.

Our business is subject to general business and macro and microeconomic risks.

In addition to risks that are relevant to a specific activity or relate to a specific territory, certain conditions and changes in the economic environment in the countries in which we operate may have an adverse effect on our business performance; changes in the global economy, in real estate and/or the business environment in which we operate, and/or a negative trend in the capital markets and/or a decrease in our rating or the rating of our securities, and/or a decrease in our capital and/or impairments according to our governing accounting principles or due to change in auditing standards and accounting principles, if and to the extent they occur, may have an adverse effect on our ability to raise funds; macroeconomic or microeconomic changes as described above may influence our compliance with financial covenants under certain bank loans and credit agreements, including but not limited to, as a result of the decrease in the LTV (including the decrease in the value of real estate assets value and/or securities that are pledged to banks) and/or a decrease in our capital. For details regarding our pledged assets, see "Item 5.B. Liquidity and Capital Resources" below.

One of our shareholders currently beneficially owns a substantial amount of our ordinary shares and, therefore, unless and until such time as the Arrangement takes effect, effectively controls our affairs.

As of March 31, 2013, Mordechay Zisser, our Chief Executive Officer and Executive President and a member of our board of directors, held, directly and indirectly, approximately 50.38% 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. 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 ("Change of Control") may impact the business conduct of our company as well as our management structure. In addition, various agreements to which we are a party include change of control provisions and, as a result, a Change of Control may result in a violation of contractual undertakings made by us towards third parties and/or vest third parties with rights to terminate agreements we've entered into with such third parties, including immediate repayment of outstanding amounts under our loan and credit facilities. In the event that the Arrangement takes effect, following the Arrangement Mr. Zisser will hold, directly and indirectly, approximately 7.05% of our issued share capital on a fully diluted basis (excluding any warrants to purchase ordinary shares, any new warrants issued as part of the Arrangement and any stock options to purchase ordinary shares (either currently outstanding or that may be issued following the Arrangement) granted under our stock option plans). For details regarding the terms of the Arrangement, see "Item 10.C Additional Information – Material Contracts" below.

In addition, 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 most of our ordinary shares held by the Controlling Shareholder. As part of the proceedings initiate by the Bank, it had filed a motion to appoint a receiver over those shares. For details regarding the dispute see "Item 4.A – History and Development of the Company – Recent Events". In the event that the Bank is successful under the foreclosure proceedings and is able to foreclose on its pledge on the ordinary shares of the Company securing Europe-Israel's obligations under the loan agreement, it will become the owner of our ordinary shares held by Mr. Zisser and, unless and until such time as the Arrangement takes effect it will become our controlling shareholder. In addition, although we are not a party to the negotiations and/or communications between the disputing parties and are not familiar with their contents, in the event the dispute is not resolved it may negatively impact our relationship with the Bank.

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

We rely on the continued services of the members of our senior management team, including in particular that of Mordechay Zisser, our Chief Executive Officer, Executive President and a director. Any loss of the services of 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" below.

RISKS RELATING TO THE COMMERCIAL AND ENTERTAINMENT CENTERS BUSINESS

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

Our strategy in the commercial and entertainment centers business is to acquire a plot of land, develop a commercial and entertainment center on it, and dispose of the center upon completion, or operate a center following completion until such time as we reach the minimum occupancy threshold necessary for the property to be attractive to potential buyers or to enable the sale thereof as part of a sale of a portfolio of properties, and to allow us to attempt to achieve the best price for our completed commercial centers. Our decision to sell properties is based on various factors, including market conditions, however there is no assurance that such sales will actually occur or that they will occur according to the timetable we predicted or planned. 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 and cash flows can be materially adversely affected.

Suitable locations are critical to the success of a commercial 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 commercial 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. In addition, our estimations as to the urban development of the area and/or consumer spending power or the growth thereof may be wrong or may be influenced by factors we cannot predict, which can cause the results of the center to be less than we predicted and/or difficulty to reach the desirable occupancy rates, and/or require us to sell the center at a time or upon terms different than we had planned.

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 commercial and entertainment center or other development. Anchor stores in commercial 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 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 commercial 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 commercial 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. 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 commercial and entertainment centers until we dispose of them or other developments at below expected rental rates or sell at a price that is below what was expected or at a delayed date, which would materially harm our business.

Our current strategy is to dispose of a commercial 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, or if we are required to sell a center in order to meet certain payment obligation under our outstanding financing facilities or notes when due, we may have to sell a commercial 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 commercial and entertainment center until the financial environment improves and we are able to attempt to achieve the best price for our completed commercial centers. 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 (including, in some cases, injecting additional capital) 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 and cash flows.

The commercial 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 commercial 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 commercial 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 commercial 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 commercial 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 (which also may not be realized), the above costs will occur in an immediate manner.

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 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 (business or tourism), changes in trends as to performance of exhibitions, conferences and conventions in the cities in which our hotels are located or at all (including as a result of a financial crisis), 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. 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 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, results of operations and cash flows 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. Any 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 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 (which Rezidor has the right to do in the event of a change of control of our company or our liquidation), 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 interest 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.

In addition to the items set forth above, 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 and cash flows may decline.

Our results of operations and cash flows 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, results of operations and cash flows 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. The gap in time between the land procurement, development and sale exposes us to the risks that the parameters on which the procurement plan was based will change significantly until the completion of the development and, hence, at such time we may remain with unsold inventory.

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 COMMERCIAL 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 and endeavor to require this even in countries where this is not common business practice. 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 is 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 interest 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 commercial 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 commercial and entertainment 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 and commercial and entertainment centers. 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. As our projects are subject to numerous factors that are not under our control, there is no assurance that our predictions and estimations of the timing in which we will be able to sell any property and/or the price or terms we set will actually materialize as predicted. There is no assurance that our predictions and estimations as to the length of time needed to find a willing purchaser and to close the sale of a property will be correct. 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. Finally, attempting to sell any of our investments in real properties at an accelerated pace due to cash flow needs may result in our receiving lower purchase price for such investments.

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 commercial 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 commercial 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's and Gamida's future growth substantially depends on their ability to develop and obtain regulatory clearance for additional treatment applications for their products.

Our associate InSightec Ltd. ("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 for the treatment of uterine fibroids. InSightec has also received CE-marking (approval to market in the EEA) and FDA approval for the bone metastases pain palliation, and CE-marking for its ExAblate Neuro system in the treatment of neurological disorders in the brain. InSightec is currently in various stages of product development and clinical studies for a number of new treatment applications for the ExAblate, and it will be required to obtain FDA and other regulatory approvals before marketing the ExAblate for these additional treatment applications. 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, absence of dangerous adverse side effects and cost-effectiveness of these new treatment applications and products.

In addition, our associate Gamida Cell Ltd. ("Gamida"), a leader in stem cell expansion technologies and therapeutic products, is substantially dependent on receiving FDA and other applicable regulatory approval of its products and is also required to conduct extensive clinical studies that may take several years to demonstrate the therapeutic benefits, absence of dangerous adverse side effects and cost-effectiveness of these new treatment applications and products.

In the event that InSightec or Gamida does not receive regulatory approval to market and sell their products it would have a material adverse effect on their respective sales and results of operations.

If the approved ExAblate systems do not achieve broad market acceptance, InSightec will not be able to generate sufficient sales to support its business.

InSightec must achieve broad market acceptance of the approved ExAblate systems among physicians, patients and third-party payors in order to generate sufficient sales to support its business. Physicians will not recommend the use of any of the approved systems unless InSightec can demonstrate that it produces results comparable or superior to existing alternative treatments. If long-term patient studies do not support InSightec's existing clinical results, or if they indicate that the use of the particular approved systems has negative side effects on patients, physicians may not adopt or not continue to use them. Even if InSightec demonstrates the effectiveness of the approved systems, physicians may still not use the systems for a number of other reasons. Physicians may continue to recommend traditional 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. If, due to any of these factors, the approved ExAblate systems do 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 significantly 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 commercial use for the ExAblate 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), in January 2008 it received Israeli approval and in October 2012 it received FDA approval for pain palliation of bone metastases. Finally, in December 2012, InSightec's ExAblate Neuro system received the CE-marking for the treatment of neurological disorders in the brain including essential tremor, Parkinson's disease and neuropathic pain. However, clinical experience for the bone metastases and for the neurological disorders in the brain application is still in the 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, absence of dangerous adverse side effects and cost-effectiveness of these new treatment applications and products. Clinical trials are expensive and may take several years to complete. If future clinical trials indicate that the ExAblate is not as beneficial or cost-effective as existing treatment methods, or that such products cause unexpected complications or other unforeseen adverse events, InSightec may not obtain regulatory clearance to market and sell the ExAblate for these additional treatment applications or obtain reimbursement coverage, and InSightec's long-term growth would be seriously harmed.

InSightec is dependent on General Electric.

The ExAblate is compatible only with certain Magnetic Resonance Imaging (MRI) systems of GE Healthcare, a division of the General Electric Company ("GE"), which may limit InSightec's potential market. A significant portion of the MRI systems in use in the United States and elsewhere are not GE MRI systems. On October 17, 2012, InSightec and GE entered into a Technology, Co-operation, and Distribution Agreement (the "Cooperation Agreement") relating, *inter alia*, to product exclusivity, cooperation with respect to the development and sale of the parties' complementary products, distribution, marketing and sales, intellectual property rights and licenses, sale terms and conditions, and similar items. Under the Cooperation Agreement, InSightec is prohibited from developing systems 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 or compete in the MRI market, InSightec's ability to generate additional sales of the ExAblate may be adversely affected. In addition, InSightec's interface technology relies on GE's intellectual property rights and licenses. If and in the event GE will terminate those IP licenses (such as in the case of transfer of shares of InSightec to a competitor of GE), InSightec's ability to support its products and 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.

This dependence and reliance of InSightec on collaboration with GE might deter potential investors and business partners.

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 and Gamida are dependent on further capital investments.

Until InSightec achieves broad market acceptance of the ExAblate and is able to generate sufficient sales to support its business and until Gamida begins selling its products and generating positive cash flow, each of them 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. Each of InSightec's or Gamida'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.

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

InSightec's and Gamida's success and ability to compete depends in large part upon their ability to protect their proprietary technology. InSightec and Gamida rely on a combination of patent, copyright, trademark and trade secret laws, and on confidentiality and invention assignment agreements, in order to protect their 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 (including improvements to those patents that were developed by InSightec) without InSightec's permission. The Cooperation Agreement sets forth cross-licensing arrangements on a non-exclusive basis. As a result, InSightec is exposed to the risk that GE may grant licenses for the same intellectual property rights to third parties who might compete with InSightec (subject, however, to the product exclusivity provisions under the Cooperation Agreement, which limits GE from pursuing such competition).

The process of seeking patent protection can be long and expensive, and there can be no assurance that InSightec's and Gamida's existing or future patent applications will result in patents being issued, or that InSightec's and Gamida'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 and Gamida.

Claims by competitors and other third parties that InSightec's or Gamida's products allegedly infringe the patent rights of others could have a material adverse effect on InSightec's or Gamida's business. Any future litigation, regardless of outcome, could result in substantial expense and significant diversion of the efforts of InSightec's and Gamida's technical and management personnel. An adverse determination in any such proceeding could subject InSightec and Gamida to significant liabilities or require InSightec or Gamida 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 supplier's 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 its 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 commercial 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 its 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 are 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 the 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 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, and negotiations between Israel and representatives of the Palestinian Authority in an effort to resolve the state of conflict have been sporadic and have failed to result in peace. The establishment in 2006 of a government in the Gaza territory by representatives of the Hamas militant group has created additional unrest and uncertainty in the region. In each of December 2008 and November 2012, Israel engaged in an armed conflict with Hamas, each of which involved additional missile strikes from the Gaza Strip into Israel and disrupted most day-to-day civilian activity in the proximity of the border with the Gaza Strip.

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 (including the ongoing civil war in Syria) 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, and 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 may 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 obligations on our workforce or business if conditions should change.

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 on the grounds that 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 that, subject to certain exceptions, is non-appealable, 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 laws of the state in which the judgment was rendered provide for the enforcement of judgments of 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 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 of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become (i) a 25% or greater shareholder of the company unless prior to such acquisition there is already another 25% or greater shareholder of the company, or (ii) a 45% or greater shareholder of the company unless prior to such acquisition there is already a 45% or greater shareholder of the company. In any event, if as a result of an acquisition of shares the purchaser will beneficially own more than 90% of a company's shares, the acquisition must be made by means of a tender offer for all of the remaining shares. Shareholders may request an appraisal in connection with a tender offer for a period of six months following the consummation of the tender offer, but the purchaser is entitled to stipulate that any tendering shareholder surrender its 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 its 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. For example the restriction on large retail outlets, approved by the government of Hungary in January 2012 have contributed to an already-difficult commercial environment due to the imposition of taxes and penalties that have prompted banks to dramatically cut lending. Unpredictable policy changes are accelerating reduced investments by real estate investors as funding from Hungary's primarily Western European-owned banks becomes more restricted.

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.

The economic crisis in the Balkans is also placing stress on the real estate industry, which has been experiencing difficulties since late 2008. The cost of real estate has fallen by approximately 30% to 50% across the region, and plans for developing industrial or tourist projects have been terminated or postponed. If the current trend continues, future prospects for the industry in this region are limited and could adversely affect our ability to develop and sell our projects there.

While the Greek government has overcome a number of obstacles, and the pace of contraction there continued to ease in 2012, in light of a negative short-term outlook, areas of the economy that remain in recession and currency instability due to the Euro, targeted policies at future growth industries and restoring confidence will be required to restore sustainable growth.

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, among other things, foreign investments, currency exchange, local taxation legislation, 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 commercial 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 commercial 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 of Foreign Direct Investment ("FDI Policy"), an acquisition or investment in an Indian sector or activity, in particular in the commercial 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, minimum size of land to be acquired or built-up and restrictions on selling an undeveloped land without governmental approval. 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.

In certain projects we rely on local joint venture partners, and in the event that these partners do not perform their obligations, such partners and we have different interests or disputes arise between such partners and us, this could have a material adverse effect on our financial condition and results of operations.

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 different standards of quality of performance and 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: our joint venture partner may (i) at any time have economic or other business interests that are inconsistent with ours; (ii) 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) 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) become bankrupt or insolvent; and (v) fail to provide equity finance or furnish collaterals to financing third parties in which case we may be required to provide financing to make up any shortfall.

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.

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 8 Kinneret Street, Bnei Brak 51261, 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, N.Y. 10017-2803.

For a summary of our recent acquisitions, dispositions and other activities and of our capital expenditures and divestitures during the years 2010, 2011 and 2012 and that are currently in progress, see "Item 5. Operating and Financial Review and Prospects - Overview."

Recent Events

Filing of Plan of Arrangement

On May 8, 2013, we filed a motion with the Court to convene meetings of our unsecured creditors and shareholders for the approval of the Arrangement under Section 350 of the Companies Law. For details regarding the terms and conditions of the Arrangement, see "Item 10.C – Additional Information – Material Contracts" below.

Suspension of Payment of Principal and Interest under Notes

Our business activity is characterized by cycles of entrepreneurship-development-improvement-realization, with the objective to create value to our assets and as a result, to our company. Our cash flow is dependent upon maintaining synchronization between the realization timetables to the payment schedules of our indebtedness. Until the end of 2012 we were generally able to successfully implement our business plan and satisfy all our payment milestones when due. At the beginning of 2013, we experienced an occurrence of events not under our control, which had an adverse effect on our cash flow, and due to markets conditions and delays in projects' timetables we experienced difficulties in realizing our assets at fair commercial values. Those difficulties were attributed number of factors, including delays in the obtainment of permits and licenses from municipal and planning authorities and the hardening of financing policies by banks and financial institutions for the financing of our projects (both for entrepreneurs and potential purchasers). In addition, PC's note holders had threatened to take legal action to prevent PC from distributing dividend out of which we expected to receive an amount of NIS 100 million (approximately \$27 million). As a result we have suffered a decrease in our rating, which itself imposed more difficulties on our obtaining financing and, in addition, certain financing alternatives that we had been investigating did not come to fruition.

Our distressed cash flow needs, on the one hand, and the amount of our debt that was to become due during 2013 required that, while taking into account the various interests of our creditors and of us, we pursue a comprehensive long-lasting solution to deal with the debt structure of our Company that will suit the nature of our operations.

On January 14, 2013, following the rating downgrades of our Notes announced by Midroog and Maalot, the trustees of the Series E, F, G and 1 notes convened a meeting of note holders at which the note holders decided to appoint a representative (the "Representative") that was authorized to investigate the possibility of reaching an arrangement of our debt. Thereafter the Series C and D note holders decided to participate and utilize the same Representative, and on April 22, 2013, the Series A note holders also decided to cooperate with the Representative in the pursue of a restructuring of our debt. On January 27, 2013, the Series B note holders had decided to appoint a separate representative, which was authorized to take legal action in order to protect the interests of the Series B note holders.

On January 6, 2013, we requested PC to convene an extraordinary general meeting of shareholders at which the shareholders would consider the distribution of a dividend from PC's free distributable reserves in the amount of approximately €30 million. Consequently, the holders of PC's notes decided to engage legal counsel and authorized them to initiate legal proceedings to prevent the distribution of the dividend. Accordingly, on January 21, 2013, PC published a letter that it received from the trustees and representatives of the holders of PC's Series A and Series B notes that demanded that PC desist from distributing a dividend to its shareholders and stated that legal proceedings may be taken in the event that PC proceeds with the distribution of the dividend. A similar letter was delivered to us on January 29, 2013. In addition to the above, the likelihood that we will be able to realize part of our holdings in PC was reduced.

According to the repayment schedule of our Series A and Series B notes, on February 20, 2013 we were required to pay the holders of those notes principal and interest in the aggregate amount of approximately NIS 82 million.

In light of these factors, on February 3, 2013 the trustees of our Series E and Series 1 notes informed us that in meetings of holders of the Series E and 1 notes they were authorized to take legal action against us to prevent the making of these payments. The Series A and B note holders demanded that we timely make the upcoming payments while all the other note holders demanded that we refrain from making those payments, as well as from making payments under our bank loans, and stated that otherwise they would initiate legal proceedings against us to prevent it.

In connection therewith, although we had enough cash on hand to fully make those upcoming payments, on February 5, 2013, we announced that the board of directors had authorized our management to commence accelerated negotiations with the trustees and representatives of all the Note holders, in an attempt to formulate an agreement with all the Note holders that will enable us to fulfill all our obligations. In addition, in light of the damage that is likely to be caused to us and to all our creditors if we are involved in legal proceedings, and in order to allow us to engage in the process of negotiations mentioned above to the fullest extent and in a manner that is quick and efficient, our the board of directors decided, at this stage, to accede to the demands of the Note holders and to delay the payment of principal to the holders of the various series of Notes until the conclusion of negotiations. As a result of the decision of our board of directors, we requested from the trustees of the Series A and Series B Notes to delay the period of payment of the principal component from the payments until April 1, 2013 (and to delay accordingly the effective date of the payments).

On February 19, 2013 the Board of Directors decided, after assessment of our current situation, taking into account our needs, the complexity of the negotiation process in reaching an agreement with all the relevant parties about a possible Arrangement, and the divergent positions of various parties in respect to the payment of interest to the holders of the Notes, to suspend also the interest payments to all Note holders, and to re-assess the situation as it develops from time to time. As of the date of this annual report we have not resumed making interest and principal payments to the Note holders.

On February 21, 2013, the trustees of the Series C-G and 1 notes requested to Court to appoint an expert to examine and opine on the arrangement of our unsecured debt, and on March 11, 2013 the Court appointed Mr. Roni Alroy, CPA.

On March 19, 2013 we entered into the Letter of Undertakings with the Trustees of our Series 1, C, D, E, F and G note holders, in the framework of which we undertook to fully cooperate with the Trustees, the Representative and anyone acting of their behalf to enable them to conduct a due diligence investigation with respect to the financial condition of our company for the objective of negotiating an arrangement and/or providing recommendations to the Note holders as to any arrangement and/or relating to available courses of action to protect the Note holders' rights pursuant to the respective Notes and the exercise thereof, subject to confidentiality obligations. In addition, we further undertook that during the period commencing March 19, 2013 and until the end of the period of 14 days from the date on which we notify the Trustees of our intention to terminate the Letter of Undertaking for any reason, we and the entities under our control (excluding PC), will not, *inter alia*, make any further payment to Note holders and financial creditors (except for payments to secured creditors that are due and payable in accordance with the terms thereof provided that the source of the funds used for the repayment of such secured debt was generated from the secured assets), enter into related party transactions, allocate dividends, dispose of any material asset, provide any guarantees and/or enter into any transaction not in the ordinary course of business, without providing the trustees a 14-day prior written notice and all relevant information.

Summary of Terms

On February 27, 2013, we reached a non-binding summary of terms with York Capital Management Global Advisors, LLC on behalf of certain funds and/or accounts managed by it or its affiliates ("York") and Davidson Kempner Capital Management LLC on behalf of certain funds and/or accounts managed by it or its affiliates ("DK", and collectively with York, the "Funds") with respect to the proposed restructuring of our outstanding indebtedness. York held in the aggregate approximately 20% and DK held in the aggregate approximately 15%, respectively, of the accrued and unpaid balance of the Notes as of that date. On March 17, 2013 we announced certain clarifications to the non-binding summary of terms and announced our proposed plan of Arrangement and convened a meeting of our Note holders at which we presented the plan to our Note holders and their trustees.

On May 8, 2013, we filed a motion with the Court to convene meetings of our unsecured creditors and shareholders for the approval of the Arrangement under Section 350 of the Companies Law. The terms and conditions of the Arrangement were based on the summary of terms with certain modifications and resulted from discussions with representatives of the holders of the various series of our Notes, certain Note holders including York and DK, other creditors and Mordechay Zisser. Upon our filing of the proposed Arrangement with the Court, the summary of terms dated February 27, 2013 with York and DK with respect to the proposed restructuring of our outstanding indebtedness expired.

Dispute between Controlling Shareholder and the Bank

On February 28, 2013, Europe-Israel and Mordechay Zisser informed the Company that the Bank had taken legal action to foreclose on its liens on the assets of Europe-Israel, including the ordinary shares of the Company securing Europe-Israel's obligations under the loan agreement. On April 7, 2013 Europe-Israel informed the Company that the parties had reached an agreement that the temporary foreclosure proceedings would be terminated and that the Bank's attorney will be appointed as a trustee on behalf of the Court with regards to the ordinary shares of the Company held by Europe-Israel and securing Europe-Israel's obligations under the loan agreement and for the monitoring of the negotiations regarding a restructuring of the outstanding indebtedness of the Company.

Dispute with Bank Leumi

On March 20, 2013, we received a letter from Bank Leumi demanding repayment within ten days of the outstanding balance of approximately \$14.1 million (approximately NIS 53 million) due primarily under the loans made by Bank Leumi to us. Bank Leumi stated that it was taking this action in light of our current financial condition and our having informed Bank Leumi that we would not be making the upcoming payment to it on March 29, 2013 of principal and interest due under the loans. Bank Leumi also informed us that it had placed a freeze on certain accounts maintained by us in which we hold cash and trading securities in the amount of approximately NIS 13 million (approximately \$3.5 million) with Bank Leumi ("Leumi Accounts") until the outstanding amounts due are repaid. Bank Leumi also notified us that it has reserved all its rights in the event all outstanding amounts under the loans are not repaid within ten days, including offsetting any amounts in the Leumi Accounts against the outstanding amounts. Subsequently Bank Leumi has offset NIS 4.4 million (approximately \$1.2 million), which represents due but unpaid amounts, in the Leumi Accounts towards repayment of the outstanding principal and interest owed to it.

Class Action Lawsuits

A purported class action lawsuit was filed on February 25, 2013 by one of our Note holders in the Court against us, our controlling shareholders, officers and others. The complaint requests that the court recognize the lawsuit as a valid class action and alleges, among other things, that our announcements on February 5, 2013 and February 19, 2013 that we would suspend principal and interest payments to our Note holders, respectively, constituted a breach of the trust agreements relating to our Series A and Series B notes. The lawsuit seeks damages in the amount of NIS 240 million (approximately \$64 million).

In addition, a purported class action was filed on April 11, 2013 by a holder of our Series B notes in the Court against us, based on the non-payment of amounts due under the Notes and alleging that our suspension of payments on the Series A and B notes resulted from our failure to timely identify and react to the decline in our business and that our Notes repurchase program had wasted our assets. The lawsuit seeks damages in the amount of approximately NIS 82 million (approximately \$22 million). On April 18, 2013, the plaintiff under this claim requested the Court to consolidate the other class action with this action and to hold the hearing as to both cases jointly. At this point the Court has ordered a response from all parties with respect to the joint hearing of the two claims.

Request from Trustees of Series B Notes for Liquidation

On April 4, 2013, trustees of our Series B notes, which represented an outstanding balance of approximately NIS 16.5 million (approximately \$4.4 million), submitted a motion to the Court to appoint a temporary liquidator and liquidate our company due to our suspending of making payments of principal and interest under the Notes. On April 14, 2013, we submitted a statement of defense with respect to the motion to appoint a temporary liquidator. On April 22, 2013 the trustee of the Series B notes and we filed with the Court a joint application to delay the filing of further pleadings until May 8, 2013, stating that if by that time we will file with the Court a plan of arrangement under Section 350 of the Companies Law the trustee of the Series B notes would reconsider their petition to appoint a temporary liquidator. On May 7, 2013 the trustees submitted a request to withdraw the motion to appoint a temporary liquidator, which was accepted by the Court. The Court has scheduled a hearing on July 3, 2013 for the motion to liquidate our company.

B. BUSINESS OVERVIEW

We operate primarily in the following principal fields of business:

- **Commercial and Entertainment Centers** - Initiation, construction and sale of commercial and entertainment centers and other mixed-use real property projects, predominantly in the retail sector, located in Central and Eastern Europe and in India, primarily through PC. In certain circumstances and depending on market conditions, we operate and manage commercial and entertainment centers prior to their sale;
- **Hotels** - Hotel operation and management;
- **Medical Industries** - (a) research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment and (b) development of stem cell population expansion technologies and stem cell therapy products for transplantation and regenerative medicine;
- **Residential Projects** - Initiation, construction and sale of residential projects and other mixed-use real property projects, predominately residential, located primarily in India; and
- **Fashion Apparel** - Distribution and marketing of fashion apparel and accessories in Israel.

During 2012, we completed a transaction to sell all of our investments in commercial centers in the United States. In addition, as discussed below in 2012 we lost control over InSightec. Accordingly, both of these operations are presented in these financial statements as discontinued operations. Nonetheless, it is our intention to pursue additional investments in the retail and commercial real estate sectors in the United States and Western Europe in the event of, and immediately following, the consummation of the Arrangement.

In addition, we make venture capital investments in different start-up and emerging corporations. However, the results of this activity are not material to our company, and this activity is not a material segment of our company.

Commercial and Entertainment Centers

This business includes mainly commercial 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 commercial and entertainment centers business, our real estate portfolio includes certain mixed-use real estate projects which include predominantly commercial 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 "commercial 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 commercial and entertainment segment of operations includes a total of seven operating projects and 26 projects in various stages of planning, development and construction, including 14 commercial 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 commercial 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 commercial 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 commercial and entertainment centers if our development criteria are met. We develop commercial 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 commercial 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: commercial and entertainment.

The commercial 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 commercial and entertainment centers include the following elements:

Development: develop modern western-style commercial 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 commercial 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 commercial 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.

Our strategy in CEE is to dispose of a commercial and entertainment center upon completion of construction. The lingering real estate and financial crisis in CEE over the last four years has forced PC's management to revise its approach for accomplishing its business model of selling its completed commercial centers by extending the time period during which completed commercial centers can be sold. Specifically, this change in the economic environment has forced PC to lengthen the time period required to reach the required occupancy threshold and to hold the commercial centers, but only during the interim period required to reach the minimum occupancy threshold necessary for the property to be attractive to potential buyers and to allow us to attempt to achieve the best price for its completed commercial centers. Accordingly, given the existing market conditions in India and CEE, we estimate the time period required to develop, construct and sell our projects in India and CEE is 5-8 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, 2011 and 2012, and the repercussions of the global recession are ongoing 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.

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 commercial and entertainment centers business are divided into four principal project categories: (i) operating projects; (ii) commercial 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 commercial and entertainment center is located on the west bank of the Daugava River, and is comprised of a three-floor commercial 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 commercial 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 commercial 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 commercial 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 commercial and entertainment center comprises 40,000 square meters of gross lettable area spread over two floors with approximately 1,100 parking spaces. The center includes an eight screen cinema, fantasy park entertainment center as well as over 120 shops with international and local brands. 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 commercial 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 commercial and entertainment center comprises 41,500 square meters of gross lettable area spread over two and a half floors with approximately 850 car parking spaces and 950 two-wheeler slots. The shopping mall includes a seven screen PVR cinema, the blu-O bowling and Timezone entertainment center as well as over 120 shops with international and local brands. This mall is owned exclusively by PC. In June 2012, a fire occurred at the mall, which resulted in its being temporarily closed for the majority of 2012. As a result, we recorded an impairment of NIS 50 (\$13 million) to our trading property asset. PC maintains comprehensive general liability and property insurance, including business interruption insurance, with loss limits that PC believes will entitle it to be insured for the currently foreseeable losses arising from the fire. Based on the insurance company's valuator report, we determined that it is virtually certain that PC will be reimbursed by the insurance company, and accordingly we recorded a receivable in the amount of NIS 37 million (\$10 million).

Commercial and Entertainment Centers under Development

Name of Project	Location	Title	PC Share % ¹	Approximate Land Area (m ²)	Approximate Gross Lettable Area (m ²)	Estimated Completion	Status
Lodz Plaza	Lodz, Poland	Perpetual Usufruct	100	50,000	35,000	2015	Planning and development stage
Csiki Plaza	Miercurea Ciuc, Romania	Ownership	100	33,000	16,000	-	Planning and development stage
Uj Udvart²	Budapest, Hungary	Ownership	35	8,700	16,000	-	Operating, currently working on refurbishment plans
Timisoara Plaza	Timisoara, Romania	Ownership	100	32,000	36,000	2015	Planning and development stage
Kielce Plaza	Kielce, Poland	Perpetual Usufruct	100	30,000	33,000	2015-2016	Planning and development stage
Leszno Plaza	Leszno, Poland	Perpetual Usufruct	100	17,000	16,000	2016	Planning and development stage
Visnjicka Plaza	Belgrade, Serbia	Land use rights	100	30,000	40,000	2014-2015	Planning and development stage
Shumen Plaza	Shumen, Bulgaria	Ownership	100	17,000	20,000	2016	Planning and development stage
Slatina Plaza	Slatina, Romania	Ownership	100	20,000	17,000	2016	Planning and development stage
Constanta Plaza	Constanta, Romania	Ownership	100	26,000	18,000	2015	Planning and development stage
Hunedoara Plaza	Hunedoara, Romania	Ownership	100	41,000	13,000	2016	Planning and development stage
Targu Mures Plaza	Targu Mures, Romania	Ownership	100	31,000	30,000	2016	Planning and development stage
Pireas Helios Plaza	Athens, Greece	Ownership	100	15,000	26,000	2015	Planning and development stage

¹ Directly or indirectly.

² Uj Udvart 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	€26.6 million (approximately \$166.8 million)	-
Romania	€45 million (approximately \$191 million)	-
Hungary	€8.4 million (approximately \$24.2 million)	-
Serbia	€74.2 million (approximately \$97.8 million)	-
Bulgaria	€6.3 million (approximately \$34.7 million)	-
Greece	€68 million (approximately \$89.6 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 ²)	Approximate Gross Lettable Area (m ²)	Estimated Completion	Status
The Dream Island	Budapest, Hungary	Ownership / land use rights	43.5 ¹	320,000	350,000 ^{2,3}	2015-2017	Planning and development stage. An exclusive casino license has been awarded.
Casa Radio	Bucharest, Romania	Leasing for 49 years	75 ⁴	97,000	600,000 ^{2,5}	2014-2017	Planning and development stage
Iasi Plaza	Iasi, Romania	Ownership	100	46,500	58,000	2016	Planning and development stage
Belgrade Plaza	Belgrade, Serbia	Ownership	100	9,000	70,000 ²	2015	Planning and development stage

1 Indirectly (PC has a 50% shareholding in the joint venture partnership with MKB Bank that 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 3% 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. The project is currently in the planning phase.

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 commercial 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.

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	€816.4 million (approximately \$1,075.6 million)	-
Romania	€76.1 million (approximately \$1,022.5 million)	-
Serbia	€87.9 million (approximately \$115.8 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 commercial 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:

- Brashov - 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 Ploiest, with an expected GLA of approximately 10,500 square meters. It is anticipated that the project will be completed in 2015.

Kharadi, India

The Kharadi project is situated in the Kharadi suburbs in Pune City, Maharashtra, India. The site area is 71,300 square meters and consists of four office buildings with a total of 155,000 square meters of saleable area and 110,000 square meters of parking area. The project is essentially an office complex with retail offered as well, and is owned 50% by PC and 50% by a local developer.

Of the four buildings the first building (comprising 28,000 square meters) has been completed and 75% of it has been sold to the prospective buyers. The construction of the second building (comprising 41,000 square meters) has commenced, and the construction of the other two buildings is expected to begin in the near future.

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	€12 million (approximately \$55 million)	-
Romania	€7 million (approximately \$62 million)	-
India	€4 million (approximately \$97 million)	-

* In respect of those projects that are under construction.

Hotels

General

The goal of our hotel business is to develop or acquire, hold and operate, 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 generally entitled to terminate the management agreements with Rezidor subject to payment of a termination fee. In regards to the agreement to manage the Radisson Blu Bucharest Hotel we can terminate the agreement only in limited circumstances set forth in the agreement.

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 with a true commitment to service

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, and 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, 2012	Approximate Constructed Area (square feet)	Total Rooms and description	Average Occupancy Rates During 2012 (%)	Additional information
Radisson Blu Astrid Antwerp Antwerp, Belgium Four Star Deluxe	Freehold	100%	223,000	247 rooms including business class suites & 19 new luxury apartments	74,1%	Includes an oceanarium attraction, 18 conference rooms, a bar, a restaurant and a fully equipped health club with a pool
Radisson Blu Bucharest Bucharest, Romania Five Star Hotel and ApartHotel (formerly Centerville)	Freehold	77%	900,000	424 rooms suites, executive suites and one exclusive royal suite and 294 apartments in a level of 4 and 5 stars	74%	The complex of both hotels includes several restaurants, a spa and a world class health academy, casino, shopping area and supermarket services
Park Inn Antwerp, Belgium Three star boutique	Freehold	100%	32,250	59 rooms going from standard to junior suite with terrace	87,5%	Includes a restaurant, a lounge and a fitness room

The average room rate for 2012 for our Radisson hotel in Belgium was €14,88 (approximately \$154.0); for our Park Inn hotel in Belgium was €88,14 (approximately \$119.0); and for our hotel complex in Romania was €83 (approximately \$107).

In 2012 revenue per available room for our hotels in Belgium and Romania was €3 (approximately \$109) and €1 (approximately \$80), respectively.

Recent Acquisitions and Dispositions of Hotels

In March 2012, we entered into a share purchase agreement with PPHE Hotel Group Limited ("PPHE," formerly known as Park Plaza Hotels Limited) for the sale of our holdings in certain subsidiaries 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 were jointly owned by us and PPHE and were managed by PPHE. The transaction reflected an asset value of €69 million (approximately \$219 million) for all four hotels. The total net consideration payable to us was €6.5 million (approximately \$34.5 million). In addition, approximately €8 million (approximately \$75 million) of our subsidiaries' share (50%) of banks loans was assumed by PPHE by virtue of the purchase of those subsidiaries and were eliminated from our consolidated balance sheet. The consideration was paid to us as follows: (i) €3 million (approximately \$30 million) in cash; (ii) 700,000 ordinary shares of PPHE, with a 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 \$2.0 million) that shall be made on the fourth anniversary of the date of transfer and shall be subject to certain adjustments, based on the PPHE shares' market price, as set forth in the agreement. The total profit generated from the sale of the hotels amounted to approximately NIS 188 million (\$50 million), out of which we recognized NIS 134 million (\$36 million) in the shareholders' equity due to the application of the revaluation model described above and NIS 54 million (\$14 million) in the income statement.

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, and as of the date of this annual report we believe we will receive an extension for some additional period. Also under the agreement, we provided the Israel Land Administration with two bank guarantees in the aggregate amount of NIS 10 million (which we are about to draw down in order to begin ground and water works during the second quarter of 2013), 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 restructured our holdings in the medical companies InSightec and Gamida, under Elbit Medical Technologies Ltd. (formerly Enter Holdings 1 Ltd.), an Israeli company traded on the TASE ("Elbit Medical"). As of the date of this annual report, we hold 95.63% of Elbit Medical's share capital (on a fully diluted basis).

On March 13, 2011, we entered into a credit facility with Elbit Medical, pursuant to which we provided Elbit Medical with a credit line up to an aggregate amount of NIS 39 million. The amounts drawn down from the credit facility do not bear any interest but are linked to the Israeli consumer price index. During 2012, the amount of the credit line was increased to NIS 51 million and the maturity date was extended to April 1, 2015. As of the date of this annual report Elbit Medical has drawn down NIS 51 million from the credit facility.

On March 9, 2010, we entered into a credit facility with InSightec, pursuant to which we provided InSightec with a credit line up to an aggregate amount of NIS 58.9 million. As of February 2012, the terms of the facility were amended to provide that the facility is linked to the U.S. dollar and bears interest at an annual rate of 6.0%. In July 2012, the credit facility was assigned to Elbit Medical in exchange for a loan from us to Elbit Medical in an amount of \$17.8 million. The maturity date of the loan is October 1, 2016, with the option to prepay at any time at the sole discretion of the Company, and subject to approvals by Elbit Medical's Audit Committee. As of the date of this annual report the outstanding balance of the loan, including accumulated interest, was \$18.3 million.

InSightec

We indirectly hold, through Elbit Medical, approximately 48.8% of the outstanding share capital (42.8% on a fully diluted basis) of InSightec, a company that operates in the image guided treatment field.

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 \$13.75 million, bearing interest at a rate of 6% per annum or a rate equivalent to the interest applicable to the financing provided by us and Elbit Medical. The convertible notes are 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, the financing granted to InSightec by us and Elbit Medical during 2010 and 2011 was amended to provide similar loan terms and security mechanisms as set forth in the 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 were issued to us are secured, *pari passu*, by floating charges over the assets of InSightec and its wholly owned subsidiary.

On December 6, 2012, InSightec completed its issuance of Series C preferred shares for an aggregate amount of \$30.9 million, which included \$27.6 million invested by GE and \$3.9 million invested by other investors. According to the terms of the transaction, GE and we converted all the existing shareholders loans that had been granted to InSightec into InSightec's series B-1 preferred shares in accordance with the terms of those loans. The transaction reflected a post-money valuation of InSightec of approximately \$105.9 million (or pre-money valuation of \$75 million and following the conversion of the loans as described above). As part of the transaction GE and InSightec entered into the Cooperation Agreement, which regulates the commercial relationship between the parties, including, amongst other things, with respect to product exclusivity, cooperation with respect to the development and sale of the parties' complementary products, distribution, marketing and sales, intellectual property rights and licenses, sale terms and conditions, and similar items. Under the Cooperation Agreement, InSightec is prohibited from developing systems that would be compatible with MRI systems manufactured by companies other than GE for a defined time period. After completion of the transaction we no longer have the right to appoint the majority of InSightec's board members and therefore we ceased to consolidate InSightec's financial statements, and our investment in InSightec is presented based on the equity method.

Certain decisions of InSightec are required to be approved by a vote of the holders of at least 70% of the Series B Preferred Shares, Series B-1 Preferred Shares and Series C Preferred Shares of InSightec voting together as a single class, such as the issuance of shares ranking equal or senior to the existing preferred shares, amending InSightec's Articles of Association, the sale of all or substantially all of InSightec's assets and/or intellectual property, and effecting an initial public offering of InSightec's shares subject to certain limitations and terms and conditions, and certain decisions as to matters affecting a class of the Preferred Shares are required to be approved by a vote of holders of at least 80% (70%, in the case of the Series C Preferred Shares) of the applicable class, such as an increase or decrease in the authorized shares of such class (regardless of whether all the shares of such class authorized at such time have been issued) or an amendment of any of the rights or privileges of such class.

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

Commencing as of the execution of the Cooperation Agreement with GE, InSightec's main distribution channel is expected to be through GE, as a non-exclusive distributor (unless otherwise agreed). In addition, InSightec distributes and markets its products directly and through the entering into distribution agreements with third parties. Distribution agreements are generally for a term of between one and five years, with an option to extend the agreement based on the performance of the distributor.

InSightec has contracted with several 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 30.8% of the outstanding share capital (28.9% 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 May 2012 Gamida finalized an internal investment round of \$10.0 million by its existing shareholders. We invested \$3.0 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® has completed a phase III international clinical trial for hematological malignancies. The enrollment and infusion of all 100 patients in this study were completed in February 2012. In April 2013, Gamida announced the full results and analyses of the study. Pursuant to the study StemEx improved overall survival at 100 days post-transplantation compared to the use of StemEx in the treatment of patients with hematological malignancies such as leukemia and lymphoma. Additional key findings showed that a transplant using StemEx increased the number of patients with early hematopoietic recovery and is feasible and safe with a robust manufacturing process and shipment logistics, allowing prompt and reliable transplantation in multiple sites across three continents. 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.

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 completed enrolling 11 patients in a phase I/II clinical study of NiCord of people with hematological malignancies that showed promising results. The study was conducted in the United States, under an Investigational New Drug (IND) Application. Gamida is currently enrolling patients for another phase I/II study with Nicord in patients with sickle cell disease.

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 several patents worldwide and numerous patent applications.

Residential Projects

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

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

In August 2008 we entered into a joint venture agreement with PC for the development of major mixed-use projects in India (except for projects which are only or mainly commercial and entertainment centers, which will be developed only by PC and are excluded from the framework of this joint venture) (the "EPI Agreement"). Under the terms of the EPI Agreement, amongst other things PC was allotted 47.5% of the shares of our subsidiary Elbit Plaza India Real Estate Holdings Limited ("EPI"). EPI is developing two mixed-use projects (the Bangalore and the Chennai projects) in India in conjunction with local Indian partners and has engaged with certain third parties with the intent to develop an additional project on the Kochi Island. As of the date of the execution of the EPI Agreement through the date of this annual the Kochi Island project was held through a special purchase vehicle other than EPI. We agreed that 50% of our rights in the Kochi Island project will be held in favor of PC, and we undertook and guaranteed to transfer the holdings in the Kochi project to EPI or 50% to PC within 12 months following the execution of the EPI Agreement, or alternatively to repay the consideration paid by PC for the rights in the project. This undertaking and guarantee have since been extended until August 25, 2013.

Under the EPI Agreement, PC has paid us approximately \$126 million, reflecting 50% of all loans and financing invested by us in the Bangalore, Chennai and Kochi projects as of such date. 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, rights of first refusal for transfer of shares and tag along rights. Future issuances of shares by EPI are subject to pro-rata preemptive rights.

The EPI Agreement cancelled and replaced a previous sourcing agreement between the parties from 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"). The EPI Agreement provides that if it will be terminated before October 2021, the parties shall enter into the Sourcing Agreement again for the period commencing as of the termination of the EPI Agreement until October 2012.

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 % ¹	Approximate Gross		
				Approximate Land Area (square meters)	Built Area (square meters)	Estimated Completion
Prague III * Roztoky	Prague, Czech Republic	Ownership	100	46,500	61,600	- ²
	Prague, Czech Republic	Ownership	100	39,000	14,000	2015
Lódz Plaza BAS Joint Venture	Lódz, Poland	Ownership	100	33,500	80,000	-
Fountain Park Acacia Park Green Land Poiana Brasov Pine Tree Glade	Bucharest, Romania	Ownership	12.5	14,000	16,600	2015-2016
	Ploiest, Romania	Ownership	25	12,500	32,000	2015-2016
	Ploiest, Romania	Ownership	25	18,400	25,800	2017-2018
	Brasov, Romania	Ownership	25	73,000	138,000	2016-2019
	Brasov, Romania	Ownership	25	28,300	40,000	2017-2018

1 Represents share percentage owned by PC.

2 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 - €30 million (approximately \$297 million);
- With respect to the projects developed in Poland - €10 million (approximately \$272 million); and
- With respect to the projects developed in the Czech Republic - €10 million (approximately \$168 million).

Mixed-Use / Residential Projects

Name of Project	Location	Title	Share %	Approximate Land Area (square meters)	Approximate Gross Built Area (square meters)	Estimated Project Phase Completion
Bangalore Project	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) ⁴	310,000	2013-2020
	Chennai, Tamil Nadu State, India	Ownership	80 ^{1, 2}	337,500 (of which rights to 303,500 obtained so far)	230,000 ⁵ (for sale)	2013-2018
Kochi	Kochi, Kerala State, India	Freehold and Development Rights	50 ^{1, 2, 6}	166,000 (of which rights to 52,600 obtained so far)	575,000	-7
Trivandrum	Trivandrum, Kerala State, India	Ownership	50 ^{2,8}	43,500	120,000	-7

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 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.

5 As EPI is currently operating to secure a joint development agreement with local developer(s) for the development of the project land, this approximate GBA reflects the currently negotiated transaction. Correspondingly, this figure is comprised of two elements - plotted development parcels for sale and built up villa.

6 For information regarding the allotment of our shares in the Kochi Project SPV, see “Kochi, Kerala State, India.”

7 Project is currently in planning and development stage.

8 Represents holding owned by PC (PC owns 50%).

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

Bangalore, Karnataka State, India

Amended Framework Agreement - In March 2008 EPI entered into an amended and reinstated share subscription and framework agreement (the “Amended Framework Agreement”) with a third party (the “Partner”) and a wholly owned Indian subsidiary of EPI (“SPV”) to acquire up to 440 acres of land in Bangalore, India (the “Project Land”) in certain phases as set forth in the agreement. As of December 31, 2012, the Partner has surrendered land transfer deeds in favor of the SPV to a trustee nominated by the parties for approximately 54 acres for a total aggregate consideration of approximately INR 2,843 million (approximately \$51.9 million). Upon the actual transfer of title of the 54 acres, the Partner will be entitled to receive 50% of the equity in the SPV.

In addition, the SPV has paid to the Partner advances of approximately INR 2,536 million (approximately \$46.3 million) on account of future acquisitions by the SPV of a further 51.6 acres.

As discussed below, on July 22, 2010, EPI, the SPV and the Partner entered into a new set of arrangements constituting a new framework agreement, which has not yet come into effect (the "New Framework Agreement"). The New Framework Agreement provides that in case it does not eventually come into full force and effect, the terms of the Amended Framework Agreement will govern, according to which our additional investments in the Project Land may reach up to INR 10,500 million (approximately \$192 million). Nevertheless, although certain conditions precedent under the New Framework Agreement have not been met, EPI, the SPV and the Partner are pursuing the project in accordance with the provisions of the New Framework Agreement.

New Framework Agreement – The New Framework Agreement established new commercial understandings pertaining, *inter alia*, to the joint development of the Project Land and its size and financing, the commercial relationships and working methods between the parties and the distribution mechanism of the revenues from the Project Land. In accordance with the New Framework Agreement, the following commercial terms, amongst others, were agreed to between the parties:

- EPI will remain the holder of 100% of the equity and voting rights in the SPV;
- the scope of the new Project will be decreased to approximately 165 acres instead of 440 acres (the "New Project");
- the Partner undertook to complete the acquisitions of the additional land and/or the development rights therein in order to obtain the ownership and/or the development rights over the 165 acres;
- the SPV and/or EPI will not be required to pay any additional amounts in respect of such land acquisitions or with respect to the Project and its development; and
- the Project will be re-designed as an exclusive residential project.

The Project will be executed jointly by the Partner and the SPV. The Partner (or any of its affiliates) will also serve as the general contractor of the Project and the marketing manager of the Project. Under the New Framework Agreement the Partner is also committed to maximum construction cost threshold, minimum sales price and a detailed timeline and budget with respect to the development of the Project.

The net proceeds from the Project (including the proceeds from any sale by the Partner or any transaction with respect to the original lands which do not form part of the 165 acres) will be distributed (following a reserve mechanism to enable the Partner to utilize a portion of the proceeds for construction costs and expenses) in a manner by which our share will be approximately 70% until such time that EPI's investment in the amount of INR 5,780 million (approximately \$108.5 million) ("EPI's Investment") plus an internal return rate of 20% per annum calculated from September 30, 2009 (the "IRR") is paid to the SPV (on behalf of EPI (the "Discharge Date").

Following the Discharge Date, EPI will not be entitled to receive any additional profits from the Project and it will transfer to the Partner the entire shareholdings in the SPV for no consideration. In addition, the Partner has a call option, subject to applicable law and regulations, to acquire the entire shareholdings of the SPV, at any time, in consideration for EPI's Investment plus the IRR calculated on the relevant date of acquisition.

The terms of the New Framework Agreement will enter into full force and effect upon execution of certain ancillary agreements as set forth therein, nevertheless EPI, the SPV and the Partner are pursuing the Project in accordance with the New Framework Agreement. As of December 31, 2012 and 2011, the SPV operations are consolidated proportionately (50%) with those of our company, since significant decisions in respect of the Project Land require the consent of both EPI and the Partner.

Planning Status - In January 2011, the Partner submitted the development plans pertaining to approximately 84 acres included in the scope of the new project of 165 acres to the local planning authority, the Bangalore Development Authority ("BDA"). In October 2011, the BDA notified the Partner that the development plans cannot be considered due to future eminent domain proceedings with respect to the lands on which the new project is proposed to be situated (among other lands in the same area). The government has not yet published any notice in that respect, as required by law in order to validate such eminent domain plan.

In January 2012, the Partner applied to the State High Court, requesting to issue a court order directing the BDA to consider the development plans. In March 2012, the court awarded a judgment pertaining to approximately 49 acres, ordering the BDA to consider the development plans relating to such 49 acres (the "Development Plan"), while ignoring any future eminent domain program that may be considered by the state authorities. In December 2012, the BDA decided to submit the development plan pertaining to the 49 acres to the Sensitive Zone Sub-Committee of the BDA, and in January 2013 the Sensitive Zone Sub-Committee of the BDA granted its approval to the Development Plan. As of the date of this annual report the court has not provided a ruling with respect to the additional 35 acres.

Chennai, Tamil Nadu State, India

In December 2007, EPI executed agreements for the establishment of a special purpose vehicle ("Chennai Project SPV") together with one of the leading real estate developers in Chennai (the "Local Partner"). Subject to the fulfillment of certain conditions, the Chennai Project SPV 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. Due to changes in market conditions, EPI and Chennai Project SPV decided to limit the extent of the project to 83.4 acres.

Under these agreements, EPI's investment in the Chennai Project SPV will be a combination of investment in shares and compulsory convertible notes. Pursuant to the agreement, EPI will hold 80% of the equity and voting rights in the Chennai Project SPV, while the Local Partner will retain the remaining 20%. The land for the project is to be acquired by Chennai Project SPV in stages subject to such land complying with certain regulatory requirements and the due diligence requirements of EPI.

As of December 31, 2012, the Chennai Project SPV had completed the purchase of approximately 75 acres out of the total 83.4 acres. EPI's share of aggregate consideration paid in connection with the transaction was INR 2,367 million (approximately \$43.2 million). In addition, as of such date EPI paid advances in the amount of INR 564 million (approximately \$10.3 million) in order to secure acquisition of the additional 8.4 acres.

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

The consummation of the agreements will be accomplished in stages, and is subject to the fulfillment of certain regulatory requirements, as well as to our satisfactory due diligence investigations, in respect of each stage. However, EPI is currently negotiating certain changes in the project's implementation plan and holding structure, which would require changes also in the respective agreements. Among other things, should those changes be accepted, EPI shall not be required to advance more financing to the project in addition to the amounts mentioned above and shall hold all the issued and outstanding share capital of the SPV. Furthermore, EPI is currently operating to secure a joint development agreement with local developers for the development of the project land, in accordance with the guidelines discussed above.

Kochi, Kerala State, India

In September 2006, we, together with an Indian corporation (the "Project SPV") wholly owned by certain unrelated third parties (the "Third Party Shareholders"), entered into a transaction (as amended in January 2007) consisting of a land purchase agreement and a share subscription agreement, for the purchase of land located in Kochi, India. In accordance with the terms of the land purchase agreement, the Project SPV acquired 13 acres ("Property A") located in the city of Kochi in the Kerala State of India, for a total consideration of INR 1,495 million (approximately \$27.3 million), payable subject to fulfillment of certain obligations and conditions by the seller in respect of the land including obtaining all permissions required for construction thereon and making good and marketable title with regard to Property A and others (the "Conditions Precedent"), out of which an advance of approximately 25% of the total purchase price was paid to the seller in consideration for the transfer of title in Property A to the Project SPV. The land purchase agreement further provides that an additional 28 acres (approximately 113,300 square meters) ("Property B") would be transferred by the seller to the Project SPV without any consideration and the seller will be entitled to receive 40% of the constructed area which will be built by the Project SPV on Property B. As of December 31, 2012, the seller has failed to transfer Property B and, accordingly, the seller was not awarded any percentage out of the planned constructed area.

The agreement also provides that if the seller fails to comply with the Conditions Precedent by an agreed date, the Project SPV and we will have the right to terminate the agreement.

Under the share subscription agreement, we will receive 50% of the equity (by having the right to appoint two members of the Project SPV's board of directors) and voting rights in the Project SPV, subject to obtainment of certain regulatory provisions in respect of the land and the securing of sanctioned plans for the project, which as of December 31, 2012 have not been fully obtained.

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. ("Elbit Trade") and all the interests in G.B. Brands, Limited Partnership ("GB Brands"), which was the franchisee of the Gap™ and Banana Republic™ brands, to Gottex Models Ltd. ("Gottex"). The purchase price paid by Gottex under the agreement was NIS 25 million (approximately \$7 million), plus the agreed value of the GAP inventory as of the closing date and adjustments based on the agreed value of the working capital attributed to the GAP activity as of the closing date. We recorded a gain in the amount of NIS 9.4 million (approximately \$2.5 million).

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 27 Mango stores in Israel, with one additional store currently under construction.

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):

	2012	2011	2010	Convenience Translation in U.S. Dollars for 2012
Israel	152,470	183,552	171,275	40,848
Western Europe	169,319	171,359	484,617	45,357
Central and Eastern Europe	400,325	246,860	232,044	107,239
Other and Allocations	12,216	(14,871)	(7,625)	3,269
Total Revenues	734,330	586,900	880,311	196,713

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

	2012	2011	2010	Convenience Translation in U.S. Dollars for 2010
Commercial and Entertainment Centers	300,541	111,726	102,895	80,509
Hotels	276,703	286,548	602,599	74,123
Medical Companies*	286,031	53,324	33,631	76,622
Residential Projects	1,622	3,544	-	434
Fashion Apparel	152,470	183,552	174,817	40,844
Other and Allocations*	(283,037)	(51,794)	(33,631)	(75,819)
Total	734,330	586,900	880,311	196,713

* Because we lost control over InSightec during 2012 revenues were classified to discontinued operations.

Seasonality

Hotels

The business activities of our hotels 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, now known as the ApartHotel, 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. We still utilize the trade mark of CenterVille in connection with the ApartHotel.

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

Commercial and entertainment centers

We have been active in emerging markets since 1996, when we opened the first western-style commercial 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 17 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 commercial 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 commercial and entertainment centers, are at a disadvantage because they do not offer the entertainment facilities that are offered at our commercial 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 commercial 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), in receiving financing (due to the shortage of available financing following the recent worldwide credit crisis) 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 commercial 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.

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. Our Radisson Blu Bucharest Hotel is rated a five-star luxury hotel, our Radisson Blu Astrid Antwerp is rated a four star deluxe hotel and our Park Inn is rated a three star hotel.

Each of our hotels competes with other hotels in its geographic area for clientele, including hotels associated with other franchisers, which may have different reservation networks than those that may be available to us. We compete with other facilities on various bases, including room prices, quality, service, location, reservation service, marketing tools 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 "White meadows" villas by Prestige Group, "Palm retreat" villas by Adarsh Developers, and "Wind mills of your mind" villas by Total Environment as well as other small scale developers.

In Chennai, India, the main competitors in residential projects are "Panache" villa developed by Olympia, "Grand Elora" row houses developed by Joy Housing, "Greenwood" plots developed by Arihant, "Hub 6" plots developed by Divyashree and "The Village" Villas developed by Phoenix 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 Goff 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

Commercial and entertainment centers

The development, construction and operation of commercial 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 applicable authorities such as environmental, sanitation, labor, utility and fire authorities. Once all approvals are obtained, an occupancy permit can be obtained for the building.

Foreign direct investment ("FDI") in the construction development 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 ("DIPP") 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 DIPP, with effect from April 10, 2012. FDI in the construction development sector is restricted under the FDI Policy issued by the DIPP. 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; (c) non-repatriation of original investment (lock-in period); (d) project completion schedule; (e) conformance with local laws and applicable standards; (f) obtaining necessary approvals; (g) supervision by the state government/municipal/local body concerned and (h) prohibition of the sale of undeveloped plots where specific types of infrastructure, as per the FDI Policy and applicable prescribed regulations, have not been made available.

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 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 commercial 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 commercial 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 applicable property as a security.

Residential Projects

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

Hotels

The development, construction and operation of hotels and leisure facilities, including advertising tariffs and hotels, health safety issues, environmental regulations, 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 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 addition, in 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 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); (iv) 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 49.79% 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 Chief Executive Officer, 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	COUNTRY OF ORGANIZATION	DIRECT/INDIRECT OWNERSHIP PERCENTAGE
Plaza Centers N.V.	The Netherlands	62.5% ⁽¹⁾
Elscent Holdings & Investment N.V.	The Netherlands	100%
Elbit Medical Technologies Ltd.	Israel	90% ⁽²⁾
Elbit Plaza India Real Estate Holdings Limited	Cyprus	50% ⁽³⁾⁽⁴⁾
Elbit Fashion Ltd.	Israel	100%
Elbit Plaza USA II, L.P.	U.S.A.	50% ⁽⁵⁾

(1) Approximately 56.9% on a fully diluted basis.

(2) Approximately 95.6% on a fully diluted basis.

(3) 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."

(4) 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."

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

D. PROPERTY, PLANTS AND EQUIPMENT

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

On July 19, 2012 we signed a lease agreement for approximately 1,180 square meters of space, including storage area and parking spaces, for management and administrative purposes in an office building in Bnei-Brak, Israel, to which we intend to relocate our offices during April 2013. The agreement is for a period of five years with an option to extend for an additional period of five years. The annual aggregate rental fee (including management fees and index linkage pursuant to the lease agreement, and excluding VAT) to be paid by us will be approximately NIS 1,983,500 (approximately \$531,342) on an annual basis.

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 \$150,000.

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 2014, with an option to extend the lease for a 10-year period. Monthly rental and management fees payable by Elbit Fashion are NIS 49,000 (approximately \$13,000).

Elbit Plaza India Management Services Pvt. Ltd. and HOM India Management Services Pvt. Ltd. lease on a 50-50% basis approximately 250 square meters of office space in Bangalore, Karnataka, India, for its management and administration activities. The term of the lease is until September 1, 2015, with an option to extend the lease for an additional three-year period. Monthly rental and management maintenance fees payable by EPI and HOM are INR 229,500 (approximately \$4,254) and INR 13,500 (approximately \$250), respectively, with an annual increase in the monthly rental fees of 5%.

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, offices in Milwaukee, Wisconsin for an annual rental fee of approximately \$54,000 and offices in Japan, Tokyo for an annual rental fee of approximately \$36,000.

ITEM 4A. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

Overview

We operate primarily in the following principal fields of business:

- Commercial and Entertainment Centers - Initiation, construction and sale of commercial and entertainment centers and other mixed-use real property projects, predominantly in the retail sector, located in Central and Eastern Europe and in India, primarily through PC. In certain circumstances and depending on market conditions, we operate and manage commercial and entertainment centers prior to their sale;
- Hotels - Hotel operation and management;
- Medical Industries - (a) research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment and (b) development of stem cell population expansion technologies and stem cell therapy products for transplantation and regenerative medicine;
- Residential Projects - Initiation, construction and sale of residential projects and other mixed-use real property projects, predominately residential, located primarily in India; and
- Fashion Apparel - Distribution and marketing of fashion apparel and accessories in Israel.

During 2012, we completed a transaction to sell all of our investments in commercial and entertainment centers in the United States. In addition, as discussed below in 2012 we lost control over InSightec. Accordingly, both of these operations are presented in these financial statements as discontinued operations. Nonetheless, it is our intention to pursue additional investments in the retail and commercial real estate sectors in the United States and Western Europe in the event of, and immediately following, the consummation of the Arrangement.

In addition, we make venture capital investments in different start-up and emerging corporations. However, the results of this activity are not material to our company, and this activity is not a material segment of our company.

We have established a new investment fund, 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-) retail properties located in the United States and Western Europe, from capital-seeking owners and lenders. We intend to hold the assets for a period of three to five years, until such assets are traded again at their historical yields and values. During this period our investment platform will engage in active asset management, 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 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.

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 2010, 2011, 2012 and 2013 (to date) and may continue to affect our operational results in the coming years. For additional information, see "Item 4.B Business Overview."

2013

- We filed the proposed plan of Arrangement with the Court under Section 350 of the Companies Law on May 8, 2013. For details regarding the terms and conditions of the Arrangement, as well as the Letter of Undertakings we entered into with the trustees of certain of our Notes on March 19, 2013, please see "Item 10.C – Additional Information – Material Contracts" below.
- In February 2013 we announced that we would temporarily cease making all principal payments due under our Series A and Series B notes and all interest payments due under all of our publicly-traded Notes, and thereafter we announced that we would temporarily cease making all payments (principal and interest) due under all of our publicly-traded Notes. On May 19, 2013 we executed the Letter of Undertakings, which, amongst other things, includes a provision that we not make any further payments to our Note holders. In addition, for a discussion of each of the dispute between our controlling shareholder and the Bank, our dispute with Bank Leumi, the proposed class action lawsuits that have been filed against us and the request from the trustees of our Series B notes with the Court to liquidate the Company, please see "Item 4.A. History and Development of the Company – Recent Events".
- As described below in " – 2012", in August and November 2012 we entered into two note structured transactions with two leading global financial institutions. On February 20, 2013, the other parties notified us of the early termination of the transactions as a result of the decline in the market price of our outstanding Notes and consequent failure to meet the loan-to-value covenants under the agreements governing the transactions.

2012

- As discussed above under "Item 4.B – Business Overview – Medical Companies", on December 6, 2012, InSightec completed its issuance of Series C preferred shares for an aggregate amount of \$30.9 million, which included \$27.6 million invested by GE and \$3.9 million invested by other investors. According to the terms of the transaction, GE and we converted all the existing shareholders loans that had been granted to InSightec into InSightec's series B-1 preferred shares in accordance with the terms of those loans. The transaction reflected a post-money valuation of InSightec of approximately \$105.9 million (or pre-money valuation of \$75 million and following the conversion of the loans as described above). As part of the transaction GE and InSightec signed the Cooperation Agreement that regulates the commercial relationship between the parties, including, amongst other things, with respect to product exclusivity, cooperation with respect to the development and sale of the parties' complementary products, distribution, marketing and sales, intellectual property rights and licenses, sale terms and conditions, and similar items. Under the Cooperation Agreement, InSightec is prohibited from developing systems that would be compatible with MRI systems manufactured by companies other than GE. Following the closing of the transaction, Elbit Medical's holding in InSightec was reduced to approximately 48.2% (approximately 40.7% on a fully diluted basis). After completion of the transaction we no longer have the right to appoint the majority of InSightec's board members and therefore we ceased to consolidate InSightec's financial statements, and our investment in InSightec is presented based on the equity method.
- In November 2012, PC's board of directors approved the extension of the repurchase of its series A through B Notes in an amount of up to NIS 750 million (approximately \$201 million), to be made until December 31, 2014. During 2012, PC purchased a total of NIS 271 million par value of its notes (approximately \$73 million), for a total consideration of NIS 247 million (approximately \$66 million).

- In August 2012 we entered into a NIS 75 million (approximately \$20 million) note structured transaction with a certain financial institution, pursuant to which we purchased a NIS denominated zero-coupon credit linked note due to mature on October 2, 2013 (the "CLN") from the other party. The CLN referenced a portfolio of our notes (having a market value of NIS 75 million). The note portfolio was purchased by us under our note repurchase program that was announced on May 23, 2011 and in the framework of the transaction we sold the note portfolio to the other party. In consideration, the other party paid us the market value of the note portfolio and arranged for the issuance of the CLN at an issue price of NIS 37.5 million (approximately \$10 million).

In addition, in November 2012 we entered into a NIS 150 million (approximately \$40 million) note structured transaction with another financial institution pursuant to which we received a NIS 75 million credit line for the purchase of a portfolio of our notes having an aggregate market value of up to NIS 150 million. We were allowed to purchase the note portfolio within a 10-week utilization period commencing at the effective date of the transaction. In the framework of the transaction, we had the right to sell to the other party notes that were acquired by us and which comprised the note portfolio in consideration for a payment by the other party of the agreed-upon financing amount not to exceed 50% of the aggregate market value of the note portfolio and that would be determined by the parties.

During the terms of the respective transactions, all the proceeds derived from the note portfolio (principal and interest) were to be retained by the other parties. Immediately following the scheduled respective termination date of each of the transactions, subject to no early termination event having occurred the other party to each transaction, respectively, was to deliver to us the remaining, unamortized portion of the respective note portfolio. Under the terms of the respective transactions, an early termination of the transaction could occur upon a trigger event linked to a decrease in the market value of the respective note portfolio below a pre-defined threshold.

In furtherance of the transaction as well as any other note repurchases, the board of directors of the Company approved the increase of the note repurchase program to allow repurchase of up to an additional NIS 125 million (approximately \$33 million) of our Series A through G and Series 1 notes.

As discussed above, on February 20, 2013, the other parties notified us of the early termination of the transactions as a result of the decline in the market price of our outstanding Notes and consequent failure to meet the loan-to-value covenants under the agreements governing the transactions.

- In June 2012 EPN Group LLC ("EPN Group") sold 47 of the shopping centers it held 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. The total proceeds from the transaction, including cash and other net working capital items less property level financing which was repaid by EPN Group or assumed by the buyer at the closing (in the amount of approximately \$928 million), amounted to approximately \$530 million. The remaining two shopping centers were sold in July 2012 for \$41.0 million.
- On April 5, 2012, Elbit USA LLC (Elbit USA") and Eastgate Property LLC ("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 from 3.3% of our outstanding shares at the date of exercise to 9.9% of our outstanding shares at the date of exercise and to reduce the exercise price from \$3.00 per share to zero. The amendment also contains appropriate modifications to the adjustment provisions of the warrant as a result of the foregoing changes.
- In March 2012, one of our wholly owned indirect subsidiaries entered into a share purchase agreement with PPHE for the sale of our holdings in certain subsidiaries which owned a 50% interest in the following hotels in the Netherlands: the Park Plaza Victoria Amsterdam Hotel, the Park Plaza Utrecht Hotel, the arthotel Amsterdam and the Park Plaza Airport Hotel. These hotels were jointly owned by us and PPHE and were managed by PPHE. The transaction reflected an asset value of €169 million (approximately \$219 million) for all four hotels. The total net consideration payable to us was €26.5 million (approximately \$34.5 million). In addition, approximately €58 million (approximately \$75 million) of our subsidiaries' share (50%) of banks loans were assumed by PPHE by virtue of the purchase of those subsidiaries and were eliminated from our consolidated balance sheet. The consideration was paid to us in May 2012 as follows: (i) €23 million (approximately \$30 million) in cash; (ii) 700,000 ordinary shares of PPHE, with a market price of approximately €2.0 million (approximately \$2.5 million), based on the quotation of such shares' price on the London Stock Exchange as of March 30, 2012; and (iii) an additional payment in the aggregate amount of up €1.5 million (approximately \$2.0 million) that shall be made on the fourth anniversary of the Transfer Date and shall be subject to certain adjustments, based on the PPHE shares' market price, as set forth in the agreement. The total profit generated from the sale of the hotels amounted to approximately NIS 188 million (\$50 million), out of which we recognized NIS 134 million (\$36 million) in the shareholders equity due to the application of the revaluation model described above and NIS 54 million (\$14 million) in the income statement.

- In April 2012 we completed the sale of all our shares in Elbit Trade and all of its interests in GB Brands, which is the franchisee of the GAP and Banana Republic brand in Israel, to Gottex. The purchase price paid by Gottex under the agreement was NIS 25 million (approximately \$7 million), plus the agreed value of the GAP inventory as of the closing date and adjustments based on the agreed value of the working capital attributed to the GAP activity as of the closing date. We recorded a gain in the amount of NIS 9.4 million (approximately \$3 million).
- 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 commercial and entertainment center comprises 22,000 square meters of gross lettable area spread over two floors with approximately 700 parking spaces. The center includes a six screen cinema, the Arena Fun Factory entertainment center and Circus Playground, as well as over 95 shops with international and local brands.
- In March, 2012, PC opened its first commercial center in India, the Koregaon Park Plaza in Pune, the second largest city in the state of Maharashtra. This commercial 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, and 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.

In June 2012, a fire occurred at the center, which resulted in its being temporarily closed for the majority of 2012. As a result, we recorded an impairment of NIS 50 (\$13 million) to our trading property asset. PC maintains comprehensive general liability and property insurance, including business interruption insurance, with loss limits that PC believes will entitle it to be insured for the currently foreseeable losses arising from the fire. Based on the insurance company's valuator report, we determined that it is virtually certain that PC will be reimbursed by the insurance company, and accordingly we recorded a receivable in the amount of NIS 37 million (\$10 million).

- On February 23, 2012, InSightec and InSightec's wholly owned subsidiary concluded a series of agreements with GEHC pursuant to which GEHC will provide financing to InSightec in the form of convertible notes up to a total of \$13.75 million, bearing interest at a rate of 6% per annum or a rate equivalent to the interest applicable to the financing provided by us and Elbit Medical. The convertible notes are 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, the financing granted to InSightec by us and Elbit Medical during 2010 and 2011 was amended to provide similar loan terms and security mechanisms as set forth in the funding agreement, so that Elbit Medical and us will receive convertible notes convertible on the same terms and up to the same amounts as the GEHC notes. The loans and convertible notes issued to GEHC and Elbit Medical and the note that will be issued to us will be secured, *pari passu*, by floating charges over the assets of InSightec and its wholly owned subsidiary.

2011

- In May 2011, PC's board of directors approved the repurchase of up to NIS 150 million 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 notes, for a total consideration of NIS 152 million.
- In November 2011, PC opened the Torun Plaza in Torun, Poland. This commercial and entertainment center comprises 40,000 square meters of gross lettable area spread over two floors with approximately 1,100 parking spaces. The center includes an eight screen cinema, fantasy park entertainment center as well as over 120 shops with international and local brands.
- In October 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 €1.5 million. The loan could 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; we did not draw down the amounts available under Tranche B. 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 noteholders. Furthermore, PC undertook in the agreement that distributions in the years 2012 and 2013 will be subject to the following conditions:
 - o any distribution of dividends (including a repurchase of shares that is not at an attractive price to PC) will not exceed €30 million;

- o 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;
- o if a distribution is made and the notes 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 notes; and
- o if a distribution is made and the notes meet certain agreed upon average yield rates, PC will be entitled to make distributions between €30 million and €50 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 notes.

- 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. The terms and conditions of the warrant and the exercise thereof are subject to amendment under the Arrangement; for more information, please see "Item 10.C – Material Contracts – the Arrangement" below.
- 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.
- On September 23, 2011, PC paid an interim cash dividend payment of €30 million to its shareholders, of which we received €18.7 million out of which €8.7 million was used by us 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") that we had commenced in March 2011, for all of the units in EDT not already held by EPN Holdings and its affiliates for the total consideration of \$242 million. 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 EPN Fund).
- In May 2011, our board of directors approved the repurchase of up to NIS 150 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.
- In March 2011, we entered into a new financing agreement (subsequently amended) with an Israeli bank in the amount of \$70 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 for gross proceeds of approximately NIS 108 million.
- 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, representing a total estimated asset value for the hotels of £230 million. The consideration was paid in a combination of loans, an issuance of one million ordinary 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.
- 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 with Aareal Bank AG, maturing in November 2015. The hotels were previously financed by a £195 million facility (with £181.9 million outstanding) 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 of which £7.7 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 we severally guaranteed certain of the borrowers' obligations, plus interest in a total amount of £25.8 million, of which our share amounts to £11.9 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, 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. As of the date of this annual report, we hold 95.63% 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 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 note offering to Polish institutional investors. PC raised an amount of PLN 60 million from the note 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."
- In August 2010, we sold 15 million ordinary shares of PC to a Polish institutional investor, for an aggregate consideration of approximately NIS 98 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 for gross proceeds of approximately NIS 459 million.
- In June 2010, EPN Real Estate Fund L.P. ("EPN Fund") completed an investment of approximately \$116 million in EDT, a trust traded on the Australian Stock Exchange. Following the completion of the transaction, EPN Fund was EDT's largest unit holder, holding an approximate 48% ownership interest in EDT.
- In June 2010, EPN Fund raised \$31 million in capital commitments from Menora and certain of its affiliates.
- In April 2010, we, together with PPHE, acquired the Holiday Inn Schiphol Hotel located near the Amsterdam Schiphol Airport, for a purchase price of €30 million. 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.
- 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 for gross proceeds of approximately NIS 330 million.
- During 2010 we repurchased 588,910 of our ordinary shares, for a total aggregate amount of NIS 30 million.
- During 2010 we opened four GAP stores in Israel. Our aggregate investment in such stores totaled approximately NIS 21 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.

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.

Until December 31, 2011, for our property, plant and equipment (mainly hotels), we evaluated 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 were present. Such evaluation was based on the higher of (i) estimated selling price in the open market or (ii) the estimated value-in-use, based on discounted operational cash flows (before interest and income tax charges), expected to be generated by those assets ("Recoverable Amount"). In 2012 we elected to change the way in which we account for property, plant and equipment (hotels) and to adopt the revaluation model instead of the cost model we had been using until such time. This change was effective as of January 1, 2012.

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 8G 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. In cases where there are material uncertainties in respect of the future development of the project we apply the comparable model. 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 commercial 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 approvals and 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, or where such transactions do not exist, based on external appraisers.

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. In rare circumstances, mainly with respect to class actions, when the case is unique, complicated and involves prolonged and uncommon proceedings, we cannot reliably estimate the outcome of such cases.

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 note 23B5 to our annual consolidated financial statements.

Potential penalties, guarantees issued and expired building permits

Penalties and guaranties are part of our ongoing construction activities, and result from obligations we have towards third parties, such as banks and municipalities. Our management is required to provide estimations regarding risks evolving from such potential guarantees or penalties that we may have to 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 and PPHE call option for the PPHE shares sold under the UK and Dutch hotels sale transactions (see notes 9A(iv), 17(1) and 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 EURO.
- With respect to 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 and hotels

As of December 31, 2012, 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 transaction/price between willing buyer and a willing seller, without duress and an appropriate time to market the property to maximize price;
- Capitalization rates used to value the asset, market rental levels and lease expirations;
- Average room rate of the hotels;
- 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 and hotels 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. For a sensitivity analysis of such factors, see note 12 H to our annual consolidated financial statements.

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.

As of December 31, 2011, we determined the fair value of 47 properties representing approximately 90% of the total fair value of our portfolio investment properties as of such date based on the asset fair value as reflected in the January 2012 agreement for the sale of the properties

Fair value of associate

Following our loss of control over InSightec in December 2012 discussed above, we ceased to consolidate InSightec's financial statements. As of that date we account for the remainder of our investment in InSightec based on the equity method, whereas the cost of the remaining investment was determined based on the fair value of InSightec as of such date.

As a result, in 2012 we recorded a gain in the amount of NIS 216 million (approximately \$58 million), which was presented under discontinued operations. The fair value of our remaining investment in InSightec amounted to NIS 150 million (\$40.4 million).

We determined the fair value of InSightec using a third party appraiser who has the required skills, experience and ability, based on the value of InSightec's shares reflected in the last round of investment in InSightec by GE. In our opinion, which is based (*inter alia*) on the opinion of the third party appraiser, it is more appropriate to use that value as opposed to other economic models even though GE was already a shareholder of InSightec at the time of such investment.

The total value of InSightec was allocated to our interest, based on the liquidation preference of each type of InSightec's shares held by us (as provided in InSightec's Articles of Association) given the occurrence of certain corporate changes such as sale, liquidation, merger, initial prospectus offering or incorporation. We used the Black-Scholes model for the valuation process.

In light of our investment in different shares of InSightec, our management's forecast as to the timing of any corporate change, as well as determining the probability of the occurrence of each change, requires broad judgmental consideration, and therefore has a material effect on InSightec's fair value, and accordingly on the gain recognized by us in our consolidated financial statements as of December 31, 2012.

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. Furthermore, 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. Finally, the determination that a real estate asset is no longer designated for development or construction requires considerations of judgment.

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 (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 these 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.

During 2012 we realized all of these Notes.

Effective control

See note 29B of our annual consolidated financial statements with respect to our management opinion that as of December 31, 2010, we had de facto control over EDT, by having the power to govern the financial and operating policies of EDT (as of December 31, 2011 we had control over EDT, and as of December 31, 2012 we had sold our investment in EDT). Based on this, we present our indirect investment in EDT on a proportional consolidation basis based on 45% (as of December 31, 2011).

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. In particular, significant judgment is made in determining whether, as of the balance sheet date, it is probable that the economic benefits associated with the transaction will flow to 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.

Classification of investment property as held for use

With respect to the investment property portfolio in the U.S., which totaled NIS 2,557 million as of December 31, 2011, according to IFRS 5 "Non-current Assets held for Sale and Discontinued Operations", an entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal 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. (as mentioned in note 29B 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 were 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 was 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 the EPN Group's, (iii) then-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 was 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) a non-refundable deposit was not paid by the potential purchaser as of December 31, 2011, (vi) EPN Group's management's own experience with past transactions it had been involved in, and (vii) no purchase and sale agreement or letter of intent was executed as of December 31, 2011, hence some significant business terms were not agreed upon as of such date.

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

Classification of trading property as current/non-current asset

We classify our assets and liabilities as current or non-current based on the operating cycle of each of our operations (generally 12 months). Careful consideration is required with respect to assets and liabilities associated with our operations of commercial centers and trading property, the operating cycle of which by their nature is generally more than 12 months. For this operation, assets and liabilities are classified as current only if the operating cycle is clearly identifiable. In accordance with the guidance set forth in IAS 1, when we cannot clearly identify the actual operating cycle of a specific operation the assets and liabilities of that operation are classified as non-current. Our determination of our inability to clearly identify the actual operating cycle is a matter of judgment, and a different conclusion can materially affect the classification of current assets and current liabilities. See also note 2E to our financial statements included elsewhere in this annual report.

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 our 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 commercial and entertainment centers is to dispose of commercial and entertainment centers upon completion, subject to certain exceptions. In response to the lingering real estate and financing crisis in CEE, and following discussion with the SEC, our management determined that PC no longer retains sufficient consistent historical experience of trading property realizations in order to clearly identify the actual operating cycle of selling its trading property. Under such circumstances, we decided to utilize for accounting reporting purposes an assumed operating cycle of 12 months. This resulted in our needing to restate PC's trading property and corresponding borrowings as non-current assets and liabilities rather than current assets and liabilities, respectively. Revenues from these commercial and entertainment centers are mainly derived from their disposal to third parties, while until a disposal occurs we collect rental income from our completed commercial centers.

Our revenues from the sale of commercial and entertainment centers and other real estate properties 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 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.

In 2012 we elected to change the way in which we account for property, plant and equipment (hotels) and to adopt the revaluation model instead of the cost model we had been using until such time. This change was effective as of January 1, 2012.

During 2012, we completed a transaction to sell all of our investments in commercial and entertainment centers in the United States. In addition, as discussed below in 2012 we lost control over InSightec. Accordingly, both of these operations are presented in these financial statements as discontinued operations.

Translation of statements of income of foreign operations

Our functional currency is NIS, and our consolidated financial statements are presented in NIS. The majority of our businesses, which operate in various countries, report their operational results in their respective functional currency which differs from the NIS. 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, 2012, 2011 and 2010:

	December 31						
	2012	2011	2010	2012			
	(in NIS thousands)			Convenience Translation (in \$ thousands)			
(except for per share data)							
Income revenues and gains							
Revenue							
Revenue from commercial centers	127,109	3,525	4,345	34,050			
Revenue from hotels operations and management	222,828	286,548	403,822	59,692			
Revenue from fashion merchandise and other	145,996	185,082	174,817	39,109			
Total revenues	<u>495,933</u>	<u>475,155</u>	<u>582,984</u>	<u>132,851</u>			
Gains and other							
Rental income from commercial centers	175,153	111,745	98,550	46,920			
Gain from changes of shareholding in investees	9,369	-	-	2,510			
Gain from sale of real estate assets	53,875	-	198,777	14,432			
Total income revenues and gains	<u>734,330</u>	<u>586,900</u>	<u>880,311</u>	<u>196,713</u>			
Expenses and losses							
Commercial centers	272,810	159,626	156,745	73,081			
Hotels operations and management	202,158	240,784	341,291	54,154			
Cost of fashion merchandise and other	155,772	211,743	197,574	41,728			
General and administrative expenses	48,886	61,857	65,292	13,096			
Share in losses of associates, net	8,726	7,568	8,275	2,337			
Financial expenses	175,778	164,001	316,706	47,088			
Financial income	(31,083)	(65,571)	(40,927)	(8,327)			
Change in fair value of financial instruments measured at fair value through profit and loss	50,229	(275,537)	53,016	13,455			
Write-down, charges and other expenses, net	<u>411,625</u>	<u>290,276</u>	<u>83,660</u>	<u>110,267</u>			
	1,294,901	794,747	1,181,632	346,879			
Loss before income taxes	<u>(560,571)</u>	<u>(207,847)</u>	<u>(301,321)</u>	<u>(150,166)</u>			
Income tax expenses (tax benefit)	(10,248)	63,283	3,992	(2,745)			
Loss from continuing operations	<u>(550,323)</u>	<u>(271,130)</u>	<u>(305,313)</u>	<u>(147,421)</u>			
Profit from discontinued operations, net	94,823	24,101	378,838	25,401			
Profit (loss) for the year	<u>(455,500)</u>	<u>(247,029)</u>	<u>73,525</u>	<u>(122,020)</u>			

	December 31			
	2 0 1 2	2 0 1 1	2 0 1 0	2 0 1 2
	(in NIS thousands)			Convenience translation (in \$ thousands)
	(except for per share data)			
Attributable to:				
Equity holders of the Company	(293,590)	(264,919)	61,998	(78,647)
Non-controlling interest	(161,910)	17,890	11,527	(43,373)
	<u>(455,500)</u>	<u>(247,029)</u>	<u>73,525</u>	<u>(122,020)</u>
Loss from continuing operations				
Equity holders of the Company	(391,947)	(284,610)	(308,924)	(104,995)
Non-controlling interest	(158,376)	13,480	3,611	(42,426)
	<u>(550,323)</u>	<u>(271,130)</u>	<u>(305,313)</u>	<u>(147,421)</u>
Profit from discontinued operation, net				
Equity holders of the Company	98,357	19,691	370,922	26,348
Non-controlling interest	(3,534)	4,410	7,916	(947)
	<u>94,823</u>	<u>24,101</u>	<u>378,838</u>	<u>25,401</u>
Earnings (loss) per share				
Basic earnings per share:				
From continuing operation	(15.75)	(11.44)	(12.21)	(4.22)
From discontinued operations	3.95	0.79	14.67	1.06
	<u>(11.80)</u>	<u>(10.65)</u>	<u>2.45</u>	<u>(3.16)</u>
Diluted earnings per share:				
From continuing operation	(15.75)	(11.44)	(12.21)	(4.22)
From discontinued operations	3.95	0.79	14.41	1.06
	<u>(11.80)</u>	<u>(10.65)</u>	<u>2.13</u>	<u>(3.16)</u>

2012 compared to 2011

Income - Revenues and Gains

Total income (revenues and gains) in 2012 amounted to NIS 734 million (\$197 million) compared to NIS 587 million in 2011. Total revenues in 2012 amounted to NIS 496 million (\$132 million) compared to NIS 475 million in 2011.

The increase is mainly attributable to:

- (i) Revenues from sale of commercial and entertainment centers increased to NIS 127 million (\$34 million) in 2012 compared to NIS 4 million in 2011. In 2012 we recognized revenues of NIS 30 million (\$8 million) attributable to the sale of office space in India, and PC consummated the sale of land in Bulgaria and Hungary which generated revenues of NIS 97 million (\$26 million).
- (ii) Revenues from hotel operations and management decreased to NIS 223 million (\$60 million) in 2012 compared to NIS 286 million in 2011. The decrease was mainly attributable to the sale of the four Dutch hotels in March 2012. This decrease was partially set off by an increase in the revenues from our hotels in the Belgium and Romania. The average occupancy rate in these hotels was approximately 72% in 2011 and 75% in 2012, but the average room rate decreased from €2 in 2011 to €1 in 2012 for an average number of rooms of 1,026 in 2011 and 2012.
- (iii) Revenues from the sale of fashion retail and other decreased to NIS 146 million (\$39 million) in 2012 compared to NIS 185 million in 2011. The decrease was mainly attributable to the sale of the retail activity of GAP in April 2012, partially offset by the increase in the revenues attributable to the activity of Mango. The same store revenues in Mango amounted to NIS 126 million in 2012 compared to NIS 106 million in 2011.

Total gains and other in 2012 amounted to NIS 238 million (\$64 million) compared to NIS 112 million in 2011. Set forth below is an analysis of our gains and other:

- (iv) Rental income from commercial centers increased to NIS 175 million (\$47 million) in 2012 compared to NIS 112 million in 2011 as a result of the operation of seven centers in 2012, of which six operated throughout the year, compared to the operation of five centers in 2011, four of which operated throughout the year. The increase in revenues was also due to the increase in the average occupancy rates from 78%-90% in 2011 to 80%-98% in 2012. PC's business model in respect of its commercial centers is to develop, rent and then sell the properties to third parties. Therefore, rental income from commercial centers represents only the lease income from the commercial and may not be sustainable in the future once PC will sell the commercial centers as part of its business cycle.
- (v) Gain from a sale of real estate assets increased to NIS 54 million (\$14 million) compare to nil in 2011 attributable to the sale of four Dutch hotels in March 2012.
- (vi) Gain from changes of shareholding in investee increased to NIS 9 million (\$2.5 million) compared to nil in 2011 attributable to the sale of the retail activity of GAP in April 2012.

Expenses and losses

Our expenses and losses in 2012 amounted to NIS 1,295 million (\$346 million) compared to NIS 795 million in 2011. Set forth below is an analysis of our expenses and losses:

- (I) Expenses of commercial and entertainment centers increased to NIS 273 million (\$73 million) in 2012 compared to NIS 160 million in 2011 as a result of the operation of seven commercial centers in 2012 compared to the operation of five commercial centers in 2011 discussed above. In addition, expenses in 2012 includes NIS 19 million (\$5 million) attributable to the sale of office space in India and NIS 90 million (\$24 million) attributable to the sale of plots of land in Bulgaria and Hungary.
- (II) Cost of hotel operations and management decreased to NIS 202 million (\$54 million) in 2012 compared to NIS 241 million in 2011. The decrease was mainly attributable to the sale of the four Dutch hotels in March 2012 discussed above.
- (III) Cost of fashion apparel and other decreased to NIS 156 million (\$42 million) in 2012 compared to NIS 211 million in 2011. The decrease resulted from the sale of the retail activity of GAP in April 2012.
- (IV) General and administrative expenses decreased to NIS 49 million (\$13 million) in 2012 compared to NIS 62 million in 2011. General and administrative expenses less non-cash expenses amounted to NIS 35 million (\$9 million) in 2012 compared to NIS 37 million in 2011.
- (V) Financial expenses increased to NIS 176 million (\$47 million) in 2012 compared to NIS 164 million in 2011. Such amount includes (a) interest and CPI-linked borrowings in the amount of NIS 394 million (\$106 million) in 2012 compared to NIS 464 million in 2011; (b) loss from foreign currency translation differences and other in the amount of NIS 29 million (approximately \$8 million) in 2012 compared to a gain in the amount of NIS 38 million in 2011; (c) gain from buy-back of notes in the amount of NIS 113 million (\$30 million) in 2012 compared to NIS 64 million in 2011; and (d) financial expenses capitalized to qualified assets in the amount of NIS 134 million (approximately \$36 million) in 2012 compared to NIS 198 million in 2011.

The decrease in interest and CPI-linked borrowings in the amount of NIS 394 million (approximately \$106 million) in 2012 compared to NIS 464 million in 2011 was mainly attributable to (i) a decrease of NIS 38 million in the interest expense attributable to the Company's and PC's notes as result of repayment of outstanding principal and buyback of the notes during 2012 and (ii) a decrease of NIS 28 million attributable to an increase in the Israeli consumer price index, to which our and some of PC's notes are linked (1.44% in 2012, compared to 2.53% in 2011).

The increased in exchange rate differences and others loss which in 2012 amounted to a loss of NIS 29 million (approximately \$8 million) compared to a gain of NIS 38 million in 2011. The loss in 2012 was mainly attributable to noncash expenses attributed to the effect of the change in the exchange rate between the Euro and NIS on PC's notes, which are recorded in NIS and are measured in Euros.

(vi) Financial income decreased to NIS 31 million (\$8 million) in 2012 compared to NIS 66 million in 2011. Such decrease was attributable mainly to a decrease in interest on deposit and receivable.

(vii) Losses from changes in fair value of financial instruments amounted to NIS 50 million (\$13 million) in 2012 compared to a gain of NIS 276 million in 2011. This decrease was mainly attributable to the following:

(i) Loss from changes in fair value of financial instruments (measured at fair value through profit and loss (mainly PC's notes)) amounted to NIS 98 million (\$13 million) in 2012 compared to a gain of NIS 353 million in 2011; and

(ii) Gain from change in fair value of derivatives, embedded derivative and marketable securities (mainly swap transactions) executed by PC in respect of its notes amounted to NIS 48 million (\$13 million) in 2012 compared to loss in the amount of NIS 77 million in 2011.

(viii) Write-down, charges and other expenses, net, increased to NIS 411 million (\$110 million) in 2012 compared to NIS 290 million in 2011. The increase was attributable to the write-down in PC's trading property in Eastern Europe in the amount of NIS 406 million (\$109 million) in 2012 compared to NIS 371 million in 2011.

As a result of the foregoing factors, we recognized loss before income tax in the total amount of NIS 561 million (\$150 million) in 2012 compared to NIS 208 million in 2011.

Tax benefit amounted to NIS 10 million (\$3 million) in 2012 compared to tax expenses in the amount of NIS 63 million in 2011. The decrease in tax expenses was attributable mainly to timing differences related to PC's notes measured at fair value through profit and loss.

The above resulted in loss from continuing operations in the amount of NIS 550 million (\$147 million) in 2012 compared to NIS 271 million in 2011.

Profit from discontinued operations, net, amounted to NIS 95 million (\$25 million) in 2012 compared to NIS 24 million in 2011. Such amount includes (a) gain from loss of control over our subsidiary InSightec in our medical segment in December 2012 in the amount of NIS 216, offset by (b) loss from InSightec's operations during 2012 in the amount of NIS 64 million and (c) loss from selling our U.S. investment properties in the amount of NIS 58 million.

The above resulted in a loss of NIS 456 million (\$122 million) in 2012, of which a loss of NIS 293 million (\$79 million) was attributable to our equity holders and NIS 162 million (\$43 million) was attributable to the non-controlling interest. The loss in 2011 included NIS 265 million attributable to our equity holders and profit in the amount of NIS 17 million attributable to the non-controlling interest.

The following table provides supplemental information of our results of operations per segment, for the year ended December 31, 2012 (in NIS million):

Segment	Hotels	Commer-cial Centers	Medical Industries*	Fashion Apparel	Residen-tial	Other and Allocations*	Total
Revenues	223	125	69	143	2	(66)	496
Rental income from commercial centers	-	175	-	-	-	-	175
Gain from sale of real estate assets	54	-	-	9	-	-	63
Gain from loss of control over a subsidiary	-	-	217	-	-	(217)	-
Total revenues and gains	277	300	286	152	2	(283)	734
Costs and expenses	202	273	70	155	10	(70)	640
Research and development expenses	-	-	41	-	-	(41)	-
Other expenses (income), net	(6)	405	-	-	-	2	401
Segment profit (loss)	81	(378)	175	(3)	(8)	(174)	(307)
Financial expenses (income), net	36	58	-	2	-	-	96
Share in losses of associates, net	-	(1)	(8)	-	-	-	(9)
Unallocated general and administrative expenses							(49)
Unallocated financial expenses							(80)
Financial income							31
Changes in fair value of financial instruments measured at FVTPL							(50)
Loss before income taxes							(560)
Income taxes							10
Profit from continuing operations							(550)
Profit from discontinued operation							95
Loss for the year							(455)

* Because we lost control over InSightec in 2012 revenues were classified to discontinued operations.

2011 compared to 2010

Income - Revenues and Gains

Total income (revenues and gains) in 2011 amounted to NIS 587 million compared to NIS 880 million in 2010. Total revenues in 2011 amounted to NIS 475 million compared to NIS 583 million in 2010.

The decrease is mainly attributable to:

- (i) **Revenues from sale of commercial and entertainment centers amounted to NIS 4 million in 2011 and in 2010.**
- (ii) Revenues from hotel operations and management decreased to NIS 287 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. The average occupancy rate in these hotels was 73% in 2010 and 2011, but the average room rate increased from €5 in 2010 to €100 in 2011 for an average number of rooms of 1,678 in 2010 and 1,750 in 2011.
- (iii) Revenues from the sale of fashion retail and other increased to NIS 185 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.

Total gains and other in 2011 amounted to NIS 112 million compared to NIS 297 million in 2010. Set forth below is an analysis of our gains and other:

- (vii) Rental income from commercial centers increased to NIS 112 million in 2011 compared to NIS 98 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. The increase in revenues was also due to the increase in the average occupancy rates from 52%-84% in 2010 to 78%-90% in 2011. PC's business model in respect of its commercial centers is to develop, rent and then sell the properties to third parties. Therefore, rental income from commercial centers represents only the lease income from the commercial and may not be sustainable in the future once PC will sell the commercial centers as part of its business cycle.
- (iv) Gain from a sale of real estate assets decreased to nil compare to NIS 199 million in 2010, as a result of the sale of three hotels in London, U.K. in December 2010. Offset by gain in 2011 from change of shareholding in investee in the U.S. operation in the amount of NIS 15 million compared to nil in 2010.

Expenses and losses

Our expenses and losses in 2011 amounted to NIS 795 million compared to NIS 1,182 million in 2010. Set forth below is an analysis of our expenses and losses:

- (i) Expenses of commercial centers increased to NIS 160 million in 2011 compared to NIS 157 million in 2010.
- (ii) Cost of hotel operations and management decreased to NIS 241 million in 2011 compared to NIS 341 million in 2010. The decrease was mainly attributable to the sale of the hotels in London in December 2010 as aforementioned.
- (iii) Cost of fashion retail and other increased to NIS 212 million in 2011 compared to NIS 198 million in 2010. The increase resulted from the increase in the revenues as aforementioned.
- (iv) General and administrative expenses decreased to NIS 62 million in 2011 compared to NIS 65 million in 2010. General and administrative expenses offset non-cash expenses amounted to NIS 37 million in 2011 compared to NIS 49 million in 2010. The decrease in cash expenses was mainly attributable to increasing efficiency during 2011 in payroll expenses and other expenses in the amount of NIS 12 million.
- (v) Financial expenses, net decreased to NIS 164 million in 2011 compared to NIS 317 million in 2010. Such amount includes (a) interest and CPI linked borrowings in the amount of NIS 484 million compared to NIS 418 million in 2010; (b) gain from buy back of notes in the amount of NIS 64 million in 2011 (there were no note buy backs in 2010); offset by financial expenses capitalized to qualified assets in the amount of NIS 198 million in 2011 compared to NIS 164 million in 2010. The increase in interest and CPI linked borrowings in the amount of NIS 484 million in 2011 compared to NIS 418 million in 2010 is mainly attributable to: (i) an increase in bank loans as a result of progressing in the construction of new commercial centers offset by a decrease of loans attributable to our hotel operations as a result of selling the London hotels in December 2010, (ii) a net increase of NIS 28 million in interest expenses as a result of an increase in the principal amount of our and PC's notes 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 notes are linked (2.53% in 2011 compared to 2.28% in 2010).
- (vi) Financial income increased to NIS 66 million (\$17 million) in 2011 compared to NIS 41 million in 2010. Such increase was attributable mainly to decrease in exchange rate differences which in 2010 amounted to a loss of NIS 18 million compared to a gain of NIS 1 million in 2011. The loss in 2010 is mainly attributable to our deposits in Euro and U.S. dollars which decreased as a result of the devaluation of the Euro and the U.S. dollar against the NIS.
- (vii) Income from changes in fair value of financial instruments amounted to NIS 276 million in 2011 compared to loss of NIS 53 million in 2010. This increase was mainly attributable to the following:
 - (i) Gain from changes in fair value of financial instruments (measured at fair value through profit and loss (mainly PC's notes)) amounted to NIS 356 million in 2011 compared to a loss of NIS 234 million in 2010; and
 - (ii) Loss from change in fair value of derivatives and embedded derivative (mainly swap transactions) executed by PC in respect of its notes amounted to NIS 63 million in 2011 compared to gain in the amount of NIS 165 million in 2010.
- (viii) Impairment and other expenses, net, increased to NIS 290 million in 2011 compared to NIS 84 million in 2010. The increase was attributable to the impairment in PC's trading property in Eastern Europe in the amount of NIS 283 million in 2011 compared to NIS 44 million in 2010.

As a result of the foregoing factors, we recognized loss before tax expenses in the total amount of NIS 208 million compared to NIS 301 million in 2010.

Tax expenses amounted to NIS 63 million in 2011 compared to NIS 4 million in 2010. The increase in tax expenses is attributable mainly to timing differences related to PC's notes measured fair value through profit and loss.

The above resulted in loss from continuing operations in the amount of NIS 271 million in 2011 compared to income of NIS 305 million in 2010.

Profit from discontinued operations, net, amounted to NIS 24 million in 2011 compared to NIS 379 million in 2010.

Profit from discontinued operations, net, amounted to NIS 24 million in 2011 compared to NIS 379 million in 2011. Such amount is attributed to our U.S investment properties operation which was sold during 2012. The decrease is mainly attributable to Non-recurring gain from a "bargain purchase" in 2010 results from the acquisition of 48% in EDT during June 2010.

The above resulted in a loss of NIS 247 million in 2011, of which a loss of NIS 265 million is attributable to our equity holders and a profit of NIS 18 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.

The following table provides supplemental information of our results of operations per segment, for the year ended December 31, 2011 (in NIS million):

Segment	Hotels	Commer-cial Centers	Medical Industries*	Fashion Apparel	Residen-tial	Other and Allocations*	Total
Revenues	287	4	53	184	3	(52)	479
Rental income from commercial centers	-	108	-	-	-	-	108
Total income revenue and gains	287	112	53	184	3	(52)	587
Costs and expenses	241	160	101	212	2	(101)	615
Research and development expenses	-	-	63	-	-	(52)	11
Other expenses (income), net	(13)	273	2	2	13	-	277
Segment profit (loss)	59	(321)	(113)	(30)	(12)	101	(316)
Financial (expenses) income, net	(37)	(34)	1	(3)	-	(1)	(74)
Share in losses of associates, net	-	(1)	(6)	-	-	-	(7)
Unallocated general and administrative expenses	-	-	-	-	-	-	(62)
Unallocated financial expenses	-	-	-	-	-	-	(90)
Financial income	-	-	-	-	-	-	66
Changes in fair value of financial instruments measured at FVTPL	-	-	-	-	-	-	276
Loss before income taxes	-	-	-	-	-	-	(207)
Income taxes	-	-	-	-	-	-	63
Profit from continuing operations	-	-	-	-	-	-	(271)
Profit from discontinued operation	-	-	-	-	-	-	24
Loss for the year	-	-	-	-	-	-	(247)

* Because we lost control over InSightec in 2012 revenues were classified to discontinued operations.

B. Liquidity and Capital Resources

General

As discussed above in "Item 4. History and Development of the Company – Recent Events", in February 2013 we suspended making payments of principal and outstanding interest under our outstanding Notes in the aggregate outstanding principal amount of NIS 2,404 million (approximately \$644 million) as of March 31, 2013. In addition, as of December 31, 2012, we failed to comply with certain financial covenants relating to our bank loans in the aggregate amount of NIS 290 million (approximately \$78 million) and on March 31, 2013, we did not make payments or deposit current maturities under the bank loans. These also triggered cross-defaults under loans received by our subsidiaries, for which we serve as guarantor. As a result, even if the Arrangement comes into effect our ability to raise funds through the issuance of notes is and may remain severely limited. As of the date of this annual report there is substantial doubt about our ability to continue as a going concern as a result of our failure to timely pay obligations due under our outstanding indebtedness and comply with the financial covenants under our bank loans, our defaults under our Notes, the resulting cross-defaults under the loan agreements for our subsidiaries, the lawsuits that have been filed against us and any additional lawsuits that may be filed against us in regards to our outstanding indebtedness, and the uncertainty whether the Arrangement will come into effect.

Our capital resources include the following: (a) proceeds from sales of commercial and entertainment centers and other real estate properties subject to market conditions; (b) lines of credit obtained from banks and financial institutions and other lending institutions; (c) refinancing of non-convertible notes by us and PC; and (d) available cash and cash equivalents. See " - Overview" above for information on the major transactions and events carried out by us in 2010, 2011 and 2012, which resulted in material changes in our liquidity and capital resources. Such resources are generally used for the following purposes:

- (i) Equity investments in our commercial 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) Interest and principal payments on our notes and loans;
- (iii) Additional investment in Elbit Fashion, mainly for opening of new stores;
- (iv) Additional investment in our medical segment;
- (v) Equity investments in yielding assets in the U.S. and Western Europe;
- (vi) Other investments (including, among others, venture capital investments); and
- (vii) Payment of general and administrative expenses.

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 investments in research and development, the ongoing maintenance of our hotels and retail segments and the U.S. and Western Europe real property markets. 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, or that the amounts we earn from our projects will be as we planned.

Also, during 2008 the world markets experienced a financial crisis from which they have not recovered that 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.

The followings list describes major transactions and events in 2012, 2011 and 2010, which resulted in material changes in our liquidity:

Sources of Cash from Major Transactions and Events:

2012

- On December 6, 2012, InSightec completed its issuance of Series C preferred shares for an aggregate amount of \$30.9 million, which included \$27.6 million invested by GE and \$3.9 million invested by other investors. According to the terms of the transaction, GE and we converted all the existing shareholders loans that had been granted to InSightec into InSightec's series B-1 preferred shares in accordance with the terms of those loans. The transaction reflected a post-money valuation of InSightec of approximately \$105.9 million (or pre-money valuation of \$75 million and following the conversion of the loans as described above). As part of the transaction GE and InSightec signed the Cooperation Agreement that regulates the commercial relationship between the parties, including, among other things, with respect to product exclusivity, cooperation with respect to the development and sale of the parties' complementary products, distribution, marketing and sales, intellectual property rights and licenses, sale terms and conditions, and similar items. Under the Cooperation Agreement, InSightec is prohibited from developing systems that would be compatible with MRI systems manufactured by companies other than GE for a defined time period. After completion of the transaction we no longer have the right to appoint the majority of InSightec's board members and therefore we ceased to consolidate InSightec's financial statements, and our investment in InSightec is presented based on the equity method.
- In August 2012 we entered into a NIS 75 million (approximately \$20 million) note structured transaction with a certain financial institution pursuant to which we purchased a NIS denominated zero-coupon credit linked note due to mature on October 2, 2013 (the "CLN") from the other party. The CLN referenced a portfolio of our notes (having a market value of NIS 75 million). The note portfolio was purchased by us under our note repurchase program that was announced on May 23, 2011 and in the framework of the transaction we sold the note portfolio to other party. In consideration, the other party paid us the market value of the note portfolio and arranged for the issuance of the CLN at an issue price of NIS 37.5 million (approximately \$10 million).

In addition, in November 2012 we entered into a NIS 150 million (approximately \$40 million) note structured transaction with another financial institution pursuant to which we received a NIS 75 million credit line for the purchase of a portfolio of our notes having an aggregate market value of up to NIS 150 million. We were allowed to purchase the note portfolio within a 10-week utilization period commencing at the effective date of the transaction. In the framework of the transaction, we had the right to sell to the other party notes that were acquired by us and which comprised the note portfolio in consideration for a payment by the other party of the agreed-upon financing amount not to exceed 50% of the aggregate market value of the note portfolio and that would be determined by the parties.

During the terms of the respective transactions, all the proceeds derived from the note portfolio (principal and interest) were to be retained by the other parties. Immediately following the scheduled respective termination date of each of the transactions, subject to no early termination event having occurred the other party to each transaction, respectively, was to deliver to us the remaining, unamortized portion of the respective note portfolio. Under the terms of the respective transactions, an early termination of the transaction could occur upon a trigger event linked to a decrease in the market value of the respective note portfolio below a pre-defined threshold.

In furtherance of the transaction as well as any other note repurchases, our board of directors approved the increase of the note repurchase program to allow repurchase of up to an additional NIS 125 million of our Series A through G and Series 1 notes.

On February 20, 2013, the other parties notified us of the early termination of the transactions as a result of the decline in the market price of our outstanding Notes and consequent failure to meet the loan-to-value covenants under the agreements governing the transactions. Under the terms of the transactions, upon the early termination of the transactions as a result of a decline in the market price of the notes the financial institutions are permitted to sell the notes held by each of them as of the date of termination, and use the proceeds of the sales to redeem the respective credit-linked notes, either execute a cash settlement or physical settlement thereof and deliver to us the proceeds of the sale of the notes or the remainder of the notes not sold, in excess of the early termination amounts, which shall be retained by the financial institutions. The early termination amounts consist of the principal and interest (at the agreed-upon internal rate of return) under the respective credit-linked notes and unwind costs which are due to the financial institutions under the transactions. The sale of notes held by the financial institutions covered the termination amounts. The amounts of cash or notes to be returned to us will depend on the prices at which the notes are sold by the financial institutions.

- As discussed above in " – Operating and Financial Review and Prospects", in June 2012 the EPN Group sold 47 of the shopping centers it held to BRE DDR Retail Holdings LLC for a purchase price of \$1.43 billion. The total proceeds from the transaction, including cash and other net working capital items less property level financing which was repaid by the EPN Group or assumed by the buyer at closing (in the amount of approximately \$928 million), amounted to approximately \$530 million. The remaining two shopping centers were sold in July 2012 for \$41.0 million.
- 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 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 54.3 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 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 were jointly owned by us and PPHE and were managed by PPHE. The transaction reflected an asset value of €169 million (approximately \$219 million) for all four hotels. The total net consideration payable to us was €26.5 million (approximately \$34.5 million). In addition, approximately €58 million (approximately \$75 million) of our subsidiaries' share (50%) of banks loans was assumed by PPHE by virtue of the purchase of those subsidiaries and were eliminated from our consolidated balance sheet. The consideration was paid to us in May 2012 as follows: (i) €23 million (approximately \$30 million) in cash; (ii) 700,000 ordinary shares of PPHE, with a market price of approximately €2.0 million (approximately \$2.5 million), based on the quotation of such shares' price on the London Stock Exchange as of March 30, 2012; and (iii) an additional payment in the aggregate amount of up €1.5 million (approximately \$2.0 million) that shall be made on the fourth anniversary of the date of transfer and shall be subject to certain adjustments, based on the PPHE shares' market price, as set forth in the agreement. The total profit generated from the sale of the hotels amounted to approximately NIS 188 million (\$50 million), out of which we recognized NIS 134 million (\$36 million) in the shareholders equity due to the application of the revaluation model described above and NIS 54 million (\$14 million) in the income statement.

2011

- On October 3, 2011, 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 €8.7 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 entered into the Term Loan Agreement with Eastgate, for the Term Loan in the amount of \$30 million. 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 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 from 3.3% of our outstanding shares at the date of exercise to 9.9% of our outstanding shares at the date of exercise 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 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, 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 for gross proceeds of approximately NIS 108 million. For interest rates of our notes, see “- Other Loans” below.
- In January 2011, PC issued additional Series A and B Notes for an aggregate consideration of approximately NIS 300 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. For interest rates of our notes, see “- Other Loans” below.
- In June 2010, EPN Fund raised \$31 million in capital commitments from Menora.

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

	Year ended December 31,		
	2012	2012	2011
	Convenience translation in \$ thousands	NIS Thousands	NIS Thousands
Net cash used in operating activities		(39,814)	(148,624)
Net cash provided by (used in) investing activities	494,516	1,846,028	325,352
Net cash (used in) provided by financing activities	(474,188)	(1,770,145)	(580,640)
Decrease in cash and cash equivalents	(19,486)	(72,741)	(496,177)
			(332,027)

Cash flow in or from operating activities

Our cash flow from operating activities is affected by our policy in respect of PC's commercial and entertainment centers which are classified as trading property since it is PC's management goal to sell these commercial 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 149 million (approximately \$40 million) in 2012 compared to NIS 241 million in 2011 and NIS 333 million in 2010.

Our cash flow from operating activities in 2012, 2011 and 2010 was influenced by the following significant factors:

- (i) Cash flow from operating activities in 2012 included negative cash flow resulting from the cost of purchase of trading properties and payments on the account of trading properties of NIS 113 million (approximately \$30 million). Most of the acquisitions and investments in trading properties in 2012 were: India (Koregaon Park and Kharadi projects) and Serbia (Krugajevac project).
- (ii) 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: Poland (Torun project); India (Koregaon Park); Serbia (Krugajevac project); and Romania (the Casa Radio project).

- (iii) 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: Romania (the Casa Radio project); Poland (Suwalki and Zgorzelec projects); Czech Republic (Liberec project); and India (Koregaon Park).
- (iv) Cash flows from operating activities in 2012, 2011 and 2010 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 2012 and 2011 amounted to NIS 1,846 million (approximately \$495 million) and NIS 325 million compared to NIS 367 million used in investing activities in 2010.

Our cash flow provided by investing activities in 2012 was influenced by the following factors:

- (i) Proceeds from sale of U.S. real estate properties (which are classified as discontinued operations) in an amount of NIS 1,290 million (approximately \$346 million).
- (ii) Proceeds from realization of our hotels in the Netherlands and from the sale of GAP in an amount of NIS 140 million (approximately \$37 million).
- (iii) Proceeds from realization of long term deposits and loans in an amount of NIS 277 million (approximately \$74 million), mainly attributable to the sale of the long term structures by PC.
- (iv) Purchase of property, plant and equipment, investment property and other assets in the amount of NIS 24 million (\$6 million).
- (v) Investments in associates and other companies in an amount of NIS 12 (approximately \$3 million), mainly attributable to investment of the Group in InSightec.
- (vi) Proceeds from interest received from deposits in the amount of NIS 38 million (approximately \$10 million).
- (vii) Proceeds from sale of available for sale marketable securities net of purchase of available for sale marketable securities amounted to NIS 73 million (approximately \$20 million).
- (viii) Disposition of short-term deposits and marketable securities, net, in the amount of NIS 63 million (approximately \$17 million).

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

- (i) During July 2011, EPN Holdings 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 Holdings 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. These investments are included in cash used in discontinued investing activities.
- (ii) Purchase of property, plant and equipment, investment property and other assets in the amount of NIS 34 million mainly attributable to the renovation of the Victoria hotel in Amsterdam and Radisson Blu Bucharest Hotel in Romania and leasehold improvements of Elbit Fashion's new stores. Purchase of investment property in the U.S. in an amount of NIS 37 million is included in cash used in discontinued investing activities.
- (iii) Investments in associates and other companies in the amount of NIS 20 million mainly attributable to the increase in our shareholding in the EPN Group in 2011 from 43.3%, to 45.38% is included in cash used in discontinued investing activities.

- (iv) Proceeds from long-term deposits and long-term loans in the amount of NIS 33 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 46 million.
- (vi) Proceeds from interest received from deposits in the amount of NIS 65 million.
- (vii) Purchase of available for sale marketable securities net of proceeds from available for sale marketable securities amounted to NIS 1 million.
- (viii) Disposition of short-term deposits and marketable securities, net, in the amount of NIS 333 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 is included in cash used in discontinued investing activities.
- (ii) Purchase of property, plant and equipment, investment property and other assets in the amount of NIS 73 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 12 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 170 million.

Cash flow from financing activities

Cash flow used in financing activities in 2012 and 2011 amounted to NIS 1,770 million (approximately \$474 million) and NIS 581 million compared to cash flow provided by financing activities of NIS 368 million in 2010.

Our cash flow used in financing activities in 2012 was influenced by the following factors:

- (i) Proceeds from re-issuance of our notes to financial institutions in an amount of NIS 58 million.
- (ii) Repurchase of notes by us and PC in the amount of NIS 184 million.
- (iii) Interest paid in cash by us in the amount of NIS 349 million on our borrowings (mainly notes issued by us and PC and loans provided to our hotels and commercial centers).
- (iv) Repayment of borrowings, net, of proceeds from loans in the amount of NIS 718 million, mainly attributable to the funds paid by PC and us for unsecured non-convertible notes and loans provided to PC. An amount of NIS 598 million (\$160 million) of loans repaid is attributable to our U.S. real estate properties sold, and is included in cash used in discontinued financing activities.

- (v) Proceeds from selling derivatives in the amount of NIS 59 million.
- (vi) Proceeds from short-term credit in the amount of NIS 204 million, mainly attributable to new loans raised by PC during 2012 in order to finance the construction of its trading property.
- (vii) Repayment of short-term credit in the amount of NIS 255 million.

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 notes 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 390 million (approximately \$102 million) on our borrowings (mainly notes issued by us and PC and loans provided to our hotels).
- (iv) Repayment of borrowings, net, of proceeds from loans in the amount of NIS 110 million (approximately \$29 million), mainly attributable to the funds paid and funds raised by PC and us from unsecured non-convertible notes issued during 2011, loans provided to us and to our hotels. A net amount of NIS 109 million (\$29 million) of loans received is attributable to our U.S. real estate properties, and is included in cash used in discontinued financing activities.
- (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 is included in cash used in discontinued financing activities.
- (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 2011 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 329 million on our borrowings (mainly notes 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 456 million, mainly attributable to the funds raised by PC and us from unsecured non-convertible and convertible notes 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.

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, 2012, 2011 and 2010:

	2012		2011		2010	
	NIS million	%	NIS million	%	NIS million	%
Current assets	1,084	15%	1,258	12%	2,124	20%
Current liabilities	1,788	25%	2,227	21%	2,799	26%
Non-current assets	6,010	85%	9,113	88%	8,579	80%
Non-current liabilities	3,885	55%	6,605	64%	5,726	54%
Shareholders' equity:						
Attributable to our equity holders	310	4%	360	3.5%	761	7%
Non-controlling interest	1,111	16%	1,179	11.5%	1,417	13%

2012 compared to 2011

The decrease in current assets in the amount of NIS 174 million (approximately \$47 million) in 2012 was mainly attributable to a decrease in each of: (i) short-term deposits and investment in the amount of NIS 82 million (approximately \$22 million), mainly in PC Euro-deposits and available for-sale financial assets; and (ii) cash and cash equivalents in the amount of NIS 67 million (approximately \$18 million) discussed above.

The decrease in current liabilities in the amount of NIS 439 million (approximately \$118 million) in 2012 was mainly attributable to: (i) a decrease in suppliers and service provider in the amount of NIS 143 million (approximately \$38 million), mainly due to the completion of construction of PC commercial centers in Poland during 2012; (ii) a decrease in payable and other credit balance in the amount of NIS 126 million (approximately \$34 million), mainly due to the classification of InSightec to discontinued operation; (iii) a decrease in a loan granted to PC by certain financial institution to finance financial instruments attributed to the selling of those financial instruments by PC.

The decrease in non-current assets in the total amount of NIS 3,103 million (approximately \$832 million) in 2012 was mainly attributable to (i) trading property in the amount of NIS 358 million (approximately \$96 million), mainly due to the write-down of PC trading properties in Romania, Serbia, India, Hungary, Poland, Czech and Bulgaria; (ii) investment property in the amount of NIS 2,548 million (approximately \$683 million) due to the sale of our U.S. operation that occurred during 2012.

The decrease in non-current liabilities of NIS 2,720 million (approximately \$729 million) in 2012 was mainly attributable to a decrease in (i) loans in the amount of NIS 1,880 million (approximately \$504 million) attributable to the U.S. operation and to the Dutch hotel operation that were sold during 2012 and (ii) notes issued by us and PC due to as a result of the repayment of the principal outstanding under such loans and our buyback plan.

2011 compared to 2010

The decreased in current assets in the amount of NIS 866 million in 2011 was mainly attributable to: (i) decrease in cash and cash equivalents in the amount of NIS 439 million as explained above and (ii) decrease in the short term deposits and investment in the amount of NIS 426 million mainly in our deposits and marketable securities

The decreased in current liability in the amount of NIS 572 million in 2011 was mainly attributable to: (i) decrease in short term credits in the amount NIS 765 million offset by (ii) increase in suppliers and services providers in the amount of NIS 110 million (iii) increase in the amount of NIS 65 million in payable and other credit balances.

The increase in non-current assets of NIS 534 million in 2011 was mainly attributable to: (i) an increase in the investment property in the amount of NIS 440 million as result of net gain from fair value adjustments and increase in our holding rate in the U.S. investment platform activity; (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 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 notes as result of settlement of cross-currency SWAP transactions by PC..

The increase in non-current liabilities of NIS 879 million in 2011 was mainly attributable to: (i) an increase in loans from banks, financial institutions and others, (ii) an increase in notes 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 notes measured at fair value through profit and loss.

Concentration of Credit Risk

We hold cash and cash equivalents, short term investments and long-term deposits at banks and financial institutions in various reputable 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, 2012 and 2011 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 commercial and entertainment centers and hotels as well as for various investments in our other operations. 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, 2012. In May 2011 we announced a repurchase program of up to NIS 150 million of our Series A-G notes, and in November 2012 we announced an increase of the repurchase program in an additional amount of up to NIS 125 million of our Series A-G and Series 1 notes. All of the notes repurchased by us directly (as opposed to those repurchased by our subsidiary Elbit Financial Services, Limited Partnership ("Elbit Financial")) were delisted from the TASE.

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

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
EI	Series A Notes issued to the public	NIS 594.2 million (approximately \$159 million)	NIS 197.5 million (approximately \$53 million) (following repurchases of the notes by us and our subsidiary Elbit Financial)	6% 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 February 2013 we ceased making payments of outstanding principal under our Series A and Series B notes and payments of interest under all our outstanding Notes.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
EI	Series B Notes issued to the public	\$14.8 million	\$ 4.1 million (following repurchases of the notes by us and our subsidiary Elbit Financial)	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. 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 February 2013 we ceased making payments of outstanding principal under our Series A and Series B notes and payments of interest under all our outstanding Notes.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
EI	Series C Notes issued to the public	NIS 455 million (approximately \$122 million)	NIS 260.0 million (approximately \$70 million) (following repurchases of the notes by us and our subsidiary Elbit Financial)	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. 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 February 2013 we ceased making payments of outstanding principal under our Series A and Series B notes and payments of interest under all our outstanding Notes.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
EI	Series D Notes issued to the public	NIS 746 million (approximately \$200 million)	NIS 781.3 million (approximately \$209 million) (following repurchases of the notes by us and our subsidiary Elbit Financial)	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 February 2013 we ceased making payments of outstanding principal under our Series A and Series B notes and payments of interest under all our outstanding Notes.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
EI	Series E Notes issued to the public	NIS 64.5 million (approximately \$17 million) (less amount of notes repurchased by us, as described below)	NIS 59.6 million (approximately \$16 million)	6.3% 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 February 2013 we ceased making payments of outstanding principal under our Series A and Series B notes and payments of interest under all our outstanding Notes.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
EI	Series F Notes issued to the public	NIS 502.8 million (approximately \$135 million)	NIS 272.2 million (approximately \$73 million) (following repurchases of the notes by us and our subsidiary Elbit Financial)	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.</p> <p>The notes are not registered under the Securities Act.</p> <p>In February 2013 we ceased making payments of outstanding principal under our Series A and Series B notes and payments of interest under all our outstanding Notes.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
Elbit Systems Ltd.	Series G Notes issued to the public	NIS 466.5 million (approximately \$125 million)	NIS 464.2 million (approximately \$124 million) (following repurchases of the notes by us and our subsidiary Elbit Financial)	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.</p> <p>The notes are not registered under the Securities Act.</p> <p>In February 2013 we ceased making payments of outstanding principal under our Series A and Series B notes and payments of interest under all our outstanding Notes.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
Elbit Systems Ltd.	Series 1 Convertible Notes issued to the public	NIS 112 million (approximately \$30 million)	NIS 103.1 million (approximately \$28 million) (following repurchases of the notes by us and our subsidiary Elbit Financial)	6.25% 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	<p>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.</p> <p>In February 2013 we ceased making payments of outstanding principal under our Series A and Series B notes and payments of interest under all our outstanding Notes.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
EI	Bank Hapoalim B.M.	\$70.0 million	\$63.9 million	LIBOR + 3.8%; if LTV (Loan to Value) greater than 0.7; Increase of interest by 2.5%	6 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:</p> <ul style="list-style-type: none"> • Total shareholders' equity higher than NIS 1,500 million; • Loan To Value Ratio less than 0.75 (according to certain adjustments specified in the loan agreement); • Total financial assets (solo) greater than \$50 million; • Ratio Net Debt / Cap less than 85%; • PC's total financial assets greater than \$80 million; • Ratio Equity/Total Assets of PC greater than 25%; and • other customary obligations and undertakings. <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 and (ii) provide a cash deposit pledged in favor of the bank. 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. As of today we are in breach of that covenant and certain other covenants.</p> <p>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 an assignment by way of pledge over certain receivables due to us from PPHE's subsidiary. Please see "Item 4.B - Business Overview – Hotels".</p>				
Other Information	<p>In February 2013 the Bank notified us that we are in breach of covenants stipulated in the agreement such as our commitments to note holders and breach of commitments regarding LTV. The Bank has further notified us that it has the right to demand the immediate repayment of all the credit it has provided to the Company. The Bank also notified the Company that it shall use collateral made in its favor PPHE's subsidiary to repay the credit. Please see Item 4.B "Business Overview – Hotels".</p> <p>In addition, under the terms of our loan agreement with the Bank we are required to deposit on March 31 of each year in a secured account an amount not less than the amount of the matured obligations. On March 31, 2013, we did not make the deposit of \$14.5 million that was due on such date. The Bank's collateral includes, in addition to the 29% of PC's shares and the assignment by way of pledge over PPHE's receivables (which secures also Elbit Fashion's credit line and Stand-by Letter of Credit), a bank account deposit and 100% of Elbit Fashion's shares. On March 24, 2013, we called for a meeting of our Note holders to approve our depositing such amount, and were asked to apply to the Banks for waivers of the default before a decision will be made. As of the date of this annual report discussions are underway with the Bank regarding the possibility of it participating and joining as a party to the Arrangement.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
EI	Bank Leumi Le-Israel B.M.	\$24.2 million	\$14.0 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	<p>Pursuant to the applicable loan agreement, we are obligated to maintain certain financial and other covenants, including:</p> <ul style="list-style-type: none"> • Total shareholders' equity higher than NIS 1,500 million; • Loan To Value Ratio less than 0.75 (according to certain adjustments specified in the loan agreement); • Total financial assets (solo) greater than \$50 million; • Ratio Net Debt / Cap less than 85%; and • other customary obligations and undertakings. <p>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. As of the date of this annual report we are in breach of some of the aforementioned covenants.</p>				
Other Information	<p>In March 2013 we informed Bank Leumi that we would not be making the upcoming payment to it on March 29, 2013 of principal and interest due under the loans made by Bank Leumi to us. For more information regarding the letter we received from Bank Leumi demanding repayment of the outstanding balance of approximately \$14.1 million (approximately NIS 52 million) due as well as the terms and conditions of the Arrangement (which, in the event it comes into effect, Bank Leumi will be subject to as an unsecured creditor), please see "Item 4.A – History and Development of the Company – Recent Events" and "Item 10.C – Material Contracts – The Arrangement". A disagreement has arisen with respect to the effectiveness of certain pledges over our bank account in Bank Leumi, which in our opinion should have been erased and have no binding effect.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
PC	Series A Notes issued to the public	NIS 172 million (approximately \$46 million)	NIS 203 million* (approximately \$54 million) (following repurchases of the notes by PC and its subsidiaries)	4.5% per annum, linked to the Israeli CPI.	Principal payable in 8 equal 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 have been registered for trade on the TASE. The Notes are not registered under the Securities Act.</p> <p>* NIS 203 million are presented at fair value through profit and loss (the fair value as of December 31, 2012 was NIS 138.4 million.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
PC	Series B Notes issued to the public	NIS 730 million (approximately \$196 million)	NIS 838 million* (approximately 224 million) (following repurchases of the notes by PC and its subsidiaries)	5.4% per annum, linked to the Israeli CPI	Principal payable in 5 equal 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 have been registered for trade on the TASE. The Notes are not registered under the Securities Act. * NIS 549 million are presented at fair value through profit and loss (the fair value as of December 31, 2012 was NIS 433.1 million) and NIS 289 million are presented at amortized cost.</p>				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
PC	Private note issuance to Polish institutional investors	PLN 60 million	PLN 60 million	6 Month Wibor+4.5%	Three years maturity, 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	<p>Certain circumstances shall be deemed events of default giving the bondholders the right to demand early redemption, which includes, among others, the following covenants:</p> <ul style="list-style-type: none"> • Breach of the cash position as a result of the payment of dividend or the buy-back program falls below Euro 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. • Breach of financial ratios – the Net Capitalization Ratio exceeds 70%; "Net Capitalization Ratio" is the Net Debt divided by the Equity plus the Net Debt, as calculated by PC's auditor; "Net Debt" mean PC's total debt under: loans and borrowings, lease agreements, notes, 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. • Failure to repay material debt – PC fails to repay any matured and undisputable debt in the amount of at least EUR 100 million within 30 days of its maturity. 				

Borrower	Lender	Facility Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
SIA DIKSNA ("Riga Plaza")	MKB BANK ZRT, SEB BANK, AS "UNICREDIT BANK"	€36.4 million *	€1.9 million *	3 months Euribor + 2.5%	Expires on 2014 June 30. Quarterly annuity payments calculated according to 20 years amortization, with balloon payment.
Principal Security and Covenants	Registered first ranking mortgage on the real estate; Assignment of all rights under relevant valid insurance policies; Charges over each quota 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 borrowers' accounts; Prompt collection right to debit any of the bank accounts of the borrower; Maintain a Debt Service Cover Ratio of 1.2; Loan to Value ratio of 70%; PC is not in compliance with the abovementioned DSCR and Loan to Value covenants. A one year waiver (until December 31, 2012) on the DSCR covenant was granted. Another one year waiver (until December 31, 2013) for these 2 covenants is now under process of establishment; and Corporate guarantee of PC to invest equity up to a prescribed debt service cover ratio, in the event Riga Plaza is not sold 6 months following opening or the proceeds of such sale do not cover the repayment of the loan balance.				
Other Information	* Represents 50% of the loan, which is PC's shareholding in Riga Plaza.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
PC	GEFA Germany	US\$ 4.56 million	€2.8 million	USD Libor + 4% per annum	Maturity of the loan is 5 March 2014, with a 75% balloon. 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 insurance proceeds.				
Other Information	Loan serves to finance the purchase of a company airplane.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
Koregaon Park	AXIS, SBH (India)	INR 2,040 million - credit facility	INR 1,970 million	13.25% p.a.	Maturity of the loan is in first quarter of 2021.
Principal Security and Covenants	Assignment of all rights under insurance proceeds.				
Other Information	Corporate guarantee of PC. Pledge on assets of the project company.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
Koregaon Park	AXIS	INR 505 million – insurance claim facility	INR 505 million	11.50% p.a.	Maturity of the loan is in May 2013.
Principal Security and Covenants	Assignment of all rights under insurance proceeds.				
Other Information	Corporate guarantee of PC. Pledge on assets of the project company.				

Borrower	Lender	Facility amount	Amount Outstanding on Dec. 31, 2011	Interest	Payment Terms
Liberec Plaza	MKB BANK Zrt., ERSTE Bank AG	€25 million	€21.2 million	3 months Euribor+ 2.7% per annum	Repayment schedule: 2014- bullet payment of more than 90% of the principal.
Principal Security and Covenants	Registered first ranking mortgage and purchase option right on the 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 borrowers' accounts; Prompt collection right to debit any of the bank accounts of the borrower; Completion guarantee of PC for the term of the construction; Maintain Debt Service Cover Ratio of 1.15; Loan to Value ratio of 85%; and Corporate guarantee of PC for Debt Service.				
Other Information					

Borrower	Lender	Original Amount *	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
A: Valley View B: Acacia Park C: Acacia Park D: Fountain Park E: Primavera Tower	A: OTP Bank Nyrt. B: Bank Leumi Romania 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: €0.762 million C: €1.0 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. Only interest payments. Negotiations ongoing. B: Expired in July 2012. Negotiations ongoing C: Expired in July 2012. Negotiations ongoing. D: Expired in September 2012. Only interest payments. E: Expired March 31, 2012. Only interest payments. Negotiations ongoing.
Principal Security and Covenants	First ranking mortgage on the properties. Corporate guarantee of owners in case of Fountain Park and Acacia Park in respect of the interest only.				
Other Information	* PC consolidates 50% of the abovementioned loan balances in its reports, with the exception of D, which is not presented as it is an equity held subsidiary (held 25% by PC).				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012*	Interest	Payment Terms
Dream Island 2004 Kft	MKB Bank Zrt	€10.6 million €3.8 million	I - €10.6 million II - €0.7 million	3M Euribor + 2 % per annum 3M Euribor + 2% per annum	Expires March 31, 2015. Balloon payment of principal at the end. II- Interest facility – Expires with one payment at March 31, 2015.
Principal Security and Covenants	First ranking mortgage on the property. Pledge on shares of borrower. Assignment of income. Floating charge over the assets. Assignment of insurance.				
Other Information	* PC's share in such loans is 43.5%.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
Suwalki Plaza	ING Bank Slaski S.A	€3.5 million	€2,5 million	3 months Euribor + 1.65% per annum	Expires December 29, 2020. Quarterly payments with fixed principal amounts and balloon payment at the end.
Principal Security and Covenants	First ranking mortgage on the property. Pledge on shares of borrower and pledge on bank accounts. Assignment of rights from insurances, guaranties 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. Maintain a debt service cover ratio of 1.2. Loan to value ratio of 0.7.				
Other Information	The loan was converted from Construction Loan to Investment loan at February 28, 2011.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
Zgorzelec Plaza	Bank Zachodni WBK S.A.	€2.3 million	€21.6 million	3 months Euribor + 2.75% per annum for	Expires June 30, 2014.
Principal Security and Covenants	A first ranking mortgage on the property. Pledge on shares of borrower and pledge on bank accounts. Assignment of rights from insurances, guaranties and agreements. Completion and cost overrun guarantee of PC. Maintain a debt service cover ratio of 1.15. Loan to construction cost ratio of 0.80. Loan to value ratio of 0.75. PC is not in compliance with certain covenants included in the loan agreement and has a waiver in place until expiration of the loan.				
Other Information	Starting from January 2013 any excess cash should be used for repayment of trench 6 of the loan (1,5 m EUR)				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
Torun Plaza	Bank PEKAO S.A	€50.1 million	€49.5 million	3 months Euribor + 3% per annum	Expires December 31, 2017. Quarterly payments with fixed principal amounts and balloon payment at the end.
Principal Security and Covenants	First ranking mortgage on the property. Pledge on shares of borrower and pledge on bank accounts. Assignment of rights from insurances, guaranties and agreements. Maintain a debt service cover ratio of 1.25. Loan to value ratio of 0.7.				
Other Information	Not applicable.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
Praha Plaza s.r.o	Erste Bank AG	€7.5 million	€3.6 million	Euribor + 1.75%	Quarterly payments of €17,200, beginning on December 31, 2004. The remaining amount will be paid in one installment on December 31, 2016. Quarterly payment of interest until 2016.
Principal Security and Covenants	First ranking pre-emption right regarding the property. Pledge on shares of Borrower, on accounts, on receivables from the lease agreements. Assignment of insurance. Maintenance of Debt Service Cover Ratio of 1.15. Loan to Value ratio of 80%.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
Kragujevac Plaza (Serbia)	OTP Bank Nyrt. OTP Bank Srbija a.d	€30.4 million	€24.5 million (OTP HU) + €5.9 million (OTP SRB)	3 months Euribor + 5.5%	Maturity of the loan - 2027. Quarterly annuity payments (interest and principal).
Principal Security and Covenants	First and second ranking mortgage over the property. Pledge on shares of borrower, on accounts, on receivables from the lease agreements. Assignment of all rights under insurance.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
Tanoli Enterprises Ltd.	Barclays Bank Plc.	NIS 85 million (approximately \$23 million)	NIS 85 million	6 months Telbor + 6%	Maturity of the loan - 2013. Semi-annual annuity payments (interest and principal).
Principal Security and Covenants	First and second ranking mortgage over the Bonds purchased by Tanoli. Corporate guarantee for the due and punctual performance of Tanoli's obligations under the loan documents.				
Other Information					

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
Bucuresti Turism SA	Raiffeisen Bank International ("RBI")	€62.5 million	€8.7 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 €8.5 million to be repaid on June 30, 2016.
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 (BEA 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, 2013, until the end of the loan.				

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
Astrid Plaza Hotel NV	Bank Hapoalim	€24.4 million	€7.5 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 guaranty Astrid Plaza's undertakings under the loan agreement. The guaranty is unlimited in amount.

Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2012	Interest	Payment Terms
Astrid Plaza Hotel NV, for the Park Inn Hotel	Fortis Bank	A: €4 million B: €3.5 million	A: €3.3 million B: €2.9 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
Elbit Fashion	Bank Hapoalim	NIS 10 million (approximately \$3 million)	NIS 10 million (approximately \$3 million)	Prime + 2 %	Revolving short-term credit facility
Principal Security and Covenants	Fixed mortgage on all Elbit Fashion assets and a guarantee for the full amount provided to Elbit Fashion.				
Other Information	An additional Stand-By Letter of Credit has been provided by the bank to Elbit Fashion in the amount of approximately €8 million in order to secure payment to third party suppliers. The Stand-By Letter of Credit is in effect until December 31, 2013.				

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").

Each of InSightec's and Gamida's research and development efforts has been financed, in part, through OCS grants. InSightec and Gamida have received or were entitled to receive grants totaling \$25.7 million and \$30.9 million, respectively, from the OCS since their respective inception and each of them is required to repay such grants through payment of royalties to the OCS from its respective revenues until the entire amount is repaid.

Each of InSightec's and Gamida'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 or Gamida has paid the full amount of royalties payable for the grants. In addition, the restriction may impair InSightec's or Gamida's ability to consummate a merger or similar transactions in which the surviving entity is not an Israeli company.

The total OCS grants received by InSightec during 2012, 2011 and 2010 were \$0.7 million, \$1.1 million and \$2.4 million, respectively, and the total OCS grants received by Gamida during 2012, 2011 and 2010 were \$3.8 million, \$4.2 million and \$4.8 million, respectively.

Research and development expenses were classified as discontinued operations.

D. TREND INFORMATION

Commercial and entertainment centers

Our commercial 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 2012.

Although retail was a significant feature of investment transactions in Eastern Europe during 2011 and through mid-2012, in the third quarter of 2012 there was a significant decline in activity. Only three retail investment transactions were closed out of a total of 41 transactions that were closed, representing approximately 7% of deals closed and less than 3% in regards to volume of deal (compared to historically approximately 40% of all transactions by volume). In terms of prime yields, there has been no change in the vast majority of markets and no significant change is expected over the next 12 months. Only in Warsaw were yields recorded to have hardened over the year and were down to 6% for prime shopping centers, and 7% for prime high street locations.

However all countries are expected to post strong GDP/capita growth over the next three years, according to recent IMF statistics. The markets with the biggest growth potential include Romania, which is forecast to see GDP/capita grow by over 50%. Bulgaria and Serbia are expected to post growth of over 40% in the next three years, and Hungary is expected to post growth of over 30% in the next three years. Poland, Slovakia and Croatia have growth forecasts of approximately 25-30% over this period, followed by the Czech Republic and Greece.

Poland - In 2012, developers delivered 485,600 square meters of modern retail space to the market, representing a 22% decrease compared to the previous year. The new supply was dominated by smaller retail developments with a leasable area not exceeding 35,000 square meters. More than 30% of the new supply was located in the eight largest Polish agglomerations, while almost 60% was delivered in small and medium-sized cities (of less than 200,000 inhabitants each). New developers of outlet centers have appeared on the Polish retail market. In 2012, new international retail chains entered the Polish market. Pop-up shops and temporary shops that open in a given area for only a specified time, are starting to appear in shopping centers. Currently, there is almost 800,000 square meters of retail space under construction. Due to developers' high level of activity, the increase in supply in 2013 will be higher than in the previous year, and is estimated to reach approximately 600,000 square meters. Developers appear to once again be interested in developing in major Polish cities, where they are looking for gaps in terms of location, complementary offer or diversity of the retail format that they could fill in. Unlike in the previous year, many shopping centers planned for 2013 are large-scale projects with GLA exceeding 50,000 square meters. On the other hand, growing interest is being recorded in small shopping centers with a local range offering convenient shopping. Tenants are also diversifying the ways they reach consumers by for example online sales. They are also looking for opportunities to strengthen their offer by introducing new concepts. Prime rents in the best retail locations should be relatively stable in 2013. A decline in rental rates is expected to occur in less popular or older generation shopping centers and those less favorably situated. Pressure on rents and the extended period of commercialization of new projects can translate into an increase in vacancy rates in selected markets.

Czech Republic - In 2012, a total of €610 million of income producing investment transactions were closed in the Czech Republic, which represented a decrease of 72% in investment volumes from 2011. The first half of 2012 was a relatively quiet period for the investment market in terms of closing of transactions, as concerns over the Euro zone (and more particularly uncertainty relating to the closure of various German open ended funds) pervaded. Transactions during this period amounted to €214 million in eight separate deals, with €194 million of this occurring in the second quarter of 2012. The second half of the year saw almost double this volume, with €396 million of deals closing in 18 separate transactions. The retail sector accounted for 23% of total investment transactions, with 40% of this (€45million) represented by three retail mall deals. The largest proportion of retail transactions during 2012 though was focused on discount supermarkets and strip malls. This sub-sector saw a total of 19 properties sold across the country with a total GLA of 66,638 square meters. The trend was heavily influenced by Czech-based investor CPI Group's acquisition strategy, which saw it acquiring 18 of the 19 properties.

Hungary - Only the best locations and centers maintained rates and operational performance. The retail environment in 2012 remained difficult and challenging with GDP and spending power both down. No significant retail space was added to the market with only the very best located centers locations performing, and rents remaining under pressure. Food retailers concentrated on smaller concepts in more central locations. Budapest's retail market remained strong in terms of retailer demand and turnover. Tenant activity was also active in Budapest as well as in some key submarkets. Activities in markets outside Budapest remain weak as retailers concentrate on the capital. Food retail continued to expand, but concentrated on smaller downtown supermarkets and convenience stores. The prevailing sentiment has resulted in lengthier deal and development timelines than in pre-financial crisis years. Domestic spending showed no great change in 2012. The Hungarian retail market saw its share of store closures this past year, although there were some new brands who entered the market or existing companies who expanded their presence in preparation for a potential market turnaround. Andrassy's through-traffic increased, resulting in fewer available storefronts in 2012. Rents hit a low this year but are expected to rise next year. If the general economic climate in Europe and Hungary improves, it will boost consumer confidence and the retail outlook could change, but otherwise a further difficult retail climate is expected with no increase in spending power expected.

Romania - The opening of Palas Mall turned the spotlight on Iasi in the first half of 2012. Moreover, Era Oradea saw construction completed on its second phase totaling 14,700 square meters. Bucharest did not register any new retail projects and also saw a consumer mall sold and converted into a medical center. Romanian traditional shopping center stock stood at approximately 1.36 million square meters at the end of June 2012. Around 81,000 square meters of shopping centers were announced to be delivered by the end of 2012. In addition, five more projects are in various stages of construction. While some of them have already broken ground, others are just preparing their sites for construction. Based on market information, a few new retailers secured space and we expect to see them open their first units in 2013. Also a number of retailers present in neighboring countries such as Greece and Bulgaria became very interested in the Romanian market as they realized the market's growth potential for their brands. Judging by the evolution of demand and supply of retail space, we do not expect significant changes of retail rental rates in 2013. A trend that was observed recently and that will likely continue is building complementary big-box stores next to existing and well performing food locations. The Old City Centre remained an attractive area for retailers, and although we do not expect to see any significant entry in the short term due to the lack of fashion anchors we expect it will continue to be an entertainment destination.

Serbia - According to official data from the Statistics Office of the Republic of Serbia, retail trade turnover increased 5.1% in current prices and decreased 0.9% in constant prices in the first half of 2012 in comparison to the same period in 2011. In light of challenging economic conditions in Belgrade, the first half of 2012 marked a period of stagnation in terms of new shopping center developments and shopping center stock. The retail market in secondary cities showed signs of movement as few retail projects were delivered in the first half of 2012. Even though Belgrade only has two western-type shopping malls, retailers continued to show interest in entering and expanding in the capital's retail market. After the success of the retail project in Pančevo, retailers started to explore secondary cities for future expansion. Belgrade's prime high streets remained one of the most favorable locations for retailers. In the first half of 2012, Belgrade's prime high street rents were stable and ranged from €40-120 square meters/month, with the highest rents recorded in locations such as Kneza Mihaila Street in Belgrade. Secondary retail areas registered rental levels between €15-40 square meters/month whereas peripheral retail areas ranged between €5-10 square meters/month. With limited international style shopping center supply in Belgrade, rents continued to be landlord-driven in the first half of 2012 and started at high initial values. High demand for retail space coupled with a shortage of quality retail space in the Belgrade market resulted in lower vacancy rates in the first half of 2012. Vacancy levels in the Belgrade prime high streets hovered between 5-7%, while western style shopping centers recorded vacancy levels closer to zero percent. Demand is expected to remain high for retail space in the two existing western-style shopping centers and on prime high streets. Retail rents in both prime high streets and western-style shopping centers should remain stable in the second half of 2012.

Bulgaria - The fashion retail market was affected by the expected upcoming opening of H&M in Bulgaria. H&M has already secured locations in prime shopping malls in Sofia, Varna and Burgas and is expected to increase its number of stores in these cities. International discount operators in the fashion, DIY and sporting good segments are setting plans for expansion in Bulgaria. Food retailers will also continue their expansions mainly by opening convenience formats in key locations. "Third Wave" shopping centers with openings scheduled for 2013 will continue to differentiate their projects from traditional retail offerings. Development activity in secondary cities is concentrated in Burgas, with two projects expected to open in the near future. Preparing for the upcoming completion of these projects, some existing operational projects have adopted innovative ways to enrich their retail mix, such as adding services or introducing new entertainment formats. High Street retailing will depend on the planning, financing and execution of the renovation of main pedestrian areas in order to revive a vibrant and diverse shopping and recreational experience.

Latvia - In the first half of 2012, Latvia was the first European Union country to reach an average retail trade growth of 11%. Annual retail market growth exceeded 16% in January and decreased to 8% in June 2012. Robust year-on-year growth occurred due to economic recovery and an increase in consumer consumption. The consumer confidence indicator increased 30% and is one of the highest consumer confidence results in the European Union. The retail market is expected to continue to expand in 2013. Total retail stock in Riga totaled 658 000 square meters (0.94 per capita). In 2012, the retail sector was characterized by moderate changes and developments following a year of research and strategizing for new concepts. Various retail-related companies (grocery and pharmacy shops and chains, clothes and footwear stores, and hardware shops) announced growth in footfall and retail turnover figures. If positive retail metrics continue in the first half of 2013, it is expected that brands may consider upgrading into new premise, which will in turn impact retail rental rates. With the exception of catering companies (fast food) and luxury fashion stores, the retail market saw modest demand for space. In the first half of 2012, vacancies in top, strategic locations reached a low and landlords are now reluctant to provide incentives to tenants. As a result of the absorption of excess retail space left over from previous years, rental rates stabilized and no growth was recorded in 2012. A similar trend was seen for major retail properties such as shopping centers, department stores, big boxes and street retailers where rental rates remained unchanged from the second half of 2011. In the second half of 2012, low or moderate rental rate growth is expected. The shopping center vacancy rate decreased by 1.1% to 5.8%, which did not represent a dramatic change compared to the first half of 2011. The vacancy level in most shopping centers reached a sustainable level of 1%, while other less popular shopping centers saw vacancy rates ranging from 6-10%. The largest decrease of vacant space was recorded in Galleria Riga, which saw its vacancy rate decrease 10% thanks to its increasing popularity as a shopping center and increase in foot traffic.

India - 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 5.3% in 2012. The services sector grew by 9.4%, and its share in the Indian GDP was 56.4%. As a control measure the Reserve Bank of India ("RBI") has not relaxed the base rates in 2012 to bring inflation down from 2011. As a result, 2013 is expected to have inflation projected at approximately 7.0% compared to 7.5% in 2012. The recent wave of reforms by the Government of India to incentivize foreign direct investment (FDI) in various sectors is bringing a new energy to the investment climate in India. One of the most debated reforms is the policy for allowing 51% FDI in multi-brand retail. Organized retail, which constitutes 8% of the total retail market, is expected to grow faster than traditional retail and gain a higher share in the growing retail market in India. The Indian retail industry has experienced growth of 10.6% between 2010 and 2012, and is expected to continue to experience continued growth in the near future.

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. During the years of 2010 and 2011 the market slowly recovered from this crisis but the demand still has not recovered and Europe's revenue per available room (or "revpar") has not achieved the same levels as prior to 2008.

The year 2012 presented primarily stagnation in Europe's hotel industry in comparison with 2011. In various markets an additional recovery was noted while in others there was still a decline. The hospitality industry was very unstable, with a number of last minute decisions and bookings.

For 2013 we generally expect to follow the European trend showing an expected revpar increase from 3 to 7%. Investments and renovations of furniture, fixtures and equipment are scheduled again after being suspended for the last two years.

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.

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.

Another 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.

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:

- 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 €3.75 million (approximately \$4.9 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. As of the date of this annual report, we believe that an extension will be obtained. 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. In accordance with the terms of the lease agreement, in the event either of the parties does not comply with the terms of the agreement, the agreement can be terminated by the other party.
- 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 are generally capped at 25% to 50% of the purchase price. Our management estimates (based (*inter alia*) on a professional opinion and past experience) that no significant costs will be borne in respect of these indemnification provisions.
- A former subsidiary of PC incorporated in Prague ("Bestes"), which was sold in June 2006 is a party to an agreement with a third party ("Lessee"), for the lease of commercial areas in a center constructed on property owned by it, for a period of 30 years, with an option to extend the lease period by an additional 30 years, in consideration for €6.9 million (approximately \$9.1 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.
- As required under the lease agreement for our new executive offices, in 2013 we provided bank guarantees to secure our compliance with the terms of the agreement in the total amount of approximately NIS 1.0 million.

- We have guaranteed certain of PC's obligations to repay principal under its loan agreements with third parties up to an aggregate amount of NIS 205 million. For some such loans we have also guaranteed the payment of interest by PC. In addition, PC is a guarantor to obligations under loan agreements of its project companies with third parties up to an aggregate amount of NIS 261 million. PC also guaranteed the fulfillment of transactions entered into by three of its subsidiaries for a total aggregate amount of NIS 4.0 million.
- We are a guarantor for Elbit Fashion's obligations under its lease agreements with respect to the Mango stores at all shopping malls (for a total of 28 stores) and with respect to its offices, and have undertaken to provide to secure its compliance with its agreements.
- We have undertaken to provide guarantees for the benefit of the Israeli tax authority to secure Elbit Fashion's payment of customs duties and VAT, which are paid by way of direct debit authorization by Elbit Fashion, in the event that a debit authorization is rejected.

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, 2012 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, 2012. 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, 2012	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⁾	6,451,487	1,651,420	2,254,865	1,454,175	1,091,027
Operating Leases ⁽²⁾	259,275	27,567	53,635	49,645	128,428
Purchase Obligations and Commitments ⁽³⁾	681,706	96,791	200,165	192,375	192,375
Other Long-term Liabilities Reflected on Balance Sheet	2,771	-	-	-	2,771
Total	7,395,239	1,775,778	2,508,665	1,696,195	1,414,601

(1) Long term debt includes interest that we will pay from January 1, 2013 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, 2012. 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.

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 except as otherwise noted below:

NAME	AGE	POSITION
Mordechay Zisser ⁽¹⁾⁽³⁾	58	Chief Executive Officer, Executive President and Director
Shimon Yitzhaki ⁽¹⁾⁽³⁾	58	Executive Chairman of the board of directors and Director
David Rubner ⁽²⁾⁽⁴⁾	73	Director
Zvi Tropp ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	73	External Director
Moshe Lion	52	Director
Shmuel Peretz	73	Director
Elina Frenkel Ronen ⁽¹⁾⁽²⁾⁽⁴⁾	39	External Director
Dudi Machluf	41	CEO of Elbit Plaza USA and former Co-Chief Executive Officer of the Company until August 2012
Ran Shtarkman	45	CEO of PC and former Co-Chief Executive Officer of the Company until August 2012
Doron Moshe	42	Chief Financial Officer
Zvi Maayan	45	General Counsel

(1) Member of the donation committee

(2) Member of the audit committee

(3) Member of the investment committee

(4) Member of the compensation committee

MORDECHAY ZISSER. On August 1, 2012, Mr. Zisser was appointed as our Chief Executive Officer, and 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 commercial 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., Medisil 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 Orek Paper Ltd. From 1999 until 2002, Ms. Frenkel Ronen served as Chief Financial Officer of Sherutey 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. Mr. Machluf has served as the CEO of Elbit Plaza USA since August 1, 2012, and prior thereto served as our Co-CEO from January 1, 2010. 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. Mr. Shtarkman served as our Co-CEO from January 1, 2010 until August 1, 2012. Mr. Shtarkman has served 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 2012 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, 2012 (including compensation paid to our former Co-CEOs until 2012) was approximately NIS 13.25 million (approximately \$3.5 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 2012, we granted an aggregate of 8,000,000 options exercisable into Elbit Medical 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."

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

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 \$25,255 and a meeting attendance fee in the amount of NIS 4,880 (approximately \$1,294), payable in accordance with the regulations. Our other independent directors are compensated with an annual fee in the amount of NIS 58,500 (approximately \$15,517, and a meeting attendance fee in the amount of NIS 2,060 (approximately \$546), 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 roles as of January 1, 2010, as Executive President and as of August 1, 2012 as Chief Executive Officer, 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 as of August 1, 2012, and as of January 1, 2010, Mr. Zisser was appointed our Chief Executive Officer and Executive President, respectively. Mr. Zisser's services and compensation, as detailed above, were unaffected by these new appointments. 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.

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. 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.

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.

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, and accordingly the sourcing period will end in June 2013. Mr. Goren filed a claim against us in March 2013 for NIS 5 million in damages regarding termination of his employment and amounts he claims are still owed to him by the company.

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 Amended and Restated 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 and compensation 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 qualifications 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 currently 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.

Compensation Committee

Under a recent amendment to the Companies Law, the board of directors of a public company must establish a compensation committee. The compensation committee must consist of at least three directors who satisfy certain independence qualifications, include all of the outside directors, and the chairman of which is required to be an outside director. Under the Companies Law, the role of the compensation committee is to recommend to the board of directors, for ultimate shareholder approval by a special majority, a policy governing the compensation of office holders based on specified criteria, to review modifications to the compensation policy from time to time, to review its implementation and to approve the actual compensation terms of office holders prior to approval by the board of directors, and to resolve whether to exempt the compensation terms of a candidate for chief executive officer from shareholder approval. We are in the process of establishing our compensation committee.

Donation committee. Our Amended and Restated 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, 2013, we employed or contracted 49 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, 2013, PC had 160 employees, consultants and part time employee in CEE, Greece and India. As of March 31, 2013, our Hotel division had 522 employees. As of March 31, 2013, Elbit Fashion employed 488 employees.

As of March 31, 2013, we employed six employees in the United States, in investment, administration and managerial services for our U.S. investment platform.

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, 2011, 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.

We are not party to any collective bargaining agreement with our employees or with any labor organization.

E. SHARE OWNERSHIP

As of April 1, 2013, our directors and executive officers, excluding Mr. Mordechay Zisser and Europe-Israel, beneficially owned an aggregate of 298,250 of our ordinary shares, or approximately 1.20% 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 original 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 NIS 10.25, and to extend the expiration date of such options to December 31, 2015. As of March 31, 2013, options to purchase 1,729,251 ordinary shares were outstanding under the 2006 Plan.

InSightec Incentive Plans

On February 24, 2013 options to purchase 2,336,250 ordinary shares, representing substantially all the outstanding options granted under the 2003 Option Plans, 2006 Option Plan and 2007 Option Plan, were cancelled and replaced with the same number of options to under the amended 2006 Option Plan (the “Stock Option Plan”). In addition, options to purchase an additional 9,305,250 shares were granted on February 24, 2013, to the grantees. The exercise price of all of the options granted was \$1.12.

The majority of the options granted vest in equal installments over a period of four years period from the grant date. The options expire following seven years from their date of grant.

All options under the Stock Option Plan automatically vest and become exercisable upon certain events that constitute a material change to InSightec as defined under the terms of the Stock Option Plan, such as a change of control, IPO, a resolution of InSightec’s shareholders or its board of directors for its dissolution or a distribution in kind of most of its assets, and mergers.

As of March 31, 2013, options to purchase an aggregate of 1,029,000 ordinary shares were vested and exercisable under the Stock Option Plan.

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, 2013, 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. In November 2012, our board of directors adopted an amendment to the 2011 Plan increasing the number of options issuable from 158,637,000 to 187,708,000 and resolved to amend the exercise price per share to NIS 0.133 and extend the expiration date of such options to November 29, 2017. As of March 31, 2013, 159,304,500 options were granted to our employees and officers and an additional 28,153,500 options remain available to be issued subject to approval of our shareholders.

As of March 31, 2013, 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, November 2011 and November 2012 (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 and the term during which options can be exercised from seven to ten years. On November 20, 2012, PC's shareholders and Board of Directors approved an amendment to the first employee stock option plan to extend the term during which options can be exercised from ten to 15 years from the date of grant.

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 33,176,682 ordinary shares were outstanding under the 2006 Scheme and second employee stock option plan (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, 2013, options to purchase 14,212 Ordinary C Shares were outstanding under the 2010 PCI Plan.

Elbit 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, 2013, 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 provided 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.

Under the 2011 EPUS Incentive Plan, options vested gradually over a period of three years, subject to the right of the plan administrator in its sole discretion to accelerate or otherwise modify the vesting period.

The vested options granted were 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.

Pursuant to the terms of the plan upon the winding up of Elbit Plaza USA the 500,000 Participation Units entitle their holders to receive their proportionate share of 5% of an amount which equals 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. Upon the sale of the 49 shopping centers located in the U.S. in 2012 discussed above in Item 5 "Operating and Financial Review and prospects – Overview", the 500,000 Participation Units were redeemed by us and PC in consideration for an amount that equaled the foregoing share and Elbit Plaza USA was wound up.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

We had, as of April 1, 2013, 24,902,809 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 April 1, 2013 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⁾
Mordechay Zisser ⁽²⁾	12,545,527 ⁽³⁾	50.38%
Europe-Israel (M.M.S.) Ltd. ⁽⁴⁾	12,399,987	49.79%
All officers and directors of the company as a group (11 persons)	12,843,777 ⁽⁵⁾	51.58%

- (1) The number of shares and percentages of ownership are based on our shares outstanding as of April 1, 2013. 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 April 1, 2013 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 March 4, 2013. Mr. Zisser is considered our indirect controlling shareholder by virtue of his control of Europe-Israel and serves as our Chief Executive Officer and Executive President and as a director. See footnote 4 below.
- (3) Includes (i) 12,399,987 of our shares held by Europe-Israel, which may be deemed to be beneficially owned by Mr. Mordechay Zisser, our Chief Executive Officer, Executive President and a director, by virtue of his control of Europe-Israel; (ii) 24,837 of our shares held by Marina Herzelia (Limited Partnership) 1988, which may be deemed to be beneficially owned by Mr. Mordechay Zisser, by virtue of his control of Control Centers Ltd., which wholly owns Marina Herzeliya (Limited Partnership) 1988; and (iii) 120,703 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) 12,399,987 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 Herzelia (Limited Partnership) 1988; (iii) 120,703 shares held by Mr. Zisser; and (iv) 681,500 options exercisable into 298,250 shares as of April 1, 2013 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 such date. 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 Tshuvu.

As of April 8, 2013, there were 518 holders of record of our ordinary shares with addresses in the United States, holding approximately 22.22% 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 commercial 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 commercial and entertainment center in Liberec, Czech Republic; (ii) a commercial and entertainment center in Kerepesi, Hungary; and (iii) a complex of commercial 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.

Loan Agreement with the Bank

Within the framework of our loan agreements with the Bank, we undertook to maintain financial covenants. Europe Israel also undertook to maintain a 30% minimum holding in our ordinary shares.

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.

Arrangement

Pursuant to the terms of the proposed Arrangement, we have agreed to examine all of our related party transactions and arrangements, including all transactions and arrangements with Mordechay Zisser and any of the companies related to him, to ensure that such transactions and arrangements are and will be made in the best interests of the Company. We will have the right to terminate these related party transactions and arrangements with immediate effect. See "Item 10.C – Additional Information – Material Contracts" below.

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 21, 2013, which is incorporated by reference herein.

Legal Proceedings

For information regarding the legal proceeding we are involved in, see "Item 4.A History and Development of the Company – Recent Events" and note 23B to our annual consolidated financial statements.

Dividend Distribution Policy

In January 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.

In June 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. On June 20, 2012, our board resolved to extend the decision not to distribute dividends for an additional period of at least 12 months.

B. SIGNIFICANT CHANGES

There are no significant changes that have occurred since December 31, 2012, 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 (\$)
2012	3.32	1.80	3.23	1.74
2011	13.97	1.98	12.74	1.93
2010	24.76	12.05	25.08	12.37
2009	28.09	9.30	28.75	10.03
2008	56.09	7.58	56.55	7.51

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 (\$)
2013				
Q1	3.50	1.43	3.41	1.53
Q2 (through May 8, 2013)	2.42	2.01	2.27	2.12
2012				
Q1	3.32	2.25	3.23	2.43
Q2	3.19	2.12	3.14	2.08
Q3	2.89	2.04	2.90	2.02
Q4	2.55	1.80	2.59	1.74
2011				
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

The monthly high and low sale prices for our ordinary shares during the past six months were:

Month	NASDAQ		TASE	
	High (\$)	Low (\$)	High (\$)	Low (\$)
May 2013 (through May 8)	2.42	2.12	2.27	2.12
April 2013	2.32	2.01	2.63	2.16
March 2013	2.69	2.12	3.41	1.53
February 2013	3.50	1.43	1.89	1.57
January 2013	1.90	1.51	2.41	1.74
December 2012	2.40	1.80	2.50	2.32
November 2012	2.53	2.20	2.59	2.25
October 2012	2.55	2.20	2.27	2.12

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 Amended and Restated 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 Amended and Restated Articles of Association authorize us to donate reasonable amounts to any cause we deem worthy.

Approval of Certain Transactions

A recent amendment to the Companies Law imposes new approval requirements for the compensation of office holders. Every Israeli public company must adopt a compensation policy, recommended by the compensation committee, and approved by the board of directors and the shareholders, in that order, no later than September 2013. The shareholder approval requires a majority of the votes cast by shareholders, excluding any controlling shareholder and those who have a personal interest in the matter (similar to the threshold described in the following paragraph regarding transactions with a controlling shareholder). In general, all office holders' terms of compensation – including fixed remuneration, bonuses, equity compensation, retirement or termination payments, indemnification, liability insurance and the grant of an exemption from liability – must comply with the company's compensation policy. In addition, the compensation terms of directors, the chief executive officer, and any employee or service provider who is considered a controlling shareholder must be approved separately by the compensation committee, the board of directors and the shareholders of the company (by the same majority noted above), in that order. The compensation terms of other officers require the approval of the compensation committee and the board of directors. In addition, under the Companies Law and our Amended and Restated 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 Amended and Restated 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 notes, perpetual or redeemable notes, 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 Amended and Restated Memorandum of Association nor our Amended and Restated 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 any of them contain any restriction on the board of directors' borrowing powers.

Insurance, Indemnification and Exemption

General - our Amended and Restated 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 *vis-a-vis* us or *vis-a-vis* another person;
- (ii) A breach of the duty of loyalty *vis-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 24,902,809 ordinary shares were issued and outstanding as of April 1, 2013. 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 Amended and Restated 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 Amended and Restated Memorandum of Association and Amended and Restated Articles of Association do not restrict in any way the ownership of our shares by non-residents of Israel and neither the Amended and Restated Memorandum of Association, the Amended and Restated Articles of Association or 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 6201 15th Avenue, Brooklyn, New York 11219.

C. MATERIAL CONTRACTS

The following is a list of material contracts entered into by us or any of our subsidiaries during the two years prior to the filing of this annual report.

The Arrangement

General

On May 8, 2013, we filed a motion with the Court to convene meetings of our unsecured creditors and shareholders for the approval of the Arrangement under Section 350 of the Companies Law. The terms and conditions of the Arrangement were based on the non-binding summary of terms dated February 27, 2013 with York and DK and resulted from discussions with the holders of the various series of our Notes, including York and DK, other creditors and Mordechay Zisser. As of March 31, 2013, the outstanding balance of all accrued and unpaid financial debt (including interest and CPI linkage) under the Notes and other unsecured loans (collectively, the "Unsecured Financial Debt") equaled approximately NIS 2,472 million (approximately \$694 million). Pursuant to the terms of the Arrangement, upon the effectiveness of the Arrangement all of our Unsecured Financial Debt will be extinguished and exchanged for new ordinary shares of our company (the "New Shares") and new notes to be issued by us (the "New Notes"), as follows:

We will issue 161,235,018 New Shares, representing immediately following such exchange 86% of our outstanding share capital on a fully diluted basis (excluding existing options to purchase 1,729,251 ordinary shares granted to our and our affiliates' employees and office holders prior to the Arrangement, a new incentive compensation plan to be approved by our new board of directors following the effective time of the Arrangement (as discussed below under " – Management Compensation") and any warrants to be issued to the Bank, to the extent so issued, as a result of new understandings with the Bank to the extent such understanding are achieved (as discussed below under " – Secured Debt").

We will also issue New Notes in the aggregate principal amount of NIS 300 million (approximately \$84 million) that will be linked to the consumer price index and bear interest at the rate of 8.0% per annum, payable on a semi-annual basis commencing on December 31, 2013. The principal of the New Notes will be repayable in a single payment at the end of five years from the date of issuance thereof. The New Notes will be prepayable at any time without penalty and will be required to be repaid with the net proceeds that may be obtained from the issuance of other notes. The New Notes will be secured by a negative pledge such that we may not pledge any of the property or assets of our company, subject to certain exceptions.

The New Shares and the New Notes will be allocated among the various unsecured creditors in proportion to the outstanding balance (principal, interest and CPI linkage) under each obligation as of the effective date of the Arrangement, and any fraction of a share will be rounded up to the nearest whole number. The New Shares will be listed for trading on both the Tel Aviv Stock Exchange and the NASDAQ Global Select Market, and the New Notes will be listed for trading on the Tel Aviv Stock Exchange at the effective date of the Arrangement. We will endeavor to file with the Securities and Exchange Commission within 30 days of the effective date of the Arrangement a registration statement with respect to the New Shares.

Amendments to our Articles of Association

Pursuant to the terms of the Arrangement, subject to receipt of the requisite approval of the Arrangement by our shareholders, we will amend our Articles of Association to provide that (i) the number of directors will not be greater than seven, in addition to two external directors (or such number of external directors required by law), (ii) our board of directors will be elected by holders of a majority of the outstanding ordinary shares, provided however that the board of directors will be authorized to appoint directors to the extent the board is comprised of less than the maximum number and (iii) our registered share capital, which is currently 50,000,000 ordinary shares of par value NIS 1.00 per share (of which 24,902,809 ordinary shares were issued and outstanding and 3,388,910 were treasury shares), will be increased to 200,000,000 ordinary shares of no par value per share. In addition, all of the treasury shares will be cancelled.

Eastgate Warrant

As discussed above in "Item 5. Operating and Financial Review and Prospects – Overview", Eastgate holds a warrant to purchase up to 3.3% of our fully diluted share capital (subject to certain exceptions), for no consideration, until March 31, 2014. Pursuant to an understanding between us and Eastgate, Eastgate will exercise the warrant for and not more than 1,344,752 ordinary shares immediately following the consummation of the Arrangement, at which time the warrant will terminate. We will endeavor to sign a binding agreement with Eastgate to reflect this understanding.

Secured Debt

The Arrangement contemplates that the secured debt owed by us to the Bank and the collateral securing such obligations will remain in place in accordance with the existing loan and security agreements with the Bank. We and the Bank are negotiating certain amendments to the existing agreements with the Bank and the joining of the Bank as a party to the Arrangement. We will notify (via a press release) at least three trading days prior to the date that will be set for the unsecured creditors to vote whether to approve the Arrangement in accordance with Section 350 as to the results of the discussions with the Bank and whether the Bank will join the Arrangement and, if the Bank will so join the Arrangement, the changes to the Arrangement resulting therefrom.

Management Compensation

Following the effectiveness of the Arrangement and the election of our new board of directors, our board will discuss the adoption of a new incentive compensation plan for our and our affiliates' office holders and employees providing for the issuance of options to purchase 15%-20% of our ordinary shares outstanding immediately following the effectiveness of the Arrangement (the "Incentive Plan") and the terms of engagement of Mr. Zisser as our Chief Executive Officer, including without limitation, the issuance of options under the Incentive Plan.

Related Party Transactions

Upon the effectiveness of the Arrangement, our audit committee and the audit committee of the applicable companies under our control will be entitled to examine all transactions entered into prior to such time between such company and Mr. Zisser and/or any entity under his control or in which Mr. Zisser and/or any entity under his control has a personal interest and will have the right to terminate any of such transactions immediately.

Board of Directors

As soon as practicable following the effectiveness of the Arrangement, we will convene a meeting of our shareholders regarding the termination of service of our current directors (excluding our external directors) and the election of our new board of directors. We will endeavor to hold such meeting no less than 30 days following the effective date of the Arrangement.

Conditions Precedent

The Arrangement is subject to various conditions, including the receipt of: (i) the approval of the Court under Section 350 of the Companies Law, following a hearing, including a determination that the Arrangement is fair to, or in the best interests of, our unsecured creditors; (ii) the approval of the Tel Aviv Stock Exchange; (iii) a tax ruling issued by the Israeli Tax Authority regarding the tax, if any, applicable to us and the unsecured creditors as a result of the Arrangement; (iv) the approval by the requisite majority of our unsecured creditors; (v) all requisite corporate approvals; and (vi) any other approvals required by law or material contracts to the extent required to consummate the Arrangement.

Additional Provisions

Upon the effectiveness of the Arrangement, we, our office holders, the Note holders and the other unsecured creditors, the trustees for the Note holders, our controlling shareholder and other shareholders and their respective affiliates and representatives will be released from any and all claims the grounds of which preceded the effectiveness of the Arrangement, including all claims related to the Notes and the management of the Company and all companies under our control, other than claims related to acts or omissions that were criminal, willful or fraudulent. Accordingly, the applicable pending legal proceedings against us, our office holders or our controlling shareholder will be dismissed.

Until such time as our new board of directors is elected following the effectiveness of the Arrangement, our letter of undertakings entered into with the trustees of certain of our Notes on March 19, 2013, discussed immediately below, will continue to be in effect.

Upon our filing of the proposed Arrangement with the Court, the non-binding summary of terms dated February 27, 2013 with York and DK with respect to the proposed restructuring of our outstanding indebtedness expired.

Letter of Undertakings with Trustees of Certain Series of Notes

As of March 19, 2013, we entered into the Letter of Undertakings with the Trustees (the "Trustees") of our Series 1, C, D, E, F and G noteholders (the "Noteholders" and the "Notes Series", respectively). The Letter of Undertakings generally provides as follows:

- the Letter of Undertakings will remain in effect until the end of the period of 14 days from the date on which we notify the Trustees of our intention to terminate the Letter of Undertakings for any reason (the "Interim Period"). In addition, we may notify the Trustees in writing of the termination of any of the undertakings included in the Letter of Undertakings for any reason following the end of the period of 14 days from the delivery of such notice, or with immediate effect if any of the Notes Series file a motion for the liquidation of our company;
- without prejudicing anything in the Letter of Undertakings, the parties to the Letter of Undertakings intend to mutually investigate the possibility of formulating a plan of arrangement among us and the Noteholders as to the Company's outstanding obligations to the Noteholders;
- (i) nothing in the Letter of Undertakings will be deemed to obligate any of us, the Trustees, the Noteholders' representatives (the "Representatives") and/or Mordechay Zisser and the entities owned and/or controlled by him (the "Controlling Shareholder") to enter into any arrangement and/or agreement of any kind, and nothing in the Letter of Undertakings will be deemed to constitute a representation and/or warranty whatsoever as to any consent and/or confirmation by either us, the Trustees and/or the Controlling Shareholder, to any arrangement among us and the Notes Holders; and (ii) the execution of the Letter of Undertakings will not prejudice any of the parties' or Noteholders' rights;
- we undertook to fully cooperate with the Trustees, the Representatives and anyone acting of their behalf to enable them to conduct a due diligence investigation with respect to our financial condition for the objective of negotiating an arrangement and/or providing recommendations to the Noteholders as to any arrangement and/or relating to available courses of action to protect the Noteholders' rights pursuant to the respective Notes and the exercise thereof, subject to confidentiality obligations;
- we further undertook that during the Interim Period we and the entities under our control (excluding PC (the "Controlled Entities")) will not: (i) either directly or indirectly, make any payments and/or engage in any transactions with the Controlling Shareholder and/or entities under the control of the Controlling Shareholder and/or Mr. Mordechay Zisser's relatives (collectively, "Related Parties") (but excluding D&O insurance and/or indemnification undertakings, to the extent these will be duly provided to all officers of the respective entity under applicable law); (ii) dispose and/or undertake to dispose of any material asset of ours and/or the Controlled Entities, and will not provide any guarantee and/or security of any kind, to secure our or any third party's debt, without providing the Trustees a 14-day prior written notice accompanied by all relevant information ("Advance Notice"); (iii) carry out any activity and/or enter into any transaction which is not in our and/or the Controlled Entities' (as the case may be) ordinary course of business, unless we provide the Trustees with Advance Notice; (iv) acquire and/or sell and/or pledge any of our securities, unless we provide Advance Notice; (v) deposit any cash or cash equivalent (including any securities) with any financial institution that is a creditor of ours ("Financial Creditors") and/or any of the Controlled Entities, or with a bank account in any of the banks to which we and/or any of our Controlled Entities' aggregate debt exceeds an amount of NIS 5 million, but excluding any deposits of any proceeds made by our subsidiaries in the framework of such subsidiaries' on-going activity in the ordinary course; (vi), in the case of our company, announce and/or distribute any dividends and/or other distributions of any kind, to any of our shareholders, (vii) change or amend any term under its existing credit and/or funding facilities with any of its Financial Creditors; and (viii) enter into new investments, including any purchase of new assets and/or additional rights in existing assets (except for certain specific activities agreed-upon under the Letter of Undertakings), unless we provide Advance Notice. In addition, each of us and the Controlled Entities agreed during the Interim Period to notify the Trustees and the Representatives of actual or threatened litigation or claims against us and/or any of our Controlled Entities that exceeds or would reasonably be expected to exceed NIS 2.5 million.

- In addition, during the Interim Period, we and our Controlled Entities will not make any payments to their respective creditors nor will any of us undertake any obligations to do so unless we provide the Trustees with Advance Notice, except for the following:
 - The making of payments and undertakings in the ordinary course of business, other than to Related Parties and Financial Creditors, subject to certain thresholds and exclusions;
 - The advance of working capital to the Company's subsidiaries in India and the United States, subject to a certain threshold; and
 - Payments to secured creditors that are due and payable in accordance with the terms thereof, provided that the source of the funds used for the repayment of such secured debt was generated from the secured assets.

We further undertook that neither we nor any of our Controlled Entities will settle any of their respective debt towards other entities included in the Elbit Group, except for the settlement of debts owed to us by any such entities included in the Elbit Group or for the settlement of any of PC's debts to any third party.

- The Controlling Shareholder agreed that, during the Interim Period, they will not dispose of our securities and/or of the Controlled Entities held, directly or indirectly, by the Controlling Shareholder. In addition, there may not be any change in the Controlling Shareholder's holdings (directly or indirectly) in any of our securities, provided that such undertaking will not apply in case of any conflict between this undertaking and any previous undertaking of the Controlling Shareholder towards Bank Hapoalim, if and to the extent any such other undertaking exists.

Commercial and Entertainment Centers

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 amendment to the warrant we 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 agreements to sell 49 U.S. shopping centers previously held by EDT, see "Item 5. Operating and Financial Review and Prospects – Overview - 2012."

Hotel Business

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."

Medical

For information regarding the investment in InSightec by GE Healthcare, see "Item 4.B. – Business Overview – Medical Companies - InSightec".

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 Amended and Restated Memorandum of Association and Articles of Association do not restrict in any way the ownership of our shares by non-residents, and neither our Amended and Restated 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, 25% for the 2012 tax year and 25% for the 2013 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.

As of January 1, 2013, shareholders that are individuals who have taxable income that exceeds NIS 800,000 in a tax year (linked to the CPI each year) will be subject to an additional tax, referred to as High Income Tax, at the rate of 2% on their taxable income for such tax year that is in excess of NIS 800,000. For this purpose taxable income will include taxable capital gains from the sale of our shares and taxable income from dividend distributions.

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", "Benefited Enterprise" or "Preferred 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).

For information with respect to the applicability of High Income Tax on distribution of dividends, see " -Capital Gains Tax on Sales of Our Ordinary Shares".

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", "Benefited Enterprise" or "Preferred Enterprise" which was entitled to a reduced tax rate under the Israeli Law for the Encouragement of Capital Investments, 5719-1959 - 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 20% for taxable years beginning after 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 20% for taxable years beginning after 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 the 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.

Medicare Tax

With respect to taxable years beginning after December 31, 2012, certain non-corporate U.S. holders will be subject to an additional 3.8% Medicare tax on all or a portion of their "net investment income," which may include dividends on, or capital gains recognized from the disposition of, our ordinary shares. U.S. holders are urged to consult their own tax advisors regarding the implications of the additional Medicare tax on their investment in our ordinary shares.

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 the QEF election 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 U.S. holder would generally have a tax basis equal to the lesser of the decedent’s basis or the fair market value of the ordinary shares on the date of the decedent’s death.

We believe that we were not a PFIC in 2012. However, since the determination of whether we are a PFIC is based upon such factual matters as our market capitalization, 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, 2013 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.

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%) on dividends paid in the United States or by a U.S. payor or U.S. middleman on our ordinary shares and on the gross proceeds from disposing of our ordinary shares, unless the U.S. holder provides an IRS Form W-9 or is otherwise exempt from backup withholding.

Non-U.S. holders generally are not subject to information reporting or backup withholding with respect to dividends paid on our ordinary shares in the United States or by a U.S. payor or U.S. middleman or the gross proceeds from the disposition of our ordinary shares, provided that such non-U.S. holder certifies to its foreign status, or is otherwise exempt from backup withholding or information reporting.

The amount of any backup withholding may be allowed as a credit against a holder's U.S. federal income tax liability and may entitle such holder to a refund provided that certain required information is timely furnished to the IRS.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Exchange Act that are applicable to a foreign private issuer. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act.

However, we file annual reports with, and furnish other information to, the SEC. These materials, including this annual report and the exhibits hereto, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington D.C. 20549. Copies of the materials may be obtained from the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. Additionally, copies of the materials may be obtained from the SEC's website at <http://www.sec.gov>.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management of financial risks

Our operations expose us to risks that relate to various financial instruments, such as market risks (including currency risk, fair value risk with respect to interest rates, cash flow risk with respect to interest rates and other price risk), credit risk and liquidity risk.

Market risk is the risk that the fair value of future cash flow of financial instruments will fluctuate because of changes in market prices.

Credit risk is the risk of financial loss to us if a counterparty to a financial instrument fails to meet its contractual obligations.

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due.

Our comprehensive risk management program focuses on actions to minimize the possible negative effects on our financial performance. In certain cases we use derivatives and non-derivative financial instruments in order to 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, 2012, 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 notes, 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, 2012, 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):

	Functional currency	Linkage currency (in NIS thousands)	Change in the exchange rate (%)	Profit (loss)
Financial assets				
Cash and deposits	NIS	U.S. dollar	+10%	24,306
Cash and deposits	Euro	PLN	+10%	1,966
Cash and deposits	NIS	Euro	+10%	1,002
Cash and deposits	Euro	NIS	+10%	2,312
Available for sale assets	Euro	U.S. dollar	+10%	17,264
Loan to third party	Euro	GBP	+10%	4,606
Total				51,456
Financial Liabilities				
Loans at amortized cost	NIS	U.S. dollar	+10%	(29,032)(*)
Loans at amortized cost	Euro	NIS	+10%	(8,496)
Debentures at amortized cost	NIS	U.S. dollar	+10%	(1,537)
Debentures at amortized cost	Euro	NIS	+10%	(36,016)(**)
Loans at amortized cost	Euro	U.S. dollar	+10%	(1,368)
Loans at amortized cost	RON	Euro	+10%	28,878
Total				(105,327)

(*) Until June 30, 2012, the effect of the exchange rates results in respect of these financial liabilities was offset against the exchange rate resulting from investments in foreign operations which had the same functional currency.

(**) In respect of PC's Debentures which are presented at amortized cost. Regarding the foreign currency risk of PC's notes at FVTPL see "Interest Rate Risk" below.

Foreign Currency Mitigate using selling options

PC entered into a forward transaction to mitigate its foreign currency exposure risk in respect of its Series B Debentures. In January 2010 PC settled the forward transaction 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 Series A and Series B notes 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 (approximately \$15 million).

During 2012, PC wrote call and put options with an expiration date of December 31, 2012. The options activity generated a net cash gain of NIS 57.8 million.

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, 2012, will increase our finance income by NIS 1.1 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, 2012 would have been unaffected, as the change in value of such assets affects only our comprehensive income, which would increase/decrease by NIS 4.0 million as a result of such changes in fair value.

Derivative measured at FVTPL

The balance as of December 31, 2012 and 2011 includes an amount of GBP 2.5 and 2.6 million (NIS 15) with regard to the sale of our hotels in the United Kingdom. As of December 31, 2012, the balance also includes the amount of GBP 1.2 (NIS 8) with regards to the sale of our hotels in the Netherlands. Said amounts were determined by a third party expert and represent the fair value of a derivative contemplated in the sale agreements. An increase of 10% in the price of the shares of PPHE will cause a decrease of NIS 2.2 million (approximately \$587,000) in the fair value of the derivative.

Within the framework of a credit agreement executed in September 2011 we granted to Eastgate 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. In April 2012 we agreed with Eastgate to amend the warrant such that Eastgate is entitled to purchase from us, at any time and from time to time during the period commencing on March 31, 2012 and ending on March 31, 2014, up to 3.3% (instead of 9.9%) of our outstanding shares at a purchase price of \$0.00 (instead of \$3.00) per share, subject to the terms and conditions set forth in the warrant. As of December 31, 2012 the warrant was classified to our equity in its fair value as of that date.

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. In May 2012 the subsidiary was sold as part of the share purchase agreement with PPHE described in Item 5.

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 was realized during 2012.

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 provision for doubtful debts based on those factors they consider having an effect on specific customers.

Interest rate risk

Fair value risk

A significant portion of our long-term loans and notes bear a fixed interest rate and are therefore, exposed to change in their fair value as a result of changes in the market interest rate. The vast majority of these loans and notes are measured at amortized cost and therefore changes in the fair value will not have any effect on the statement of income. With respect of three projects loans, PC mitigates its exposure to cash flow due to floating interest (IRS). The aggregate fair value of these three IRS, based on a valuation technique, was a negative value in an amount of NIS 12.3 million, a change of 1% in the market interest, is expected to have immaterial effect on the statement of income. 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 did not have any effect on the statement of income. These notes were sold in June 2012 for a total consideration of NIS 183 million (approximately \$49 million). In respect of a loan agreement drawn down by SC Bucuresti Turism Sa, our subsidiary that owns the Radisson Blu Bucharest hotel ("BUTU"), in October 2011 BUTU entered into an IRS transaction in which it will pay fixed interest rate of 1.4% and receive from the bank an amount equal to interest at a rate of 3 months Euribor on the loan balance on a quarterly basis starting January 1, 2013 and ending on June 30, 2016. In addition, the Company has invested in available-for-sale assets whose changes in their fair value do not have any effect on the statements of income since these are included directly in the comprehensive income.

As of December 31, 2012, PC has issued two series of notes which are presented at FVTPL: Series A in a total aggregate amount of NIS 305 million (approximately \$82 million), and Series B in a total aggregate amount of NIS 799 million (approximately \$214 million). PC's Series A and B notes are linked to the Israeli consumer price index and bear a fixed interest rate of 4.5% to 5.4% per annum. 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 notes. 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 notes. According to the swap transaction, PC will pay a fixed interest of 6.82% and will receive the same interest as the notes linked to the Israeli CPI, with the same amortization schedule as the notes. The new Series A swap was settled in January 2012. In addition, PC entered into several swap transactions for its Series B notes, NIS 799 million par value ("Series B at FVTPL"). PC did not execute swap transaction for the additional amount of Series B notes. According to the swap transactions, PC will pay an interest equal to the Euribor plus a margin of 3.52% to 3.66% and will receive the same interest as the notes linked to the Israeli consumer price index with the same amortization schedule as the notes. Series B notes 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 notes (other than those for which a swap transaction were not executed) are designated at fair value through profit and loss since it significantly reduces a measurement inconsistency with the said derivative. The notes are presented at FVTPL although the swap was settled. The notes 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 notes at amortized cost (see cash flow risk), PC included in its balance sheet a negative value in the amount of NIS 4.0 million (December 31, 2011 - NIS 10.3 million).

The following table analyses the change in the fair value of the notes and the derivatives as of December 31, 2012. This analysis assumes that in each case all other parameters affecting the derivatives and the notes fair value remain constant:

	Scope of Price change %	Profit (loss) NIS thousands
Exchange rate of the Euro against the NIS	+10%	57,151
Change in the Israeli CPI	+2.2%	(12,573)
Change in the market interest rate	+1%	8,036

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, 2012, which are exposed to cash flow risk (before tax and before capitalization to qualifying assets):

	Profit (loss) NIS thousands
Deposits linked to the Euro	644
Loans, notes and convertible notes linked to the U.S. dollar	(6,390)
Loans and notes linked to the Euro (*)	(28,636)
Loans linked to the NIS	(1,859)
	<u>(36,241)</u>

(*) In respect of PC's notes which are linked to the Israeli consumer price index and for which PC has executed swap transactions in order to exchange the interest to variable interest rate. See note 17(i) 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 notes 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 notes 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 notes.

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							
				1	2	3	4	NIS million	5	6 and thereafter	Total
€	€	6.98	6.98	74.5	-	-	-	-	-	-	74.5
€	U.S. dollar	Libor+4	4.3	0.9	12.8	-	-	-	-	-	13.7
€	€	Euribor + 1.65-6	4	58.6	268.1	123.5	31.7	233.1	351.2	1,066.2	
€	€	Euribor + 1.75	3.3	6.2	6.2	6.2	67.7	-	-	-	86.3
€	NIS (linked to CPI)	4.5-5.4	4.5-5.4	319.9	319.9	319.9	40.6	40.6	-	-	1,040.9
€	€	4.44-5.56	4.44-5.56	2	2	2	2	2	2	20.5	30.5
NIS	U.S. dollar	Libor + 3.5-6.3	4-6.8	290.8	-	-	-	-	-	-	290.8
€	NIS	Telbor+6	8.76	85	-	-	-	-	-	-	85
NIS	U.S. dollar	Libor + 2.65	3.05	11	5.5	-	-	-	-	-	16.5
NIS	NIS (linked to CPI)	5-6.3	6.0	408.9	388.6	368.4	271.8	296.9	541.5	2,276.1	
RON	€	Euribor + 4.6	4.8	12.9	12.9	12.9	250	-	-	-	288.7
NIS	NIS	6.25	6.25	54.2	54.2	-	-	-	-	-	108.4
NIS	NIS	Prime +2	5.47	8	-	-	-	-	-	-	8
INR	INR	11.5-13.25%	11.5-13.25	43.7	10.6	12.1	13.8	15.7	71.1	167	
				1,376.6	1,080.8	845	677.6	588.3	984.3	5,552.6	

Israeli consumer price index risk

A significant portion of our borrowings consists of notes raised by us on the TASE and which are linked to the increase in the Israeli consumer price index above the base index at the date of the notes issuance. An increase of 3% in the Israeli consumer price index will cause an increase in our finance expenses for the year ended December 31, 2012 (before tax and capitalizations of finance expenses to qualified assets) in the amount of NIS 69.7 million (approximately \$19 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 notes) is generally calculated according to quoted closing prices as of the balance sheet date, multiplied by the issued quantity of the traded financial instrument as of that date. The fair value of financial instruments that are not traded is estimated by means of accepted pricing models, such as present value of future cash flows discounted at a rate that, in our assessment, reflects the level of risk that is incorporated in the financial instrument. We rely, in part, on market interest which is quoted in an active market, as well as on various techniques of approximation. Therefore, for most of the financial instruments, the estimation of fair value presented below is not necessarily an indication of the realization value of the financial instrument as of December 31, 2012. 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.
- c) **Financial instruments included in current liabilities** - (short-term credit, suppliers, other current liabilities and liabilities related to discontinued operation) - due to their nature, their fair values approximate to those presented in the balance sheet. The fair value of derivatives (mainly swap transactions) is calculated by relying on valuations performed by third party experts, which take into account the expected future cash flow based on the terms and maturity of each contract using market interest rates for a similar instrument prevailing at the measurement date.
- d) **Financial instruments included in long-term liabilities** - The fair value of the traded liabilities (notes) is determined according to closing prices as of December 31, 2012 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, 2012	
	Book Value	Fair Value
Long- term loans at fixed interest rate		
Debentures	(30,537)	(30,537)
	(2,410,489)	(1,098,999)
	(2,441,026)	(1,129,536)

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

On January 31, 2013, PC published a letter that it had received from the trustees and representatives of the holders of its Series A and Series B notes that demanded that it desist from distributing a dividend to its shareholders and stated that legal proceedings may be taken in the event that it proceeds with the distribution of the dividend. The expected delay in the distribution of the dividend from PC, as well as the decline in the price of PC's stock in the recent period, impairs our ability to comply with our business plan according to the planned time schedule. According to the repayment schedule of our Series A and Series B notes, on February 20, 2013 we were required to pay the holders of the notes principal and interest in the aggregate amount of approximately NIS 82 million (approximately \$22 million).

In light of these factors, on February 3, 2013 the trustees of our Series E and Series I notes informed us that in meetings of holders of the notes the trustees were authorized to take legal action against us to prevent the making of these payments, and in connection therewith in a meeting that was held between us and the trustees and the joint representatives of the Series E, F, F and 1 notes we were requested by the joint representatives to refrain from making the payments.

In connection therewith, on February 5, 2013, we announced that the board of directors had authorized our management to commence accelerated negotiations with the trustees and representatives of all the Note holders, in an attempt to formulate an agreement with all the Note holders that will enable us to fulfill all our obligations. In addition, in light of the damage that is likely to be caused to us and to all our creditors if we are pulled into legal proceedings, and in order to allow us to engage in the process of negotiations mentioned above to the fullest extent and in a manner that is quick and efficient, our board of directors decided to accede to the demands of the Note holders and to delay the payment of principal to the holders of the various series of Notes until the conclusion of negotiations. As a result of the decision of the board of directors, we requested from the trustees of the Series A and Series B notes to delay the period of payment of the principal component from the payments until April 1, 2013 (and to delay accordingly the effective date of the payments).

On February 19, 2013 our board of directors decided, after assessment of our current situation, taking into account our needs, the complexity of the negotiation process in reaching an agreement with all the relevant parties about a possible arrangement, and the divergent positions of various parties in respect to the payment of interest to the holders of the Notes, to suspend also the interest payments to all Note, and to re-assess the situation as it develops from time to time. As of the date of this annual report we have not resumed making interest payments to the Note holders.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2012. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2012, 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, 2012, our internal control over financial reporting is effective.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

In accordance with Nasdaq Corporate Governance Rules, our board of directors has determined that both Mr. Zvi Tropp and Ms. Elina Frenkel Ronen are "audit committee financial experts" as defined in the instructions to Item 16A. of Form 20-F and are independent in accordance with the Nasdaq listing standards for audit committees applicable to us.

ITEM 16B. CODE OF ETHICS

Our principal executive officer, principal financial officer as well as all other directors, officers and employees are bound by a Code of Ethics and Business Conduct. Our Code of Ethics and Business Conduct is posted on and can be accessed via our web-site at www.elbitimaging.com. 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:

Services Rendered	2011 Fees	2012 Fees
Audit (a)	\$ 1,022,868	\$ 736,618
Audit-related (b)	-	\$ 34,601
Tax (c)	\$ 111,814	\$ 295,438
All other fees (d)	-	-
Total	\$ 1,134,682	\$ 1,066,657

(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 2012, 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 2011 and 2012.

(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

Purchases of equity securities by the Company

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 2012.

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.

Purchases of the Notes by the Company and Elbit Finance

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 2011, our board of directors approved a repurchase program of up to NIS 150 million of our Series A through G Notes, to be made from time to time in the open market. In addition, on November 2012 in furtherance of the note portfolio transaction we entered into with an international financial institution described in "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources - Liquidity" as well as any other note repurchases, our board of directors approved the increase of the note repurchase program to allow repurchases of up to an additional NIS 125 million of our Series A-G and Series 1 notes.

Pursuant to the repurchase program, in May 2011 we purchased approximately NIS 23.7 million par value of our notes for an amount of approximately NIS 25.5 million (approximately \$6.8 million). Notes repurchased were canceled and removed from trading and will not be reissued. In furtherance of the repurchases, from October 2011 through During 2012 Elbit Finance purchased an aggregate amount of Series A-G and Series 1 notes equal to NIS 201.7 million par value for an amount of approximately NIS 121 million.

Repurchases of PC's notes by PC

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. In November 2012, PC's Board approved the extension of the repurchase plan to be concluded by December 31, 2014 with a maximum amount to be purchased of up to NIS 600 million (approximately \$158 million) instead of NIS 150 million.

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 notes.

As of December 31, 2012, PC, directly and indirectly through its subsidiary, has purchased a total of NIS 271 million par value of the notes for an amount of approximately NIS 247 million (approximately \$65 millions). A total of NIS 38.6 million par value of the notes repurchased have been fully redeemed.

During 2012, Europe-Israel purchased our ordinary shares in various transactions on the TASE, as disclosed in a Schedule 13D/A filed by Europe-Israel and Mr. Zisser on July 11, 2012, July 23, 2012 and November 27, 2012, 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>
July 2012	1,453,972	2.62
August 2012	96,350	2.73

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 compensation 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 following financial statements and related auditors' report are filed as part of this annual report:

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ELBIT IMAGING LTD.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2012

ELBIT IMAGING LTD.
RESTATED CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Board of Directors and Shareholders of
Elbit Imaging Ltd.**

We have audited the accompanying consolidated balance sheets of Elbit Imaging Ltd. and its subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, statements of comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Elbit Imaging Ltd. and its subsidiaries as of December 31, 2012 and 2011, and the consolidated results of their operations, and their cash flows for each of the three years in the period ended December 31, 2012, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Company's financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3A to the financial statements, in the period commencing February 1, 2013 through February 1, 2014 the Company is to repay its debenture holders NIS 599 million (principal and interest). Said amount includes NIS 82 million originally payable on February 21, 2013, that its repayment was suspended following a resolution of the Company's Board of Directors. The Company's Board also resolved to suspend any interest payments relating to all the Company's debentures. In addition, as of December 31, 2012, the Company failed to comply with certain financial covenants relating to bank loans in the total amount as of such date of NIS 290 million. Further, as discussed in Note 3A(6), as of the approval date of the consolidated financial statements, the Company is in cross default with respect to borrowings (debentures, Company's bank loans and loans received by subsidiaries, for which the Company is a guarantor) in the total amount of approximately NIS 2.86 billion. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also described in Notes 3A and 31F. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The financial statements of Plaza Centers, a substantial subsidiary (62.5%), have been prepared assuming that Plaza Centers will continue as a going concern. As discussed in Note 3B, Plaza Centers' Board of Directors has concluded that Plaza Centers will withhold payment on the upcoming maturities of its bonds and approach the creditors of Plaza Centers with a restructuring plan. Specifically, Plaza Centers' Board resolved to withhold the repayment of NIS 152 million payable in November and December 2013. In addition, in November 2013, Plaza Centers filed for reorganization proceedings with the District Court of Amsterdam, The Netherlands. These matters raise substantial doubt about Plaza Centers' ability to continue as a going concern. Plaza Centers' management plans concerning these matters are also described in Note 3B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

As discussed in Note 2E to the financial statements, the accompanying financial statements have been restated to correct the classification of the Group's trading property and associated borrowings as non-current assets and non-current liabilities, respectively.

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

Tel-Aviv, Israel November 27, 2013

ELBIT IMAGING LTD.
RESTATED CONSOLIDATED BALANCE SHEETS (*)

	Note	December 31		
		2 0 1 2	2 0 1 1	2 0 1 2
				Convenience translation (note 2D) U.S.\$'000
		(in thousand NIS)		
Current Assets				
Cash and cash equivalents		535,070	602,292	143,335
Short-term deposits and investments	(4)	327,830	409,338	87,819
Trade accounts receivables	(5)	47,528	72,049	12,732
Other receivables	(6)	136,276	101,566	36,506
Prepayments and other assets (*)	(7)	23,090	24,939	6,185
Inventories		<u>14,616</u>	<u>48,043</u>	<u>3,915</u>
		<u>1,084,410</u>	<u>1,258,227</u>	<u>290,492</u>
Non-Current Assets				
Trading property (*)	(8)	4,198,705	4,556,616	1,124,754
Deposits, loans and other long-term balances	(9)	55,116	380,077	14,765
Investments in associates	(10)	164,025	10,556	43,939
Property, plant and equipment	(12)	1,185,485	1,167,646	317,569
Investment property	(13)	123,723	2,672,571	33,143
Other assets and deferred expenses (*)	(14)	236,229	250,959	63,281
Intangible assets	(15)	46,718	74,415	12,515
		<u>6,010,001</u>	<u>9,112,840</u>	<u>1,609,966</u>
		<u>7,094,411</u>	<u>10,371,067</u>	<u>1,900,458</u>

(*) As restated - see Note 2E

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

ELBIT IMAGING LTD.
RESTATED CONSOLIDATED BALANCE SHEETS (*)

	Note	(in thousand NIS)	December 31		
			2012	2011	2012 Convenience translation (Note 2D) U.S.\$'000
Current Liabilities					
Short-term credits (*)	(16)	1,537,010	1,662,934	411,736	411,736
Suppliers and service providers		75,887	219,229	20,329	20,329
Payables and other credit balances	(17)	135,689	261,744	36,348	36,348
Other liabilities (*)	(18)	39,531	83,065	10,590	10,590
		<u>1,788,117</u>	<u>2,226,971</u>	<u>479,003</u>	<u>479,003</u>
Non-Current Liabilities					
Borrowings (*)	(19)	3,666,708	6,191,003	982,242	982,242
Other financial liabilities	(20)	14,021	215,752	3,756	3,756
Other liabilities (*)	(21)	91,127	89,828	24,411	24,411
Deferred taxes	(22)	113,309	108,642	30,353	30,353
		<u>3,885,165</u>	<u>6,605,226</u>	<u>1,040,762</u>	<u>1,040,762</u>
Commitments, Contingencies, Liens and Collaterals					
Shareholders' Equity					
Share capital and share premium		902,870	902,870	241,862	241,862
Reserves		(505,980)	(605,132)	(135,541)	(135,541)
Retained earnings		81,237	230,413	21,761	21,761
Treasury stock		(168,521)	(168,521)	(45,144)	(45,144)
Attributable to equity holders of the Company		309,606	359,630	82,938	82,938
Non controlling interest		1,111,523	1,179,240	297,755	297,755
		<u>1,421,129</u>	<u>1,538,870</u>	<u>380,693</u>	<u>380,693</u>
		<u>7,094,411</u>	<u>10,371,067</u>	<u>1,900,458</u>	<u>1,900,458</u>

(*) As restated - see Note 2E

Doron Moshe
Chief Financial Officer

Mordechay Zisser
CEO

Approved by the Board of Directors on: November 27, 2013

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

ELBIT IMAGING LTD.
CONSOLIDATED STATEMENTS OF INCOME

		December 31			
		2 0 1 2	2 0 1 1	2 0 1 0	2 0 1 2
		Note	(in thousand NIS) (Except for per-share data)	U.S.\$'000	Convenience translation (Note 2D)
Income - revenues and gains					
Revenues from sale of commercial centers	(26A)	127,109	3,525	4,345	34,050
Revenues from hotels operation and management	(26B)	222,828	286,548	403,822	59,692
Revenues from fashion merchandise and other		145,996	185,082	174,817	39,109
Total revenues		495,933	475,155	582,984	132,851
Gains and other income					
Rental income from commercial centers	(26A)	175,153	111,745	98,550	46,920
Gain from changes of shareholding in investees		9,369	-	-	2,510
Gain from sale of real estate assets		53,875	-	198,777	14,432
Total income - revenues and gains		734,330	586,900	880,311	196,713
Expenses and losses					
Commercial centers	(26C)	272,810	159,626	156,745	73,081
Hotels operations and management	(26D)	202,158	240,784	341,291	54,154
Cost of fashion merchandise and other	(26E)	155,772	211,743	197,574	41,728
General and administrative expenses	(26F)	48,886	61,857	65,292	13,096
Share in losses of associates, net		8,726	7,568	8,275	2,337
Financial expenses	(26G)	175,778	164,001	316,706	47,088
Financial income	(26H)	(31,083)	(65,571)	(40,927)	(8,327)
Change in fair value of financial instruments measured at fair value through profit and loss	(26I)	50,229	(275,537)	53,016	13,455
Write-down, charges and other expenses, net	(26J)	411,625	290,276	83,660	110,267
		1,294,901	794,747	1,181,632	346,879
Loss before income taxes		(560,571)	(207,847)	(301,321)	(150,166)
Income tax expenses (tax benefit)	(22)	(10,248)	63,283	3,992	(2,745)
Loss from continuing operations		(550,323)	(271,130)	(305,313)	(147,421)
Profit from discontinued operations, net	(29)	94,823	24,101	378,838	25,401
Profit (loss) for the year		(455,500)	(247,029)	73,525	(122,020)

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

ELBIT IMAGING LTD.
CONSOLIDATED STATEMENTS OF INCOME

	Note	December 31			
		2 0 1 2	2 0 1 1	2 0 1 0	2 0 1 2
		(in thousand NIS) (Except for per-share data)			Convenience translation (Note 2D) U.S.\$'000
Attributable to:					
Equity holders of the Company		(293,590)	(264,919)	61,998	(78,647)
Non-controlling interest		<u>(161,910)</u>	<u>17,890</u>	<u>11,527</u>	<u>(43,373)</u>
		<u><u>(455,500)</u></u>	<u><u>(247,029)</u></u>	<u><u>73,525</u></u>	<u><u>(122,020)</u></u>
Loss from continuing operations					
Equity holders of the Company		(391,947)	(284,610)	(308,924)	(104,995)
Non-controlling interest		<u>(158,376)</u>	<u>13,480</u>	<u>3,611</u>	<u>(42,426)</u>
		<u><u>(550,323)</u></u>	<u><u>(271,130)</u></u>	<u><u>(305,313)</u></u>	<u><u>(147,421)</u></u>
Profit from discontinued operation, net					
Equity holders of the Company		98,357	19,691	370,922	26,348
Non-controlling interest		<u>(3,534)</u>	<u>4,410</u>	<u>7,916</u>	<u>(947)</u>
		<u><u>94,823</u></u>	<u><u>24,101</u></u>	<u><u>378,838</u></u>	<u><u>25,401</u></u>
Earnings (loss) per share - (in NIS)					
(26K)					
Basic earnings per share:					
From continuing operation		(15.75)	(11.44)	(12.21)	(4.22)
From discontinued operations		<u>3.95</u>	<u>0.79</u>	<u>14.67</u>	<u>1.06</u>
		<u><u>(11.80)</u></u>	<u><u>(10.65)</u></u>	<u><u>2.45</u></u>	<u><u>(3.16)</u></u>
Diluted earnings per share:					
From continuing operation		(15.75)	(11.44)	(12.21)	(4.22)
From discontinued operations		<u>3.95</u>	<u>0.79</u>	<u>14.41</u>	<u>1.06</u>
		<u><u>(11.80)</u></u>	<u><u>(10.65)</u></u>	<u><u>2.13</u></u>	<u><u>(3.16)</u></u>

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

ELBIT IMAGING LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	December 31			
	2 0 1 2	2 0 1 1	2 0 1 0	2 0 1 2
	(in thousand NIS)			Convenience translation (Note 2D) U.S.\$'000
Profit (loss) for the year	(455,500)	(247,029)	73,525	(122,020)
Exchange differences arising from translation of foreign operations	(61,546)	41,726	(391,583)	(16,487)
Gain (loss) from cash flow hedge	(13,893)	(41,577)	37,441	(3,722)
Gain (loss) from available for sale investments	13,164	(6,346)	(864)	3,526
Adaption of the revaluation model -				
Beginning of the year	470,852	-	-	126,284
Additions during the year	43,090	-	-	11,391
Loss on hedging instruments designated in hedges of the net assets of foreign operations	37,971	-	-	10,172
Reclassification adjustments relating to foreign operations disposed of in the year	(102,035)	-	(34,291)	(27,333)
Income tax expenses (tax benefits) (see note 22)	(106,243)	(1,480)	24,093	(28,461)
	281,360	(7,677)	(365,204)	75,370
Comprehensive loss	(174,140)	(254,706)	(291,679)	(46,650)
Attributable to:				
Equity holders of the Company	(49,837)	(264,454)	(128,992)	(13,351)
Non-controlling interest	(124,303)	9,748	(162,687)	(33,299)
	(174,140)	(254,706)	(291,679)	(46,650)

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

ELBIT IMAGING LTD.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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

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

ELBIT IMAGING LTD.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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

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

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

ELBIT IMAGING LTD.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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

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

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

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

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

ELBIT IMAGING LTD.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	<u>Share capital</u>	<u>Share premium</u>	<u>Other reserves</u> (*)	<u>Revaluation of property, plant and equipment</u>	<u>Stock-based compensation reserve</u>	<u>Foreign currency translation reserve</u>	<u>Retained earnings</u>	<u>Gross amount</u>	<u>Treasury stock</u>	<u>Attributable to share-holders of the company</u>	<u>Non Controlling interest</u>	<u>Total shareholders' equity</u>
	Convenience translation (Note 2D), U.S.\$'000											
Balance - January 1, 2012	10,195	231,666	(59,919)	-	12,768	(114,952)	61,723	141,481	(45,144)	96,338	315,896	412,234
Loss for the year	-	-	-	-	-	-	(78,647)	(78,647)	-	(78,647)	(43,373)	(122,020)
Comprehensive income (loss)	-	-	9,305	(**)51,082	-	(33,777)	(***)38,686	65,296	-	65,296	10,074	75,370
Transaction with non controlling interest	-	-	(2,666)	-	-	-	-	(2,666)	-	(2,666)	3,370	705
Reclassification of a derivative (option) to equity following change in terms	-	-	1,927	-	-	-	-	1,927	-	1,927	-	1,927
Stock-based compensation expenses	-	-	-	-	582	107	-	689	-	689	11,788	12,477
Balance - December 31, 2012	10,195	231,666	(51,353)	51,082	13,350	(148,622)	21,762	128,080	(45,144)	82,938	297,755	380,693

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

(**) Net of related tax expenses in the amount of USD 16 million.

(***) Net of related tax expenses in the amount of USD 12 million.

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

ELBIT IMAGING LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

	December 31			
	2 0 1 2	2 0 1 1	2 0 1 0	2 0 1 2
	(in thousand NIS)			Convenience translation (Note 2D) U.S.\$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the year from continued operations	(550,323)	(271,130)	(305,313)	(147,421)
Income tax expenses (tax benefit) recognized in profit and loss	(10,248)	63,283	3,992	(2,745)
Finance expenses (income) recognized in profit and loss	194,924	(177,107)	328,795	52,216
Income tax paid in cash	-	(3,376)	(1,555)	-
Depreciation and amortization (including impairment)	461,568	339,412	114,539	123,645
Gain from fair value adjustment of investment property	(9,930)	(19,700)	(2,324)	(2,660)
Profit from realization of investments in subsidiaries (Appendix B)	(62,608)	-	(198,777)	(16,771)
Share in losses of associates, net	8,726	7,568	8,275	2,338
Profit from realization of assets and liabilities	-	-	(5,739)	-
Stock based compensation expenses	18,497	39,691	27,632	4,955
Other	2,737	(1,949)	12,416	733
Trade accounts receivables	(9,112)	(7,662)	3,113	(2,441)
Receivables and other debit balances	7,791	(12,630)	67,585	2,087
Inventories	7,287	(8,240)	(1,664)	1,952
Trading property and payment on account of trading property	(113,135)	(403,624)	(349,714)	(30,307)
Suppliers and service providers	(105,691)	106,503	(33,610)	(28,313)
Payables and other credit balances	42,989	69,397	(31,829)	11,516
Net cash used in operating activities of continuing operations	(116,528)	(279,564)	(364,178)	(31,216)
Net cash provided by (used in) discontinued operating activities	(32,096)	38,675	31,167	(8,598)
Net cash used in operating activities	(148,624)	(240,889)	(333,011)	(39,814)

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

ELBIT IMAGING LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

	December 31			
	2 0 1 2	2 0 1 1	2 0 1 0	2 0 1 2
	(in thousand NIS)			Convenience translation (Note 2D) U.S.\$'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in initially-consolidated subsidiaries (Appendix C)	-	(2,197)	(5,173)	-
Purchase of property plant and equipment, investment property and other assets	(24,227)	(34,410)	(72,925)	(6,490)
Proceeds from realization of property plant and equipment	2,000	1,018	31,282	536
Proceeds from realization of investments in subsidiaries (Appendix B)	139,827	-	(21,349)	37,457
Investments in associates and other companies	(11,567)	-	(2,591)	(3,099)
Proceed from realization of long-term deposits and long-term loans	277,436	33,431	119,489	74,320
Investment in long-term deposits and long-term loans	(29)	46,133	(11,925)	(8)
Interest received in cash	37,542	65,375	57,239	10,057
Investments in debt security	-	-	(39,206)	-
Proceeds from repayment of debt security	-	-	47,207	-
Proceed from sale of available for sale marketable securities	154,943	45,051	50,576	41,506
Purchase of available for sale marketable securities	(82,239)	(46,325)	(108,692)	(22,030)
Loans granted to a former subsidiary	-	(54,444)	(62,431)	-
Short-term deposits and marketable securities, net	62,511	333,136	(170,415)	16,746
Net cash provided by (used in) continued investing activities	556,197	386,768	(188,914)	148,995
Net cash provided by (used in) discontinued investing activities	1,289,831	(61,416)	(178,463)	345,521
Net cash provided by (used in) investing activities	1,846,028	325,352	(367,377)	494,516
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from re-issuance of debentures	58,080	-	-	15,559
Dividend paid to non-controlling interest	-	(56,772)	-	-
Repurchase of debentures and treasury stock	(184,342)	(202,439)	(30,002)	(49,382)
Interest paid in cash	(348,946)	(390,442)	(328,559)	(93,476)
Proceeds from long-term borrowings	52,895	1,116,030	1,379,556	14,170
Repayment of long-term borrowings	(770,898)	(1,226,102)	(923,753)	(206,509)
Proceeds from selling derivatives	59,040	222,543	45,834	15,816
Proceeds from transactions with non-controlling interests, net	-	-	121,218	-
Proceed from short-term credit	203,990	411,484	275,218	54,645
Repayment of short-term credit	(255,175)	(157,850)	(131,160)	(68,357)
Net cash provided by (used in) continued financing activities	(1,185,356)	(283,548)	408,352	(317,534)
Net cash used in discontinued financing activities	(584,789)	(297,092)	(39,991)	(156,654)
Net cash provided by (used in) financing activities	(1,770,145)	(580,640)	368,361	(474,188)
Decrease in cash and cash equivalents	(72,741)	(457,538)	(332,027)	(19,486)
Cash and cash equivalents at the beginning of the year	602,292	1,040,797	1,508,301	161,343
Net effect on cash due to currency exchange rate changes	5,519	57,672	(135,477)	1,478
Cash and cash equivalents at the end of the year	535,070	602,292	1,040,797	143,335

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

ELBIT IMAGING LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS

	December 31			
	2 0 1 2	2 0 1 1	2 0 1 0	2 0 1 2
	(in thousand NIS) (Except for per-share data)			Convenience translation (Note 2D) U.S.\$'000
Appendix A - Non-cash transactions				
Long-term loans assumed by the purchaser of investment property	1,114,521	-	122,338	298,559
Acquisition of property plant and equipment, investment property and other assets by credit	804	-	8,539	215
Appendix B - Proceeds from realization of investments in subsidiaries				
Working capital (excluding cash), net	(25,431)	-	(90,387)	(6,812)
Property, plant, equipment and other assets	382,344	-	456,102	102,423
Long term receivable	(7,529)	-	(104,205)	(2,017)
Long term liabilities	(272,165)	-	(470,628)	(72,908)
Foreign currency transaction	-	-	(11,008)	-
Profit from realization of subsidiaries	62,608	-	198,777	16,771
	139,827	-	(21,349)	37,457
Appendix C - Initially consolidated subsidiaries				
Working capital (excluding cash), net	-	(134)	(1,539)	-
Prepayment lease rights	-	-	-	-
Investment in investee company	-	(8,265)	-	-
Intangible asset	-	25,341	-	-
Property plant and equipment	-	-	77,223	-
Long term liabilities	-	-	(70,420)	-
Share Capital	-	-	(91)	-
Gain on disposal of interest in former associate	-	(2,736)	-	-
Non-controlling interest	-	(12,009)	-	-
	-	2,197	5,173	-

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL

A. Elbit Imaging Ltd. ("the Company") was incorporated in Israel. The Company's registered office is at 5 Kinneret Street Bnei Brak, Israel. The Company's shares are registered for trade on the Tel Aviv Stock Exchange and in the United States on the NASDAQ Global Select Market.

The Company's consolidated financial statements have been originally approved on March 20, 2013. As disclosed in note 2E, these financial statements are re-issued in order to reflect the presentation of the Group's trading property and associated borrowings as non-current asset and non-current liabilities, respectively, as oppose to current asset and current liabilities.

B. The Group engages, directly and through its investee companies, in Israel and abroad, mainly in the following areas:

- Commercial and entertainment centers - initiation, construction, and sale of shopping and entertainment centers and other mixed-use property projects, predominantly in the retail sector, located in Central and Eastern Europe and in India. In certain circumstances and depending on market conditions, the Group operates and manages commercial and entertainment centers prior to their sale.
- Hotels - hotels operation and management, primarily in major European cities. For the sale of the Group's hotels in Netherland and UK, see note 12C and D.
- Medical industries and devices - (a) research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment, and (b) development of stem cell population expansion technologies and stem cell therapy products for transplantation and regenerative medicine.
- Residential projects - initiation, construction and sale of residential projects and other mixed-use real property projects, predominately residential, located primarily in India.
- Fashion apparel - distribution and marketing of fashion apparel and accessories in Israel. With respect to the selling of GAP operation, see note 11E.
- During 2012, the Company closed a transaction to sale all its investments in commercial centers in the US (see note 29B) and lost control over its holding in the subsidiary holding the medical industry and devices (see note 10B(2)). Accordingly, these operations are presented in these financial statements as discontinued operations.

C. Financial position of the Company and Plaza Centers:

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - GENERAL (CONT.)

D. Definitions:

The Company	- Including Elscint
Elscint	- A formerly 100% subsidiary of the Company, merged with the Company in 2010.
Group	- The Company and its Investees
Investees	- Subsidiaries, joint ventures and associates
PC	- Plaza Centers N.V. Group, a material subsidiary (62.5%) operating in the field of commercial and entertainment centers.
Elbit Medical	- Elbit Medical Technologies Ltd., a public Israeli company traded on the TASE, as for December 31, 2012, the Company holds 96% of Elbit Medical on a fully diluted basis.
InSightec Ltd.	- As of December 31, 2012, an associate (48%) operating in the field of development, manufacturing and marketing of medical treatment systems (see note 10 B).
EPN Group	- EPN GP, LLC, and EPN EDT Holdings II and their affiliates jointly ventures (45%), the Group's U.S. real estate investment funds.
Parent Company	- Europe Israel (M.M.S.) Ltd. ("EIL").
Europe Israel Group	- Europe Israel (M.M.S.) Ltd and its investee companies.
Control Centers	- Control Centers Ltd. - the controlling shareholder of EIL ("CC").
Control Centers Group	- Control Centers and its investee companies.
Ultimate controlling party	- The controlling shareholder of Control Centers, Mr. Mordechay Zisser, who through December 31, 2011 served as the Company's Executive President, and as a director and during 2012 was nominated as the CEO of the Company, the Company's Executive President and as a director.
Related parties	- As defined in International Accounting Standard ("IAS") no. 24.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

B. Basis for preparation:

The consolidated financial statements have been prepared on the historical cost basis except for (i) financial instruments which are measured at fair value; (ii) certain trading property measured at net realizable value (see note 2AF.(1)a.); (iii) certain property, plant and equipment (hotels) that were presented until 31.12.2011 at the cost model and commencing January 1, 2012 are presented at the revaluation model (based on fair value) (see note 2AF.(1)a and note 2AF (1) f.) and (iv) investment property measured at fair value (see note 2AF (1)f.) The principal accounting policies are set out below.

C. Presentation of the income statements:

The Group operations are characterized by diverse activities. Accordingly, management believes that its income statements should be presented in the "Single - step form". According to this form, all costs and expenses (including general and administrative and financial expenses) should be considered as continuously contributing to the generation of the overall income (revenues and gains). Management also believes that its operating expenses should be classified by function to: (i) those directly related to each revenue and gain (including general and administrative expenses and selling and marketing expenses relating directly to each operation); and (ii) overhead expenses which serve the business as a whole and are to be determined as general and administrative expenses.

D. Convenience translation:

The balance sheet as of December 31, 2012 and statement of income, statement of other comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended have been translated into U.S. Dollar using the representative exchange rate as of that date (\$1.0 = NIS 3.733). Such translation was made solely for the convenience of the U.S. readers. The dollar amounts so presented in these financial statements should not be construed as representing amounts receivable or payable in dollars or convertible into dollars but only a convenience translation of reported NIS amounts into U.S. Dollar, unless otherwise indicated. The convenience translation supplementary financial data is unaudited and is not presented in accordance with IFRSs.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

E. Operating cycle; Restatement:

Due to the lingering real estate and financing crisis in CEE, in which the Group's majority of commercial centers are located, commencing 2008 the Group is lacking sufficient historical experience of realizing its commercial centers into cash or cash equivalents. Accordingly, the Group is unable to clearly identify its actual operating cycle with respect to trading property. As such, the Group's operating cycle relating to trading property and corresponding borrowings is 12 months. As a result, trading property and borrowings associated therewith are presented as non-current asset and non-current liabilities, respectively, as oppose to current asset and current liabilities.

Impact on the Statement of financial position:

31/12/2012	As previously reported	Adjustments (NIS in thousands)	As Restated
Current assets	5,506,875	(4,422,465)	1,084,410
Non-current assets	1,587,536	4,422,465	6,010,001
Current liabilities	2,735,235	(947,118)	1,788,117
Non-current liabilities	2,938,047	947,118	3,885,165

31/12/2011	As previously reported	Adjustments, as restated (NIS in thousands)	Present balance
Current assets	6,052,765	(4,794,538)	1,258,227
Non-current assets	4,318,302	4,794,538	9,112,840
Current liabilities	2,844,825	(617,854)	2,226,971
Non-current liabilities	5,987,372	617,854	6,605,226

The Group's operating cycle in respect of all its operations other than trading property is 12 months.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

F. Basis for consolidation:

(i) The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company ("Subsidiaries"). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the reporting periods are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as the case may be. Where necessary, adjustments are made to the financial statements of subsidiaries to adjust their accounting policies with those of the Company. Material intra-group transactions, balances, income and expenses are fully eliminated on consolidation.

Losses attributable to non-controlling interest in excess of its share in the subsidiary's equity are charged to non-controlling interest in any case, while ignoring its obligations and ability to make additional investments in the subsidiary.

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

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

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

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

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

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

G. Interest in joint ventures:

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control; that is when the strategic financial and operating policy and decisions relating to the activities of the joint venture require the unanimous of the parties sharing control.

Jointly controlled entities are accounted for using the proportionate consolidation method using line by line basis. The financial statements of jointly controlled entities are included in the consolidated financial statements from the date that joint control commences through the date it ceases. Where necessary, adjustments are made to the financial statements of jointly controlled entities to adjust their accounting policies with those of the Company.

Material intra-group transactions, balances, income and expenses are eliminated in consolidation to the extent of the Group's interest in each joint venture.

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

H. Investments in associates:

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policies of the associate, but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in the financial statements of the Company using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of each individual investment.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment as a whole.

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

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

I. Foreign currency:

(i) Foreign currency transactions

The financial statements of each individual entity of the Group are presented based on its functional currency. Transactions in currencies other than each individual entity's functional currency (foreign currency) are translated into that entity's functional currency based on the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the foreign exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the historical exchange rate prevailing at the date of the transaction. Non-monetary assets and liabilities carried at fair value that are denominated at foreign currency are translated at the exchange rates prevailing at the date when the fair value was determined.

Exchange rate differences as a result of the above are recognized in statement of income, except for: (i) exchange rate differences capitalized to qualified assets (see note 2AB); (ii) exchange rate differences charged to foreign currency translation reserve (see (ii) below); and (iii) exchange rate differences on available for sale financial instruments (see note 2K.)(iv) exchange rate differences charge to revaluation of property plant and equipment carried at fair value (see note 2N)

(ii) Financial statements of foreign operations:

For the purpose of the consolidated financial statements, the assets and liabilities of foreign operations (the functional currency of each is the currency of the primary economic environment in which it operates) are translated to New Israeli Shekels ("NIS") which is the functional currency and the presentation currency of the Company, based on the foreign exchange rates prevailing at the balance sheet date. The revenues and expenses of foreign operations are translated to the functional currency of the Company based on exchange rates as at the date of each transaction or for sake of practicality using average exchange rates for the period. Goodwill and fair value adjustments arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at closing rates.

Foreign exchange rate differences arising from translation of foreign operations are recognized directly to foreign currency translation reserve within other comprehensive income.

Exchange rate differences attributable to (i) monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation; and (ii) borrowings used to hedge investments in foreign operations in the same currency are also included in the foreign currency translation reserve.

Income taxes relating to such exchange rate differences are also included in the foreign currency translation reserve within shareholders' equity.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

I. Foreign currency: (cont.)

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

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

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

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

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

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

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

J. Cash and cash equivalents:

Cash equivalents include unrestricted readily convertible to a known amount of cash, maturity period of which, as at the date of investments therein, does not exceed three months.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

K. Financial assets:

Financial assets of the Group are classified into the following specified categories: (i) financial assets at fair value through profit or loss ("FVTPL"); (ii) held to maturity investments ;(iii) available for sale ("AFS") financial assets; and (iv) loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are initially measured at fair value, plus transaction costs except for those financial assets classified as fair value through profit or loss, for which, transaction costs are immediately recognized in profit and loss at initial recognition.

Financial assets at FVTPL

The Group's financial assets at this category consist of: (i) marketable securities held for trading (an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking); (ii) derivative that is not designated as a hedging instrument; and (iii) financial asset containing embedded derivatives which is entirely designated at FVTPL upon initial recognition. Financial assets at FVTPL are stated at fair value, with any gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 30.

Held to maturity investments

The Group's investments in financial notes with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized based on the effective interest rate.

Available for sale ("AFS") financial assets

Listed redeemable notes and shares held by the Group that are traded in an active market are classified as AFS and are stated at fair value. Fair value is determined in the manner described in note 30. Gains and losses arising from changes in fair value are recognized directly in the investments revaluation reserve within the other comprehensive income. Interest calculated using the effective interest method is recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investments revaluation reserve is included in profit or loss for the period.

The fair value of redeemable notes denominated in a foreign currency is determined in that foreign currency and translated to NIS at the closing rate at the balance sheet date. Exchange differences attributable to the amortized cost are recognized in profit or loss and other changes are recognized in the revaluation reserve within the other comprehensive income.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

K. Financial assets: (cont.)

Loans and receivables

The Group's financial assets at this category consist of trade receivables, deposits in banks, and financial institutions, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest is considered immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are examined for impairment at each balance sheet date. Financial assets are impaired where there is an objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows from the asset have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. For AFS financial assets, the amount of impairment with respect to redeemable notes is the difference between the acquisition cost, net of any principal repayment and amortization and the current, fair value, less any impairment loss recognized previously in profit or loss.

The carrying amount of financial asset carried at amortized cost is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit and loss.

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

L. Inventories:

Inventories are stated at the lower of cost and net realizable value. Costs, including attributable fixed and variable overhead expenses, are assigned to inventories using the method most appropriate to the particular class of inventory. Net realizable value represents the estimated selling price for inventories less all estimated costs to completion and costs necessary to execute the sale. The cost of inventories is determined using the following methods:

- Hotel inventory and fashion merchandise - by the "first-in, first-out" method;
- Image guided treatment inventories - raw materials on the basis of moving average cost per unit; finished products on the basis of standard cost, which approximates actual production cost (materials, labor and indirect manufacturing costs).

M. Trading property and prepayment:

Real estate properties for future sale (inventory) are classified as trading properties and are stated at the lower of cost and net realizable value. Net realizable value for trading property under construction or development is the estimated selling price in the ordinary course of business less the estimated costs to completion and the estimated costs necessary to execute the sale (including borrowing cost), whereby all such items are taken undiscounted. Net realizable value for operating trading property (completed commercial centres designated for sale) is the estimated selling price in the ordinary course of business less estimated costs necessary to execute the sale. Costs of trading properties include costs directly associated with their purchase (including payments for the acquisitions of leasehold rights, borrowing cost, wages and stock-based compensation expenses) and all subsequent direct expenditures for the development and construction of such properties. Advance payments on account of trading property are recorded at their cost price, presented as non-current other assets and classified as trading property only after the purchase.

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

As for write down of trading property and its classification as non-current asset - see note 2AF (1)a.

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

Cost of trading property is determined mainly on the basis of specific identification of their individual costs (other than non-specific borrowing costs capitalized to the cost of trading property).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

N. Property plant and equipment:

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

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

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

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

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

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

Hotels as of December 31, 2011 and other property plant and equipment that are not hotels as of December 31, 2012 and 2011 are stated at cost less accumulated depreciation and accumulated impairment losses. Government grants have been deducted from cost of assets for which they have been granted. Cost of land and building include direct construction and supervision costs incurred in the construction period as well as borrowing costs capitalized in accordance with the Group's accounting policy described in note 2AB. Improvements and renovations are charged to cost of assets. Maintenance and repair costs are charged to the statement of income as incurred.

(ii) Depreciation is calculated by the straight-line method over the assets estimated useful lives. Leasehold improvements are amortized over the estimated useful period of use not exceeding the lease period (including the period of renewal options that the Group intends to exercise).

Annual depreciation rates are as follows:

	%
Hotels	1-4
Other buildings	2,0 - 2,5
Building operating systems	7,0 (average)
Others (*)	6,0 - 33,0

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

O. Investment property:

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

- Land acquired with no defined and final designation. When the final use of a land is determined and it is evidenced by commencement of activities to get it ready for its intended use, the Group transfers the relevant part of the investment in the land to investment property and/or property plant and equipment and/or to trading property as the case may be.

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

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

Determination of fair value of investment property

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

See more information in AF (1) f below.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

P. Lease:

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

Operating lease payments (including prepaid leasehold rights) are recognized as an expense on a straight-line basis over the lease term (including the period of renewal options that the Group intends to exercise).

Q. Other assets and deferred expenses:

Costs relating to initiation of real estate projects - such costs incurred (prior to finalization of an investment transaction or land acquisition) are capitalized as incurred, as long as the investment or a property acquisition transaction is probable. Said costs are charged to the cost of the investment or the real estate project upon the execution of the investment or the acquisition. Under circumstances in which the execution of investment or transaction is not probable or the expected economic benefit is doubtful, these costs are charged to the statement of income.

R. Goodwill and intangible asset:

Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment charges. Goodwill is not systematically amortized but rather is subject to impairment tests. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, (as at December 31) or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset of the unit. An impairment loss recognized for goodwill is not reversed in a subsequent periods. On disposal of a subsidiary, the attributable goodwill is included in the determination of the profit or loss on disposal. The Group's policy for goodwill arising on the acquisition of an associate is described in note 2H.

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

S. Income taxes:

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current taxes

Tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are non taxable or deductible for tax purposes. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as of the balance sheet date.

Deferred taxes

Deferred taxes are calculated in respect of all temporary differences, including (i) differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit; (ii) differences between the fair value of identifiable assets and liabilities of subsidiaries upon a business combination, and their value for tax purposes; and (iii) tax losses and deductions that may be carried forward for future years or carried backwards for previous years.

Deferred taxes are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The calculation of deferred tax liabilities does not include taxes that would have arisen in the event of a realization of investments in certain investee companies or upon receiving their retained earnings as dividends, since it is management's policy not to realize these investees nor to declare dividend out of their retained earnings, or other form of profit distributions, in the foreseeable future, in a manner which entails additional substantial tax burden on the Group. For certain other Group's investee companies, which management's intention is to realize or to distribute their retained earnings as taxable dividend, tax liabilities (current and deferred) are recorded.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is to be settled or the asset is to be realized, based on tax rates and laws that have been enacted or substantively enacted as of the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax asset is recorded to the extent that it is probable that it would be realized against future taxable profits. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

S. Income taxes: (cont.)

Current and deferred taxes are recognized as an expense or income in profit or loss, except (i) when they relate to items credited or debited directly to equity or in other comprehensive income, in which case the tax effect is also recognized directly in equity or in other comprehensive income; or (ii) where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

T. Impairment of tangible and intangible assets (excluding goodwill and including investments in associates):

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit the asset is part of.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market estimations of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the estimated recoverable amount of an asset (or cash-generating unit) is lower than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, which is no higher than the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognized immediately in profit and loss.

U. Financial liabilities and equity instruments issued by the Group:

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issuance costs.

Treasury stocks

Company's shares held by the Group ("dormant shares"), are presented at cost and deducted from shareholders equity of the Company according to the "treasury stock" method. The sale of treasury stock or the issuance of Company's shares to third parties are recorded based on the fair value of the assets or cash received in consideration thereof or the fair market value of shares issued, as applicable. Income taxes resulting from sale of treasury stock (if any) are charged directly to the shareholders' equity .No gain or loss is recognized on the purchase, sale or issuance of treasury shares.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Treasury stocks (cont.)

Convertible debentures

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

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

At the date of issuance, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability at an amortized cost basis until conversion or the financial instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the convertible debentures as a whole. This component is recognized and included in equity and is not subsequently re-measured.

Costs of issuance of convertible debentures are allocated to each component based on their fair value.

Financial liabilities

Financial liabilities of the Group are classified as either financial liabilities at fair value through profit and loss ("FVTPL") or other financial liabilities.

(i) Financial liabilities at FVTPL

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

Financial liabilities at FVTPL are stated at fair value as of the balance sheet date, with any gain or loss from change in the fair value recognized in profit and loss.

(ii) Other financial liabilities

Other financial liabilities of the Group consist of short-term credits, current maturities of long-term borrowing suppliers and service providers, borrowings and other payables, which are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, unless recognition of interest is immaterial.

The Company has Consumer Price Index ("CPI")-linked financial liabilities that are not measured at fair value through profit or loss. For these liabilities, the Company determines the effective interest rate as a real rate plus linkage differences according to the actual changes in the CPI through each balance sheet date. Rate of increase in the Israeli CPI in 2012 was 1.4% (2011- increase of 2.5%; 2010 - increase of 2.3%).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Buyback of debenture

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

V. Derivative financial instruments and hedge accounting:

The Group enters into a variety of derivative financial instruments, some of which are intended to mitigate its exposure to interest rate and foreign exchange rate risks, including interest rate swaps and cross currency swaps and others which are embedded derivatives (see below). Further details of derivative financial instruments are disclosed in note 30.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at each balance sheet date. The resulting gain or loss from a derivative is immediately recognized in profit and loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as cash flow hedges. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the derivative is more than 12 months and as a current asset or a current liability if the remaining maturity of the derivative is less than 12 months.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Hedge accounting

The Group designates certain hedging instruments, which include derivatives in respect of exposure to interest and non-derivatives (borrowings) in respect of foreign currency risk, at either cash flow hedges and interest or hedges of net investments in foreign operations. At the inception of the hedge relationship the Group documents the relationships between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument used in a hedging relationship is highly effective in offsetting changes foreign currency or cash flows of the hedged item. Movements in the hedging reserve in equity are detailed in the statement of other comprehensive income ("OCI").

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Hedge accounting (cont)

▪ *Cash flow hedge*

The effective portion of changes in the fair value of derivatives is deferred in OCI. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Amounts deferred in OCI are recycled in profit or loss in the periods when the hedged item is recognized in profit or loss. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in OCI at that time remains in OCI and is recognized in profit or loss when the forecasted transaction is ultimately recognized in profit or loss. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was deferred in OCI is recognized immediately in profit or loss.

▪ *Hedges of net investments in foreign operations*

The Group designated the changes in the spot rates of non-derivative financial instruments (Borrowing) as hedging investments of net investments in foreign operations. Hedges of net investments in foreign operations relating to the effective portion of the hedge are recognized in OCI in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss. Gains or losses deferred in the foreign currency translation reserve are recognized in profit and loss on disposal of the foreign operation.

W. Provisions; Contingent Asset:

Provisions - Provisions are recognized only when the Group has a present obligation (legal or constructive) as a result of a past event, it is more likely than not (probable) that the Group will be required to settle the obligation, and a reliable estimate can be measured with respect to the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation as of the balance sheet date, taking into account the risks and uncertainties associated with the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the result of the discounted expected cash flows, as long as the effect of discounting is material.

Contingent Asset - When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

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

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

Y. Retirement benefit costs:

Contributions to defined contribution retirement benefit plans are recognized as expense when employees have rendered service entitling them to the contributions. For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognized immediately in the statement of income. The retirement benefit liability in the balance sheet represents the present value of the defined benefit less the fair value of plan assets.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Z. Share-based payments:

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. The Fair value is measured using the Black and Scholes ("B&S") model except for capped-Stock Appreciation Rights ("SAR") for which the Group is using the binomial model. The expected life used in the B&S model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis for each award over the vesting period, based on the Group's estimate of shares that will eventually vest. Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Group obtains the goods or the counterparty renders the service.

Modifications to share-based transaction arrangements are recognized if the effects of modifications increase the total fair value of the share-based payment transaction or are otherwise beneficial to the employee. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is recognized for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognized over the remainder of the original vesting period. If the modification occurs after vesting date, the incremental fair value granted is recognized immediately, unless additional vesting is required.

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

Share based payment transactions in which the terms of the arrangement provide the counterparty with the choice of whether the transaction will be settled in cash (or other assets) or by issuing equity instrument, are measured at the fair value of the liability. The Group re-measures the fair value of the liability at each balance sheet date and at the date of settlement, with any changes in the fair value recognized in profit or loss for the period.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

AA. Revenue recognition:

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

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

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

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

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

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

(iii) Revenues and Gains from sales of real estate assets (including hotels), property, plant and equipment and trading properties are recognized when all the following conditions are satisfied:

- a. the Group has transferred to the buyer the significant risks and rewards of ownership of the asset sold;
- b. the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the asset sold;
- c. the amount of income can be measured reliably;
- d. it is probable that the economic benefits associated with the transaction will flow to the Group (including the fact that the buyer's initial and continuing investment is adequate to demonstrate commitment to pay);
- e. the costs incurred or to be incurred in respect of the transaction can be measured reliably; and
- f. there are no significant acts that the Group is obliged to complete according to the sale agreement.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

AA. Revenue recognition: (cont.)

(iii) (Cont.)

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

For sale transactions with some degree of continuing involvement assuming all the above criteria are met (for example, in a form of a guarantee to the buyer), income recognized at the date of sale is reduced by the estimated exposure to loss measured at fair value related to the continuing involvement.

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

AB. Capitalization of borrowing costs:

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized to the cost of those assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get it ready for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Non-specific borrowing costs are capitalized to qualified assets not financed by specific borrowing, by using a rate constituting a weighted average of the costs in respect of the Group's borrowings not specifically capitalized. All other borrowing costs are recognized in profit or loss in the period in which they are incurred. Borrowing costs qualified for capitalization include mainly: Interest expenses (including consumer price index linkage), amortization of cost of raising debt and foreign exchange on borrowing to the extent that they are considered as an adjustment to interest costs. The borrowing costs eligible for capitalization also include the net cash cost of swap and IRS transactions which are measured at FVTPL and which are related to a debenture measured also at FVTPL.

Capitalization of borrowing costs to qualifying assets commences when the Group started the activities for the preparation of the asset for its intended use or sale and continues, generally until the completion of substantially all the activities necessary to prepare the asset for its designated use or sale (i.e when the commercial center is ready for lease).

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

AC. Earnings (loss) per share:

The Company presents basic and diluted earnings (loss) per share with respect to continued and discontinued operation. Basic earnings per share is computed by dividing income (loss) attributable to holders of ordinary shares of the Company, by the weighted average number of the outstanding ordinary shares during the period. In the computation of diluted earnings per share, the Company adjusts its income (loss) attributable to its ordinary shareholders for its share in income (loss) of investees by multiplying their diluted earnings per share by the Company's interest in the investees including its holding in dilutive potential ordinary shares of the investees. In addition, the Company adjusts the weighted average outstanding ordinary shares for the effects of all the dilutive potential ordinary shares of the Company.

AD. Statement of cash flows:

Investments in and payments on account of trading property are included as cash flow from operating activities. Interest and dividend received from deposits and investments are included as cash flow from investing activities. Dividend paid to the Company's shareholders, interest paid on the Group's borrowings (including interest capitalized to qualifying assets) and cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control are included as cash flow from financing activities.

AE. Discontinued operation

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

1. represents a separate major line of business or geographical area of operations;
2. is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
3. is a subsidiary acquired exclusively with a view to re-sale.

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

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

The followings are the critical judgments and key sources of estimation, that management has made while applying the Group's accounting policies and that have the most significant effect on the amounts recognized in these financial statements.

(1) Use of estimates

a. Impairment/write down of real estate properties

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

Until December 31 2011, for the Group's property plant and equipment (mainly hotels), the Group evaluated the existence of any decline, and hence, the need for an impairment loss on its real estate assets (operating or under construction), when indicators of impairment were present. Such evaluation was based, on the higher of (i) estimated selling price in the open market or (ii) the estimated value-in-use, based on discounted operational cash flows (before interest and income tax charges), expected to be generated by those assets ("Recoverable Amounts"). As from January 1, 2012, with respect to hotels the Company initially adopted the revaluation model (see N above).

For the Group trading property (commercial centers designated for sale and residential), such evaluation is based on the estimated selling price in the ordinary course of business less all estimated costs of completion and cost necessary to make the sale, whereby all such items are taken undiscounted ("Net Realizable Value") (see note 8 G). Estimations of the Recoverable Amount and/or Net Realizable Value involve, in general, critical estimation and takes into account special assumptions in the valuations, many of which are difficult to predict, in respect of the future operational cash flows expected to be generated from the real-estate asset and the yield rate which will be applied for each real estate asset. In cases where there are material uncertainties in respect of the future development of the project the Group applies the comparable model. Actual results could be significantly different than the estimates and could have a material effect on the financial results.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

(1) Use of estimates (cont.)

a. Impairment/write down of real estate properties (cont.)

Determination of the operational cash flow expected to be generated from the real estate asset is based on reasonable and supportable assumptions as well as on historical results adjusted to reflect the Group's best estimate of future market and economic conditions that management believes will exist during the remaining useful life of the assets. Such determination is subject to significant uncertainties. In preparing these projections, the Group takes assumptions the major of which relate to market share of the real estate asset, benchmark operating figures such as occupancy rates and average room rate (in respect of hotels) rental and management fees rates (in respect of shopping and entertainment centers), selling price of apartments (in respect of residential units), time period to complete the real estate assets under construction, costs to complete the establishment of the real estate asset, expected operational expenses and others. In addition the process of construction is long, and subject to approvals and authorization from local authorities. It may occur that building permits will expire and will cause the Company additional preparations and costs, and can cause construction to be delayed or abandoned.

The yield rate reflects economic environment risks, current market assessments regarding the time value of money, industry risks as a whole and risks specific to each asset, and it also reflects the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the Group expects to derive from the assets. Such rate is generally estimated from the rate implied in current market transactions for similar assets, or where such transactions do not exist, based on external appraisers.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

(1) Use of estimates (cont.)

b. Litigation and other contingent liabilities

The Group is involved in litigation, tax assessments and other contingent liabilities in substantial amounts including certification requests for class actions (see note 23B). The Group recognizes a provision for such litigation when it is probable that the Group will be required to settle the obligation, and the amount of the obligation can be reliably estimated. The Group evaluates the probability and outcome of these litigations based on, among other factors, legal opinion and consultation and past experience. The outcome of such contingent liabilities may differ materially from management's estimation. The Group periodically evaluates these estimations and makes appropriate adjustments to the provisions recorded in the consolidated financial statements. In addition, as facts concerning contingencies become known, the Group reassesses its position and makes appropriate adjustments to the consolidated financial statements. In rare circumstances, mainly with respect to class actions, when the case is unique, complicated and involves prolong and uncommon proceedings, the Group cannot reliably estimate the outcome of said case.

c. Accounting for income taxes

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

d. Potential penalties, guarantees issued and expired building permits

Penalties and guaranties are part of the on-going construction activities of the Group, and result from obligations the Group has towards third parties, such as banks and municipalities. The Group's management is required to provide estimations regarding risks evolving from such potential guarantees or penalties that the Group may have to settle. In addition, the Group's operations in the construction area are subject to valid authorizations and building permits from local authorities. Under certain circumstances the Group is required to determine whether the building permits it obtains have not yet expired. It may occur that building permits have expired which might impose on the Group additional costs and expenses, or delays and even abandon project under construction.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

(1) Use of estimates (cont.)

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

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

Equity settled share based arrangements are measured at fair value as of the grant date. The fair value of the abovementioned instruments is determined using valuations techniques which require management to make judgment and assumptions regarding the following variables in respect of each instrument:

- Derivative transactions: with respect to PC's swaps transactions: mainly the interest rate yield curves of the EURO.
- With respect to Park Plaza option: the expected volatility of Park Plaza share; and the probability and the term for a Transaction (as defined in the agreement) to occur.
- Share based payment arrangements: the share price in respect of options plans adopted by the Group's private investees which has no quoted market price; the expected stock price volatility over the term of the plan; and actual and projected employee stock option exercise behaviors.

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

f. Fair value of investment property and hotels

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

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

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

(1) Use of estimates (cont.)

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

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

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

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

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

(1) Use of estimates (cont.)

g. Fair value of associate

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

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

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

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

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

(2) Critical judgment in applying accounting policies

a. Capitalization of financing costs

The Group capitalizes finance costs to real estate assets under construction from commencement of activities for the preparation of the assets for their intended use or sale. Such determination requires management to use critical estimations and assumptions as well as judgment to determine whether a specific asset under construction or development is qualified for capitalization. Borrowing costs qualified for capitalization includes, inter-alia, foreign exchange differences on borrowing to the extent that they are considered as an adjustment to interest costs. In order to determine whether foreign exchange differences are considered as an adjustment to the interest expenses, management is required, for each specific loan, to evaluate the alternative borrowing cost for a loan that would have been provided in the functional currency of the borrower under the same terms and conditions as the actual loan. Such determination requires management to use considerable degree of judgment and estimations. In addition, management's need to determine whether to capitalize non-specific borrowing costs to qualified assets, in cases in which the entity of the Group that raised the borrowing is not the one that owns the qualified asset, is a critical judgment. Furthermore, suspension of capitalization of borrowing costs during periods in which a disrupt of the development of activities occurs, if the disrupt prolongs over a significant period of time, is a critical judgment. Also the determination that a real estate asset is no longer designated for development or construction requires judgmental considerations.

b. Classification of investment as held to maturity

As of December 31, 2011 the Group has an investment of NIS 188 million in financial notes ("Notes") (see note 9A.(ii)). The Group considered its capital management policy and its liquid requirement for operational activities, and decided that it has the positive intent and ability to hold these Notes to maturity. Accordingly, the investment in the Notes was presented in the financial statements as for December 31, 2011 as held to maturity.

The Group examined if there was objective evidence for impairment loss of the Notes which mainly included a decrease in the quoted market value of the Notes (which was provided to the Group by the issuing bank as of the balance sheet date December 31, 2011) in approximately 29% (NIS 55 million) below their cost. Following said examination, the Group concluded that, as of the balance sheet date of December 31, 2011, there was no objective evidence which should lead to impairment of these Notes. During 2012 the company realized all its financial Notes.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

c. Effective control

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

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

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

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

e. Classification of investment property as held for use

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

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

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

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

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

f. Classification of trading property as current/non-current asset

The Company classifies its assets and liabilities as current or non-current based on the operating cycle of each of its operations (generally 12 months). Careful consideration is required with respect to assets and liabilities associated with the Group's operations of commercial centers and trading property, where by their nature the operating cycle is more than 12 months. For this operation, assets and liabilities are classified as current only if the operating cycle is clearly identifiable. In accordance with guidance set out in IAS 1 whereby the Company cannot clearly identify the actual operating cycle of a specific operation, then the assets and liabilities of that operation are classified as non-current. The Company's determination of its inability to clearly identify the actual operating cycle is a matter of judgment. A different conclusion can materially affect the classification of current assets and current liabilities. See also note 2E.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

AG. New accounting standards and clarifications issued that are not yet effective:

The following are new accounting standards, amendments to standards and clarifications which are applicable, or are expected to be applicable, to the Group, and which have not yet become effective:

• IFRS 9, Financial Instruments

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

Key requirements of IFRS 9 are described as follows:

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

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

IFRS 9 is effective from annual period beginning on January 1, 2015. Earlier application is permitted with certain relief.

At this stage, the management of the Company is unable to assess the effect of implementing the standard on its financial condition and results of operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

• IFRS 10, Consolidated Financial Statements

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

IFRS 10 is effective from annual period beginning on January 1, 2013. Earlier application is permitted with certain relief.

At this stage, the management of the Company assess that the effect of implementing the standard will be immaterial.

• IFRS 11, Joint Arrangements

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

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

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

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

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

• IFRS 12, Disclosure of Interests in Other Entities

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

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

• IFRS 13, Fair Value Measurement

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

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

• Amendments to IAS 1, Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

• Annual Improvements 2009-2011 (May 2012)

IAS 1 - Clarification of the requirements for comparative information.

According to the amendment, in cases in which the entity performs restatement accounting policies and/or performs reclassification in its financial statements, which significantly affects the balance sheets as of the beginning of the period preceding the reporting year, it should present in the balance sheets for that date. In addition, the amendment clarifies that companies are not required to present notes with respect to the additional statement in the balance sheets.

The amendment is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The amendments will be implemented retrospectively in accordance with IAS 8.

• Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities Amends IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements to:

- o provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement
- o require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries
- o require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

The amendments are effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

At this stage, the management of the Company is unable to assess the effect of implementing the standard on its financial condition and results of operation.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - FINANCIAL POSITION AND GOING CONCERN ASSUMPTION

A. The Company

- (1) Until February 2013, the Company repaid all the principal and interest payments relating, inter alia, to its debenture and bank loans according to their schedules. According to the repayment schedules of the Company's Series 1 and Series A to Series G debentures (collectively, the "Notes"), the Company is required to repay the Note holders principal and interest in the aggregate amount of NIS 599 million for the period commencing February 1, 2013 until February 1, 2014. In addition, as of December 31, 2012, the Company failed to comply with certain financial covenants under Israeli long-term bank loans in the total amount as of such date of NIS 290 million. Accordingly, said amount is presented as short-term liability (see also note 31C). All said amounts relate to the Company on a standalone basis.
- (2) During 2012 and 2011, the Company recorded loss in the amount of NIS 456 million and NIS 247 million, respectively, out of which an amount of NIS 406 million and NIS 371 million, respectively, is attributable to non-cash write downs of Plaza's trading properties, mainly in the CEE.
- (3) In the Beginning of February 2013, management's original cash collecting plan confronted delays, inter alia, due to the postponement in the distribution of dividend from Plaza as well as decline in the recent period in the price of Plaza's stock.
- (4) On February 5, 2013, the Company's Board of Directors decided to delay, at this stage, the payments of principal to Series A and Series B Note holders (scheduled for February 21, 2013) in the total amount of NIS 82 million. In addition, the Board resolved to authorize the management of the Company to commence accelerated negotiations with the trustees and representatives of all the Notes holders, in an attempt to formulate an agreement with all the debenture holders that will enable the Company to meet all its obligations.
- (5) On February 19, 2013, the Board of Directors of the Company resolved to suspend also any interest payments relating to all the Notes. See also note 31G.
- (6) As a result of the above mentioned and as mentioned in notes 31 C and D, as for the date of the approval of these financial statements, the Company is in cross default with respect to loans received by the Company, loans received by subsidiaries, for which the Company is a guarantor, and debentures in the total amount of NIS 2,857 million.

Management's plans concerning these matters, mainly a proposed restructuring for its borrowings, are described in Note 31F.

- (7) The Company's ability to meet all its obligations in the foreseeable future is highly dependent on the Company's ability to restructure its debt as mentioned in note 31 F. The aforesaid, together with the above described matters and the profound complexity associated with the negotiation process to reach the debt restructuring as mentioned in note 31 I, raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - FINANCIAL POSITION AND GOING CONCERN ASSUMPTION (CONT.)

B. Plaza Centers ("PC")

PC's financial statements, which are consolidated in the Company's financial statements, have been prepared assuming that PC will continue as a going concern. On November 14, 2013, PC announced that its board of directors has concluded that PC will withhold payment on the upcoming maturities of PC's bonds and approach the creditors of PC with a restructuring plan. Specifically, PC's board resolved to withhold the repayment of approximately EUR 15 million to its Polish bondholders due on November 18, 2013; and approximately additional EUR 17 million to Israeli bondholders due on December 31, 2013 (total of NIS 152 million).

On November 18, 2013 PC which is incorporated in The Netherlands, filed for reorganization proceedings (surseance van betaling) with the District Court of Amsterdam (the "Court") and submitted a restructuring plan to the Court. Pursuant to Dutch reorganization proceedings, the Court has appointed an administrator to manage the affairs of PC together with its existing management; ordinary unsecured creditors become subject to a stay; and PC has the ability to restructure its debts during the moratorium with majority consent of its creditors.

The above described raise substantial doubt about PC's ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 4 - SHORT-TERM DEPOSITS AND INVESTMENTS

A. Composition:

	December 31	
	2 0 1 2	2 0 1 1
	Interest rate %	(in thousand NIS)
Deposits at banks and financial institutions:		
U.S. Dollar (i)	see (i) below	122,744
EURO (ii)	see (ii) below	46,957
NIS (iii)	see (iii) below	11,937
Credit linked note (see Note 19 E(3))	43,306	-
Others restricted deposits	5,169	17,899
	<u>230,113</u>	<u>243,170</u>
Marketable securities held for trading:		
Shares	10,675	21,466
	<u>10,675</u>	<u>21,466</u>
Available for sale financial assets (iv)		
	see (iv) below	87,042
	<u>87,042</u>	<u>144,702</u>
	 <u>327,830</u>	 <u>409,338</u>

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - SHORT-TERM DEPOSITS AND INVESTMENTS (Cont.)

A. Composition (cont.)

(i) As of December 31, 2012, deposits in a total amount of NIS 34 million are restricted in respect of bank facilities requirements, which bear interest of 0%. An additional NIS 54 million are restricted in respect of tax and wind up payments expected following the US transaction, and bears annual interest of 0.3%.

As of December 31 2011, an amount of NIS 31.9 million is restricted due to bank facility agreements signed to finance investment property in USA.

An amount of NIS 33.9 million and NIS 20.3 million as of December 31, 2012 and 2011, respectively, is restricted due to bank facility agreements. (Refer to note 19). This amount carries an annual interest rate approximately 1.1%-0.6%. An amount of NIS 75 million as of December 31, 2012 carries an annual interest rate approximately of 0.98%.

(ii) An amount of NIS 32 million and NIS 20.2 million as of December 31, 2012 and 2011, respectively, is restricted due to bank facility agreements signed to finance projects in Eastern Europe. These amounts carry an annual interest rate ranging between 0% and overnight LIBOR. An amount of NIS 10 million and NIS 10.3 million as of December 31, 2012 and 2011, respectively, is restricted in respect of IRS transaction. This amount is carrying fixed interest rate of 3.2%. An amount of NIS 48 million as of December 31, 2011 is pledged as security for derivative and financial instrument transactions with banks and financial institutions which bears an interest of 1 month Euribor.

(iii) As of December 31, 2012 an amount of NIS 12 million is restricted in respect of bank facility agreement signed. The restricted amount is not carrying interest.

As of December 31, 2011 an amount of NIS 9 million is restricted due to bank credit to finance the Retail operation.

(iv) Interest-bearing available-for-sale financial assets with a face value of NIS 58 million and NIS 123 million are outstanding as of December 31, 2012 and 2011, respectively. The available-for-sale financial assets have stated interest rates of 1% to 13%. As at December 31, 2012, part of the AFS Portfolio in the amount of NIS 3 million is pledged against secured bank loan.

The balance includes in addition NIS 24 million and NIS 13 as of December 31, 2012 and 2011, respectively, representing 1.7 million and 1 million shares of Park Plaza Hotels Limited as of December 31, 2012 and 2011, respectively (see note 12 C and D).

B. For Liens - see note 23D.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - TRADE ACCOUNTS RECEIVABLES

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Outstanding accounts	57,661	88,175
Less - allowance for doubtful accounts	(10,133)	(16,126)
	<u>47,528</u>	<u>72,049</u>

NOTE 6 - OTHER RECEIVABLES

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Income taxes	7,320	5,800
Governmental institutions (i)	11,754	32,485
Related parties	5,715	6,151
Loans to third parties (ii)	65,013	38,595
Insurance company receivable (refer to note 8C)	37,454	-
Other	9,020	18,535
	<u>136,276</u>	<u>101,566</u>

(i) As of December 31 2011, Includes mainly VAT receivable due to projects in Poland.

(ii) The balance as of December 31, 2012 and 2011, respectively includes current maturities in the amount of NIS 46 million and NIS 13 million with respect to loans denominated in EURO provided to Park Plaza's subsidiary regarding the sale of the Group's hotels in UK in 2010 (see note 9A (v) and 12 C)).

The remaining balances as of December 31, 2012 and 2011 include loans mainly to partners in jointly controlled entities.

NOTE 7 - PREPAYMENTS AND OTHER ASSETS

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Advance to suppliers	13,325	8,115
Prepaid expenses	9,765	16,824
	<u>23,090</u>	<u>24,939</u>

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - TRADING PROPERTY

A. Composition:

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Balance as of January 1	4,556,616	4,192,241
Acquisition and construction costs	139,664	422,241
Disposal during the year	(108,629)	-
Capitalized borrowing costs	134,288	192,993
Write-down to net realizable value (see C, G below and note 26J)	(453,835)	(272,990)
Foreign currency translation adjustments	(69,399)	22,131
Balance as of December 31 (1)	4,198,705	4,556,616

(1) The balance as of December 31, 2012 includes cost of large scale projects (Bangalore in India, Casa Radio in Romania and Dream Island in Hungary) in a total amount of NIS 1,253 million (as of December 31, 2011 - NIS 1,471 million).

B. Additional information:

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Accumulated write-down to net realizable value	995,635	541,800
Composition of trading property per stages of development:		
Under operation (*)	1,454,693	1,006,443
Under construction	90,241	608,688
Under planning and design	2,653,771	2,941,485
Total	4,198,705	4,556,616

(*) In accordance with PC's strategic business model which is to construct commercial centers for sale while producing gains, commercial centers for which construction has been completed but not yet sold due to market condition as of the balance sheet date, are under operation but still designated for sale. See C below.

Regarding business segments and geographical areas, see note 28.

Composition of trading property distinguished between freehold and leasehold rights:

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Freehold	3,011,593	3,290,518
Leasehold	1,187,112	1,266,098
	4,198,705	4,556,616

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - TRADING PROPERTY (CONT.)

C. Additional information in respect of PC's trading property:

Commercial centers - As of December 31, 2012 PC, has seven commercial centers under operation, two of which has been completed during 2012 in Kragujevac, Serbia and in Koregaon, India.

Office buildings - During 2012, PC started the sale of office space in Kharadi in Pune, India.

The remainder of PC's projects are either in the design phase or waiting for permits. Commencement of construction of these projects is depending, amongst other things, on the availability of external financing.

Fire at the shopping center of the Company's subsidiary in India

In June 2012, a fire event occurred at a shopping center of the PC's subsidiary in Pune, India, which resulted in a temporary close-down of the shopping center.

The subsidiary maintains comprehensive general liability and property insurance, including business interruption insurance, with loss limits that the PC's subsidiary is of the opinion will entitle it with substantial and broad coverage for the currently foreseeable losses arising from this event.

As a result of the fire event, the Company recorded an impairment of NIS 50 million to its trading property asset. Based on the insurance company's valuator report, management of the Company determined that it is virtually certain that the subsidiary would be reimbursed by the insurance company. Accordingly, the Group recorded a receivable in the amount of INR 529 million (see note 6), which has been collected in June 2013.

Disposal of a projects in Bulgaria and Hungary

In July 2012, PC sold its stake (51%) in a plot of land located in Sofia, Bulgaria for a total consideration of NIS 0.5 million. According to the terms of the transaction, bank loans and other liabilities in a total amount of NIS 65 million were assumed by the buyer. No gain or loss was recorded as a result of this transaction.

In October 2012, PC, through its jointly held subsidiary in Hungary, disposed of a plot of land adjacent to its Dream Island property plot in Budapest, Hungary. As part of the transaction, a loan in the amount of EUR 5.9 million (NIS 29 million) (Company portion) was assigned to the buyer, and the plot in a total book value of EUR 4.5 million (NIS 22 million) was disposed of. As a result of this transaction a gain of EUR 1.4 million (NIS 7 million) was included in 2012 income statement.

The following table summarises general information regarding PC's significant trading property projects (excluding trading property projects in India which are held jointly by PC and the Company (see D below).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - TRADING PROPERTY (CONT.)

C. Additional information in respect of PC's trading property: (cont.)

Project	Location	Purchase / transaction date	Rate of ownership by PC (%)	Nature of rights	As of December 31, 2012	
					Status of registration of land	Status of the project
Suwalki Plaza	Poland	Jun-06	100	Ownership	Completed	Operational
Zgorzelec Plaza	Poland	Dec-06	100	Ownership	Completed	Operational
Torun Plaza	Poland	Feb-07	100	Ownership	Completed	Operational
Lodz residential	Poland	Sep-01	100	Ownership/ Perpetual usufruct	Completed	Planning and development stage
Lodz - plaza	Poland	Sep-09	100	Perpetual usufruct	Completed	Planning and development stage
Kielce Plaza	Poland	Jan-08	100	Perpetual usufruct	Completed	Planning and development stage
Leszno Plaza	Poland	Jun-08	100	Perpetual usufruct	Completed	Planning and development stage
Liberec Plaza	Czech Republic	Jun-06	100	Ownership	Completed	Operational
Roztoky	Czech Republic	May-07	100	Ownership	Completed	Planning and development stage
Riga Plaza	Latvia	Feb-04	50	Ownership	Completed	Operational
Koregaon Park	India	Oct-06	100	Ownership	Completed	Operational
Kharadi	India	Feb-07	50	Ownership	Completed	Under construction
Trivandrum	India	Jun-07	50	Ownership	Completed	Planning and development stage
Casa Radio	Romania	Feb-07	75	Leasing for 49 years	Completed	Planning and development stage
Timisoara Plaza	Romania	Mar-07	100	Ownership	Completed	Planning and development stage
Miercurea Csiki Plaza	Romania	Jul-07	100	Ownership	Completed	Planning and development stage
Iasi Plaza	Romania	Jul-07	100	Ownership	Completed	Planning and development stage
Slatina Plaza	Romania	Aug-07	100	Ownership	Completed	Planning and development stage
Targu Mures Plaza	Romania	Mar-08	100	Ownership	Completed	Planning and development stage
Hunedoara Plaza	Romania	Feb-08	100	Ownership	Completed	Planning and development stage
Constanta Plaza	Romania	July-09	100	Ownership	Completed	Planning and development stage
Belgrade Plaza	Serbia	Aug-07	100	Ownership	Completed	Planning and development stage
Kragujevac Plaza	Serbia	Oct-07	100	Lease for 99 years	Completed	Operational
Sport-Star Plaza	Serbia	Dec-07	100	Ownership	Completed	Planning and development stage
Shumen Plaza	Bulgaria	Nov-07	100	Ownership	Completed	Planning and development stage
Dream Island	Hungary	Sep-03	43.5	Ownership	Completed	Planning and development stage
Arena Plaza Extension	Hungary	Nov-05	100	Land use rights	Completed	Planning and development stage
Uj Udvar	Hungary	Sep-07	35	Ownership	Completed	Planning and development stage
Helios Plaza	Greece	May-02	100	Ownership	Completed	Planning and development stage

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - TRADING PROPERTY (CONT.)

D. Additional information in respect of trading property in India:

The following information relates to trading property held by Elbit-Plaza India Real Estate Holding Limited ("EPI"), the total amount of which as of December 31, 2012 amounts to NIS 614 million. EPI is jointly controlled by the Company and PC (see note 11D).

(1) Chennai, India

In December 2007, EPI executed agreements for the establishment of a special purpose vehicle ("Chennai Project SPV") together with one of the leading real estate developers in Chennai ("Local Partner"). Subject to the fulfillment of certain conditions, the Chennai Project SPV undertook to acquire the ownership and development rights in and up to 135 acres of land situated in the Sipcot Hi-Tech Park in the Siruseri District of Chennai, India. Under the agreement, EPI's investment in the Chennai Project SPV will be a combination of investment in shares and compulsory convertible debentures. Due to changes in market conditions, EPI and Chennai Project SPV later decided to limit the extent of the project to 83.4 acres.

Under these agreements, EPI is to hold 80% of the equity and voting rights in the Chennai Project SPV, while the Local Partner will retain the remaining 20%. The project land is to be acquired by the SPV in stages subject to such land complying with certain regulatory requirements and the due diligence requirements of EPI. Through December 31, 2012 the Chennai Project SPV has completed the purchase of approximately 75 acres out of the total 83.4 acres for consideration of a total of INR 2,367 million (NIS 161 million) (EPI share). In addition, as of such date, EPI paid advances in the amount of INR 564 million (NIS 38 million) in order to secure acquisition of an additional 8.4 acres.

The parties have entered into a shareholders' agreement in respect of the management of the Chennai Project SPV, which provides, among other matters, for a five member board of directors, with one member appointed by the Seller for so long as it maintains a 10% holding in the Chennai Project SPV and four members appointed by EPI. The shareholders' agreement also includes pre-emptive rights and certain restrictions pertaining to transferring of securities in the Chennai Project SPV. Profit distributions declared by the Chennai Project SPV will be distributed in accordance with the parties' proportionate shareholdings, subject to EPI's entitlement to receive certain preferential payments out of the Chennai Project SPV's cash flow, as determined in the agreements.

The consummation of the agreements will be accomplished in stages, and is subject to the fulfillment of certain regulatory requirements, as well as to the Company's satisfactory due diligence investigations, in respect of each stage. However, as for December 31, 2012 EPI is negotiating certain changes in the project's implementation plan and holding structure, which would require changes also in the respective agreements. Among other things, should those changes be accepted, EPI shall not be required to advance more financing to the project in addition to the amounts mentioned above and shall hold all the issued and outstanding share capital of the SPV. Further, EPI is currently operating to secure a joint development agreement with local developer(s) for the development of the project land, in accordance with the aforementioned guidelines. See also note 31 J.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - TRADING PROPERTY (CONT.)

D. Additional information in respect of EPI's trading property: (cont.)

(2) Bangalore, India

Amended Framework Agreement (March 2008)

In March, 2008 EPI entered into an amended and reinstated share subscription and framework agreement (the "Amended Framework Agreement"), with a third party (the "Partner"), and a wholly owned Indian subsidiary of EPI ("SPV"), to acquire, through the SPV, up to 440 acres of land in Bangalore, India (the "Project Land") in certain phases as set forth in the agreement. As of December 31, 2012, the Partner has surrendered land transfer deeds in favour of the SPV to a trustee nominated by the parties for approximately 54 acres for a total aggregate consideration of approximately INR 2,843 million (NIS 194 million), presented in the statement of financial position as of December 31, 2012 and 2011 as trading property. Upon the actual transfer of title of such 54 acres, the Partner will be entitled to receive 50% of the shareholdings in the SPV.

In addition, the SPV has paid to the Partner advances of approximately INR 2,536 million (NIS 173 million) on account of future acquisitions by the SPV of a further 51.6 acres. Such amount is presented in the statement of financial position as of December 31, 2012 and 2011 as other non-current asset (refer to note 14).

As detailed below, on July 22, 2010, EPI, the SPV and the Partner entered into a new framework agreement which has not yet come into force (the "New Framework Agreement"). The New Framework Agreement provides that in case it does not eventually come into full force and effect, the terms of the Amended Framework Agreement will govern, according to which the Group's additional investments in the Project Land may reach up to INR 10,500 million (NIS 716 million). Nonetheless, although certain conditions precedent under the New Framework Agreement has not been met, EPI, the SPV and the Partner are actually pursuing the project in accordance with the provisions of the New Framework Agreement (for a description of the New Framework Agreement, please see the next paragraph).

NOTE 8 - TRADING PROPERTY (CONT.)

D. Additional information in respect of EPI's trading property: (cont.)

(2) Bangalore, India (cont.)

New Framework Agreement (July 2010)

On July 22, 2010, a new set of arrangements was entered into between, EPI, the SPV and the Partner (the "New Framework Agreement" as defined above) which established new commercial understandings pertaining, *inter alia*, to the joint development of the Project Land and its magnitude and financing, the commercial relationships and working methods between the parties and the distribution mechanism of the revenues from the Project Land.

In accordance with the New Framework Agreement, the following commercial terms have been, *inter alia*, agreed between the parties:

- EPI will remain the holder of 100% of the shareholdings and the voting rights in the SPV.
- The scope of the new Project will be decreased to approximately 165 acres instead of 440 acres (the "New Project").
- The Partner undertakes to complete the acquisitions of the additional land and/or the development rights therein in order to obtain the ownership and/or the development rights over the said 165 acres.
- The SPV and/or EPI will not be required to pay any additional amounts in respect of such acquisitions or with respect to the Project and its development.
- The project will be re-designed as an exclusive residential project.

The Project will be executed jointly by the Partner and the SPV. The Partner (or any of its affiliates) will also serve as the general contractor of the Project and the marketing manager of the Project. Under the New Framework Agreement the Partner is committed to a maximum construction costs threshold, minimum sale prices and a detailed timeline and budget with respect to the development of the Project.

The net proceeds from the Project (including the proceeds from any sale by the Partner or any transaction with respect to the original lands which do not form part of the said 165 acres) will be distributed (following a reserve mechanism to enable the Partner to utilize a portion of the proceeds for construction costs and expenses) in a manner by which the Group's share will be approximately 70% until such time that EPI's investment in the amount of INR 5,780 million (approximately NIS 0.4 billion) ("EPI's Investment") plus an internal return rate of 20% per annum calculated from September 30, 2009 ("IRR") is paid to the SPV (on behalf of EPI) (the "Discharge Date").

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - TRADING PROPERTY (CONT.)

D. Additional information in respect of EPI's trading property: (cont.)

(2) Bangalore, India (cont.)

New Framework Agreement (July 2010) (cont.)

Following the Discharge Date, EPI will not be entitled to receive any additional profits from the Project and it will transfer to the Partner the entire shareholdings in the SPV for no consideration. In addition, the Partner has a call option, subject to applicable law and regulations, to acquire the entire shareholdings of the SPV, at any time, in consideration for EPI's Investment plus the IRR calculated on the relevant date of acquisition.

The terms of the New Framework Agreement will enter into full force and effect upon execution of certain ancillary agreements as set forth therein, however, EPI, the SPV and the Partner are actually pursuing the project in accordance with the New Framework Agreement.

As of December 31, 2012 and 2011, the SPV operations are proportionately (50%) consolidated with those of the Company, since significant decisions in respect of the Project Land require the consent of both EPI and the Partner.

Planning Status

In January 2011, the Partner has submitted the development plans pertaining to approximately 84 acres included in the scope of the new project of 165 acres to the local planning authority, the Bangalore Development Authority ("BDA"). In October 2011, the BDA had notified the Partner that the development plans cannot be considered due to a future eminent domain proceedings with respect to the lands on which the new project is proposed to be situated (among other lands in the same area). The government has not yet published final notice in that respect, as required by law in order to validate such eminent domain plan.

In January 2012, the Partner applied to the State High Court, requesting to issue a court order directing the BDA to consider the development plans. In March 2012, the court awarded a judgement pertaining to approximately 49 Acres, ordering the BDA to consider the development plan relating to such 49 Acres ("Development Plan"), while ignoring any future eminent domain program that may be considered by the state authorities. In December 2012, the BDA decided to submit the development plans pertaining to aforementioned 49 acres to the Sensitive Zone Sub-Committee of the BDA and in January 2013, the Sensitive Zone Sub-Committee of the BDA granted its approval to the aforementioned Development Plan.

In May 2013, the court awarded a judgement pertaining to approximately 35 Acres, ordering the BDA to consider the development plan relating to such 35 Acres, while ignoring any future eminent domain program that may be considered by the state authorities. See also note 31 J

E. As of December 31, 2012 the Group pledged trading property in the amount of NIS 1,613 million in order to secure borrowings provided to the Group by financial institutions in the total amount of NIS 1,212 million. See also note 23D.

F. As for commitments in respect of construction services and purchase of plots, see note 23A (3).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - TRADING PROPERTY (CONT.)

G. Most projects classified as trading property were valued as of December 31, 2012 by independent third party appraisers. PC's management made adjustments to the fair values determined by the relevant appraiser to reflect the net realizable value of each trading property by neutralizing the developer's expected profits on costs from the valuations (apart from projects that for determining the impairment charge associated therewith their fair value was set as their net realizable value, see note 2M).

Significant assumptions regarding the value of the projects upon completion (on the basis of weighted averages) used in the valuations as of December 31, are presented below:

	Retail		Offices	
	2 0 1 2	2 0 1 1	2 0 1 2	2 0 1 1
Estimated rental prices per sqm per month (in EURO)				
Romania	6-24	10-30	10.5	11
Czech Republic	N/A	10-15	N/A	13
Serbia	16-34	10-24	14	14
Latvia	N/A	16	N/A	N/A
Poland	8-18	9-20	N/A	N/A
Greece	27	27	N/A	N/A
Hungary	15	8-25	11-11.75	11.75
India	5-19	8-22	N/A	N/A
Average risk adjusted yield used (in percentage)				
Romania	8-9.75	8.00-8.75	8.5	8.50
Czech Republic	8.35-8.66	7.25	N/A	7.25
Serbia	9-9.75	9.00-9.75	9.25	9.25
Latvia	8.75	8.40	N/A	N/A
Poland	7.5-8.5	7.25-8.00	N/A	N/A
Greece	8.5	8.25	N/A	N/A
Hungary	7.5-9	8.25-8.75	8.5	8.50
India	12	11	N/A	N/A

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - DEPOSITS, LOANS AND OTHER LONG-TERM BALANCES

A. Composition:

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Deposits at banks and financial institutions (i)	71,532	57,519
Held to maturity financial instruments (ii)	-	187,648
Financial instruments designated at FVTPL (iii)	-	62,701
Derivative measured at FVTPL (iv)	22,934	15,148
Loans to third parties (v)	46,057	60,296
Loans to associates	-	3,126
Others	3,956	6,843
Less - current maturity	144,479	393,281
	(89,363)	(13,204)
	55,116	380,077

- (i) December 31, 2012: Comprised mainly of NIS 10 million linked to the EURO and bearing annual interest rate of 0.2%-1.2% per annum and NIS 18 million linked to the NIS bearing interest of 1.5% per annum. Also include NIS 45 million credit link note (see Note 19 E(3)). December 31, 2011: Comprised mainly of NIS 27 million linked to the EURO and bearing annual interest rate of 0.2%-3.2% per annum, and NIS 23 million linked to the NIS bearing interest of 2.4% per annum. All deposits are mainly pledged as security for the repayment of long term borrowing, construction and other liabilities obtained by Group companies, which have been included as due and payable concurrently with the liabilities repayment dates.
- (ii) An amount of €8.0 million (NIS 188 million) was invested by PC in financial note ("Note") for a period of 15 years. The Note bear an interest of 11.5%-12% per annum, which is payable only if the margin between the 30 years EURO swap interest rate and the 10 years EURO swap interest rate (measured on a daily basis) is higher than the margin stated in the agreement. In June 2012, PC sold the Note for a total consideration of EUR 37.2 million (NIS 183 million). PC used the proceeds to repay a loan granted from issuer of the Note of a total amount of EUR 26.2 million (NIS 129 million).
- (iii) An amount of €13 million (NIS 64 million) was invested by PC in financial notes ("Notes") which pays a variable interest linked to the 10 year EURO CMS (Constant Maturity Swap, which is the mid-market annual swap rate) rate subject to a minimum annual interest rate of 6.25% and a maximum annual interest rate of 12.50%. In June 2012, PC sold the Note for a total consideration of EUR 13.5 million (NIS 66 million). PC used the proceeds to repay a loan granted from issuer of the Notes of a total amount of EUR 10 million (NIS 49 million), and the net proceeds totaled NIS 14.5 million.
- (iv) The balance as of December 31, 2012 and 2011 includes an amount of GBP 2.5 and 2.6 million (NIS 15) with regard to the sale of the Group's hotels in UK. As of December 31, 2012, the balance also include amount of GBP 1.2 (NIS 8) with regard to the sale of the Group's hotels in The Netherland. Said amounts determined by a third party expert and represents the fair value of a derivative contemplated in the sale agreements (see note 12 C and D).
- (v) The balance as of December 31, 2012 and 2011 includes an amount of NIS 46 million and NIS 59 million respectively, with respect to long-term loans provided to Park Plaza's subsidiary regarding the sale of the Group's hotels in London (see Note 6 (ii) and 12 C). As for collateral of this loan see note 23 D (1).

B. Liens - see note 23D.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - INVESTMENTS IN ASSOCIATES

A. Composition:

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Cost	75,330	82,058
Accumulated losses, net	(55,768)	(54,576)
Initial recognition of investment in associate due to loss of control over a subsidiary (ii)	150,752	-
Disposal of an associate	-	(11,097)
Foreign currency translation adjustments	(6,289)	(5,829)
Total (i)	<u>164,025</u>	<u>10,556</u>
(i) Including goodwill	<u>18,795</u>	<u>19,851</u>
	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Equity Investment	315,032	322,458
Company's share in losses of associates	(522,008)	(496,080)
Reserve related to Company's loan	15,875	-
Reserve from transaction with non controlling interest	8,873	8,991
Conversion of loans into shareholders' equity	116,406	-
Gain from loss of control over a subsidiary	216,574	-
	<u>150,752</u>	<u>(164,632)</u>
Investments in associates are comprised of:		
Insightec (48%) (ii)	150,752	-
Gamida (31%)	<u>18,864</u>	<u>16,085</u>
Other	(5,591)	(5,529)

B. InSightec Ltd. ("InSightec")

(1) InSightec Ltd. is engaged in the development, manufacturing and marketing of medical treatment systems, based on a unique technological platform, which combines the use of a focused ultrasound beam and a magnetic resonance imaging guided focused ultrasound treatment equipment ("MRgFUS technology") intended for the treatment of non-invasive tumors in the human body.

Substantially all of InSightec's current sales are derived from a few applications of InSightec's products. Other applications of InSightec's technology are in the early stages and there can be no assurance that these applications will be successful. InSightec is continuing research and development for additional applications for such products.

As of December 31, 2011, the Group held 65.9% in InSightec and 53.05% on a fully diluted basis.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - INVESTMENTS IN ASSOCIATES (CONT.)

B. InSightec Ltd. ("InSightec") (cont.)

(2) Loss of control over InSightec

During 2012 the Group has entered into a share purchase agreement with GE and certain other shareholders of InSightec ("Other Investors") and an investment agreement with GE pursuant to which GE and the Other Investors invested a total amount of approximately US\$ 44 million in InSightec. The main terms of the Transaction are as follows:

- (i) GE invested US\$ 27.6 million in cash in exchange for InSightec's series C preferred shares. Simultaneously, Other Investors invested approximately US\$ 3.3 million in cash in consideration for InSightec's series C preferred shares.
- (ii) GE and the Group converted all outstanding shareholder loans which have been granted to InSightec, into InSightec's series B-1 preferred shares in accordance with the terms of such loans.
- (iii) The Transaction reflects a post money valuation of InSightec of approximately US\$ 105.9 million (or pre money valuation of US\$ 75 million and following the conversion of the loans as described in II above).
- (iv) As part of the Investment Agreement GE and InSightec signed a Technology, Co-operation and Distribution Agreement. This agreement replaced the 2005 Global Distribution Agreement and two other prior agreements between InSightec and GE. According to the agreement, GE was awarded world-wide distribution rights for marketing and sales of InSightec's products. The Agreement also requires that the InSightec's products be compatible with GE imaging equipment for a period of five years or earlier upon the occurrence of certain events. This Agreement also provides GE with: (i) a right of first negotiation for exclusive distribution of new InSightec's products; (ii) a first priority right to quote and sell to new GE customers; and (iii) a first priority right to quote and sell new products to existing GE customers. The agreement also sets up a framework pursuant to which InSightec and GE will cooperate regarding mutual technology alignment and development.
- (v) As for December 31, 2012 the Group holdings in InSightec reduced to approximately 48%, and 41% on a fully diluted basis.

Upon the closing of the Transaction in December 2012, the Group will no longer have the right to appoint the majority of InSightec's directors and therefore Group ceased to present its investments in InSightec on a fully consolidated basis but rather the investments therein are presented in these financial statements based on the equity method of accounting. In addition, upon the closing of the Transaction the Group recorded based on external independent valuator a gain in the amount of NIS 216 million which is presented in the discontinued operation results.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - INVESTMENTS IN ASSOCIATES (CONT.)

C. Gamida Cell Ltd. ("Gamida"):

Gamida is engaged in the development of stem cell therapeutics based on its proprietary technologies for stem cells expansion. As of December 31, 2012, the Group holds 30.8% in Gamida's voting and equity rights (28.8% on a fully diluted basis) and the rights to appoint 20% of the board members.

In February 2006, Teva Pharmaceutical Industries Ltd. ("Teva"), one of Gamida's shareholders, and Gamida executed an agreement for the establishment of a JV Company ("JV"). The sole purpose of the JV is commercialization of certain products based on Gamida's technology.

In May, 2012 Gamida completed her internal investment round, held by the existent shareholders, in the frame of which, a sum of \$10 million raised for the financing of Gamida's activity ("the Investment Round").

In the frame of the Investment Round, the Company invested in Gamida an amount of approximately \$3 million, in order to preserve its ownership percentage in Gamida.

D. The following is summarized data outlining items extracted from the associates' financial statements:

	Gamida		Insightec	
	As at December 31		As at December 31	
	2012	2011 (in thousand NIS)	2012	2011 (in thousand NIS)
Assets		29,950	31,947	106,928
Liabilities		(16,687)	(34,851)	(81,368)
Net assets	<u>13,263</u>	<u>(2,904)</u>	<u>25,560</u>	<u>(259,851)</u>

	Gamida		Insightec	
	Year ended December 31		Year ended December 31	
	2012	2011 (in thousand NIS)	2010	2012
Revenues	-	-	-	69,457
Loss	<u>(26,364)</u>	<u>(33,252)</u>	<u>(26,917)</u>	<u>(59,914)</u>
				<u>(101,913)</u>
				<u>(77,032)</u>

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - ADDITIONAL INFORMATION AS TO INVESTMENTS IN MATERIAL SUBSIDIARIES AND CHANGES THEREOF

A. Elbit Medical Technologies:

In November 2010, the Company closed a transaction to restructure its holdings in the medical companies InSightec Ltd. ("InSightec") and Gamida Cell Ltd. ("Gamida"), under Elbit Medical Technologies Ltd., an Israeli company traded on the TASE ("Elbit Medical"). In consideration for the Group's holdings in InSightec representing as of the closing date of the transaction 69.3% of InSightec's outstanding share capital (see note (10 B above) below) and the Group's shares of Gamida representing as of the closing date of the transaction 31.6% of Gamida's outstanding share capital (see note 10 C above), the Company was issued with Elbit Medical shares representing a 90% interest in Elbit Medical and was granted options at zero exercise price to acquire shares of Elbit Medical, which together with the aforesaid shares constitute as of the closing date of the transaction 97.9% of Elbit Medical's share capital (on a fully diluted basis). As for December 31, 2012, the Company holds 95.63% of Elbit Medical on a fully diluted basis.

In addition, in December 2010, Elbit Medical issued shares in a private placement in the aggregate amount of NIS 19 million (approximately \$4.8 million), including a two year option to invest an additional aggregate amount of NIS 19 million (approximately \$4.8 million).

B. Plaza Centers N.V. ("PC"):

(1) PC conducts its activities in the field of establishing, selling and operating (until their sale) shopping and entertainment centers, as well as other mixed use projects (retail, office, residential) in Central and Eastern Europe, and India. As of December 31, 2012 the Group holds 62.52% in PC (56.24% on a fully diluted basis).

(2) PC share repurchase program

In August 2010, the Company sold 15 million shares of PC in consideration for approximately NIS 98 million. The difference between the book value of the shares sold and the consideration received resulted in a loss of approximately NIS 48 million which was recognized to the equity holders of the Company.

During 2011, the Company purchased 788,100 of PC shares representing approximately 0.3% of PC's share capital for the total amount of NIS 2.6 million. The difference between the consideration and book value of the shares (resulted in a gain) is approximately NIS 5.3 million recognized to the equity holders of the Company.

In September 2011, PC distributed an interim dividend payment to its shareholders of €30 million (NIS 148 million). Of this, the Company and its wholly owned subsidiary have received a total distribution amount of €18.6 million (NIS 92 million).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - ADDITIONAL INFORMATION AS TO INVESTMENTS IN MATERIAL SUBSIDIARIES AND CHANGES THEREOF (CONT.)

B. Plaza Centers N.V. ("PC"): (cont.)

(3) PC Bondholder agreement

In September 2011, PC reached an agreement with holders of its Series A and B Bonds (the "Bondholders") with regards to PC dividend distributions in the years 2012-2013, should any be declared.

The agreement, which was approved by vast majority of PC's Bondholders, places certain covenants and conditions on dividend payments by PC during 2012-2013. A summary of the major terms in the agreement is as follows:

- The total dividend will be capped at €30 million (NIS 148 million) per annum for each of the years 2012 and 2013.
- Distribution of dividends will be made only from the net cash flows derived from the realization of assets and will be capped at 50% of net cash flows received.
- Should a dividend be distributed while the average market yield of PC's series A and B bonds exceeds a certain threshold, PC shall retain, for a period of 12 months following the dividend payment, a sum of not less than €70 million (NIS 346 million) in reserve accounts, of which a sum equal to the dividend payment can be used solely for the repurchase of bonds and / or making principal and interest payments to PC's bondholders.
- Should a dividend be paid while the average market yield of PC's series A and B bonds is below a certain threshold, PC shall be entitled to distribute dividends of up to €50 million (NIS 247 million) per annum. Should this occur, the sum of the dividend exceeding €30 million (NIS 148 million) will be held in a reserve account, to be used solely for the repurchase of bonds and / or making principal and interest payments to PC's bondholders.

C. BEA Hotels N.V. ("BH"):

As of December 31, 2012 the Group, through its wholly owned subsidiary, Bea Hotels N.V ("BH"), holds the rights in the following hotels:

- (1) 100% of the voting and equity rights in a company that holds and operates the Radisson Astrid and Park Inn hotels in Antwerp, Belgium,
- (2) Approximately 77% of SC Bucuresti Turism S.A. ("Bucuresti") which owns the Radisson hotel complex consisting of the Radisson hotel and the Centrville hotel (an apartment hotel), located in Bucharest, Romania. Bucuresti was purchased through a privatization tender published by the State Ownership Fund of the Romanian government, which was approved by the supreme court of Romania.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - ADDITIONAL INFORMATION AS TO INVESTMENTS IN MATERIAL SUBSIDIARIES AND CHANGES THEREOF (CONT.)

D. Elbit- Plaza India Real Estate Holding Ltd. ("EPI"):

In August 2008, the Company has entered into a joint venture agreement with PC (the "EPI Agreement"), under which, inter alia, PC was allotted 47.5% of the shares of the Company's subsidiary Elbit Plaza India Real Estate Holdings Limited ("EPI"). As of the closing date EPI held plots in Bangalore and Chennai, India (see note 8D). As of the time of the execution of the EPI Agreement, the Kochi Island was (and still is) held though an SPV other than EPI, it was agreed that the 50% of the holding rights in the Kochi Island project will be held in favor of PC. The Company undertook and guaranteed to transfer the holdings in the Kochi project to EPI or PC within 12 months following the execution of the EPI Agreement, or alternatively to repay the consideration paid by PC for the rights in this project. The remaining 5% equity rights are held by the Company's former Executive Vice Chairman of the Board (see note 27B (5)). The Company and PC each have the right to appoint 50% of the board members of EPI.

In addition, under the EPI Agreement, PC had paid the Company approximately \$126 million, reflecting 50% of all loans and financing invested by the Company in the Bangalore, Chennai and Kochi projects as of such date (see note 13B). The Company will hold in trust 50% of the rights in the Kochi Island in favor of PC. The Company provided PC with a guarantee, which shall be exercised in the event the Company fails to transfer all its rights in the Kochi Island to EPI (or alternatively to transfer 50% of the said rights to PC). The guarantee expired in August 2013. In November 2013, the Company received a notice from PC demanding full and immediate repayment of the consideration (including accrued interest) in the total amount of NIS EURO 4.3 million (NIS 21 million).

E. Elbit Fashion

Elbit Fashion Ltd. is wholly owned by the Company and is the franchisee of the MANGO™ in Israel. As for December 31, 2012 Elbit Fashion operates 27 retail stores in Israel.

In January 2012, the Company and Elbit Trade & Retail Ltd ("Elbit Trade") previously wholly owned by the Company, entered into an agreement with Gottex Models Ltd. ("Gottex"), for the sale of all its shares in Elbit Trade and all their interests in GB Brands, Limited Partnership ("GB Brands"), which is the franchisee of the GAP™ brand in Israel. The sale transaction was closed in April 2012. The purchase price paid by Gottex under the agreement was NIS 25 million, plus the agreed value of the GAP inventory as of the closing date and adjustments based on the agreed value of the working capital attributed to the GAP activity as of the closing date. The Company recorded a gain in the amount of NIS 9.4 million.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - ADDITIONAL INFORMATION AS TO INVESTMENTS IN MATERIAL SUBSIDIARIES AND CHANGES THEREOF (CONT.)

F. Varcode

Varcode is a start-up company engaged in the research, development and manufacturing of the FreshCode™: smart TTI (Time Temperature Indicator) barcode labels, designed to monitor the cold chain of temperature sensitive products such as food and pharmaceutical. During 2011, the Company gained control over Varcode (56%), following the minority's waiver on its veto right. The Company has guaranteed a \$250,000 bridge loan that was extended by a third party ("Lender") to Varcode Ltd. ("Varcode") the due date of which was August 30, 2013. Under the loan agreement the Lender was granted an option (the "Option") exercisable only upon failure of Varcode to repay the loan amount, to buy from Varcode's shareholders 100% of Varcode, share capital in consideration for an amount which equals the outstanding balance of the loan, such that upon exercise of the Option the loan shall be deemed to have been repaid in full without any remaining liability to Varcode. The shares of Varcode were placed into escrow account as a security to the loan. As of the date of the approval of these financial statements the Option has not been exercised.

G. As of December 31, 2012, the Group holds 7 joint ventures companies which are in various stage of development and construction of trading property in Eastern Europe and India; 2 joint venture companies which hold plots in India;

The following is summarized data outlining the items of the proportionately consolidated companies' financial statements as included in the Company's consolidated financial statements based on the Company's share. For the effect of IFRS 11 in force commencing January 1, 2013, which will result in the cessation of the proportionately consolidated method in the Company's financial statements, see note 2AG.

	At December 31 and for the year then ended (in thousand NIS)		
	2012	2011	2010
Current assets	40,139	161,808	163,603
Non-current assets	1,054,738	3,903,527	3,489,666
Current liabilities	(79,618)	(673,061)	(629,941)
Non-current liabilities	(253,946)	(1,706,270)	(1,555,770)
Net assets	761,313	1,686,004	1,467,558
Revenues and rental income	81,883	475,593	808,060
Expenses	(190,801)	(454,011)	(364,716)
Net profit (loss)	(108,918)	21,582	443,344

The main differences between the years is attributed to the sale of the U.S operations in 2012 (see note 29), the sale of the Dutch hotels in 2012 (see note 12D), and to the sale of the U.K hotels in 2010 (see note 12C).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT

A. Composition:

	December 31, 2012				
	Real estate		At cost model		
	Hotels at revaluation model (*) (**) Under construction	Operating	Other (in thousand NIS)	Other fixed assets	Total
Cost:					
Balance as of January 1	1,154,525	107,708	33,505	174,390	1,470,128
Adjustment of Depreciation and amortization balance as of January 1	(196,130)	-	-	-	(196,130)
Additions during the year	14,761	1,294	-	6,373	22,428
Revaluation of hotels as of January 1, 2012	470,832	-	-	-	470,832
Revaluation of hotels during the year	50,396	-	-	-	50,396
Disposals during the year	(311)	-	-	(6,399)	(6,710)
Disposals in respect of realized assets	(359,537)	(50,558)	-	(54,620)	(464,715)
Foreign currency translation adjustments	(30,395)	150	(119)	(963)	(31,327)
Balance as of December 31	<u>1,104,141</u>	<u>58,594</u>	<u>33,386</u>	<u>118,781</u>	<u>1,314,902</u>
Accumulated depreciation:					
Balance as of January 1	179,957	-	5,204	85,735	270,896
Adjustment to cost as of January 1, 2012 due to revaluation model	(179,957)	-	-	-	(179,957)
Additions during the year	47,549	-	523	12,577	60,649
Disposals during the year	(224)	-	-	(4,810)	(5,034)
Disposals in respect of realized assets	(3,626)	-	-	(35,613)	(39,239)
Foreign currency translation adjustments	(4,180)	-	(19)	(508)	(4,707)
Balance as of December 31	<u>39,519</u>	<u>-</u>	<u>5,708</u>	<u>57,381</u>	<u>102,608</u>
Provision for impairment:					
Balance as of January 1	16,173	-	6,810	16,243	39,226
Adjustment to cost as of January 1, 2012 due to revaluation model	(16,173)	-	-	-	(16,173)
Impairment loss recognized (i))	-	-	5	4,105	4,110
Foreign currency translation adjustments	-	-	(30)	(324)	(354)
Balance as of December 31	-	-	6,785	20,024	26,809
Net book value	1,064,622	58,594	20,893	41,376	1,185,485

(*) There may be restrictions on the Company's ability to distribute dividends to its shareholders from the revaluation reserve, since it was not charged to retained earnings through profit and loss.

(**) Had the Group continued to present the hotels based on the cost model, their net book value as of December 31, 2012 would have been NIS 680 million.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (CONT.)

A. Composition (cont.):

	December 31, 2011				
	Real estate at cost				
	Hotels				
	Operating	Under construction	Other (in thousand NIS)	Other fixed assets at cost	Total
Cost:					
Balance as of January 1	1,093,514	99,213	32,147	163,202	1,388,076
Additions during the year	20,876	6,588	-	4,510	31,974
Subsidiaries initially consolidated during the year		-	-	462	462
Disposals during the year	(641)	-	-	(8,684)	(9,325)
Foreign currency translation adjustments	40,776	1,907	1,358	14,900	58,941
Balance as of December 31	<u>1,154,525</u>	<u>107,708</u>	<u>33,505</u>	<u>174,390</u>	<u>1,470,128</u>
Accumulated depreciation:					
Balance as of January 1	134,861	-	4,133	59,036	198,030
Additions during the year	40,729	-	919	17,734	59,382
Disposals during the year	(413)	-	-	(5,229)	(5,642)
Foreign currency translation adjustments	4,780	-	152	14,194	19,126
Balance as of December 31	<u>179,957</u>	<u>-</u>	<u>5,204</u>	<u>85,735</u>	<u>270,896</u>
Provision for impairment:					
Balance as of January 1	29,731	-	7,107	7,466	44,304
Impairment loss recognized (de-recognised) (see note 26J)	(14,930)	-	(602)	9,017	(6,515)
Foreign currency translation adjustments	1,372	-	305	(240)	1,437
Balance as of December 31					
Payment on account of fixed assets	-	-	-	7,640	7,640
Net book value	<u>958,395</u>	<u>107,708</u>	<u>21,491</u>	<u>80,052</u>	<u>1,167,646</u>

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (CONT.)

B. Composition of real estate assets included in property plant and equipment distinguished between freehold and leasehold rights:

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Freehold rights	1,084,347	1,021,614
Leasehold rights	48,000	65,980
Net book value	1,132,347	1,087,594

C. Disposal of UK hotels:

In December 2010 BH has entered into a Share Purchase Agreement and Loan Agreements with Park Plaza Hotels Limited group ("Park Plaza"), with regard to the sale of its holdings in three companies, which owned three hotels in London, England (the "Hotels"). Prior to this transaction, these hotels were jointly owned by the Company and Park Plaza and were managed by Park Plaza.

The transaction was fully closed in December 2010, and the total capital gain recorded in the Company's 2010 statement of income amounted to NIS 199 million. For additional financial data regarding the effect of the disposal of the UK hotels on the financial statements, see note 28C (1)(ii).

The total consideration for the transaction in the amount of £21 million (NIS 115 million), is payable in the following manner: (i) two loans provided by BH to Park Plaza, each in the amount of £8 million bearing an annual interest at the rate of 7%. As for December 31 2012 the first loan was fully repaid, and as for the second loan, the entire principal amount is payable in December 2012; (ii) issuance and allotment of one million ordinary shares of Park Plaza, with a market price as of the closing date of £2.38 million (NIS 14 million); and (iii) an additional payment in the aggregate amount of up to £3.5 million, that shall be made on the fifth anniversary of the closing date (December 31, 2015) and shall be subject to certain adjustments, based on the market price of Park Plaza's shares, as set forth in the agreement. Based on its terms, this additional payment is classified as a derivative and its fair value as of December 31, 2012 and 2011 amounted to NIS 15 million.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - PROPERTY, PLANT AND EQUIPMENT (CONT.)

D. Disposal of the Netherlands hotels:

In March 2012, BH entered into and closed a Share Purchase Agreement with Park Plaza with regard to the sale of its holdings in certain subsidiaries which owned a 50% interest in four hotels in the Netherlands. The hotels were jointly owned by the Company and Park Plaza and managed by it.

The total net consideration that was paid to the Company in May 2012 was approximately €26.5 million. The consideration was paid in the following manner: (i) €3 million in cash; (ii) Park Plaza issued and allotted to the Company 700,000 ordinary shares of Park Plaza, with current market price as of the closing date of approximately €1.7 million (NIS 10 million), based on the quotation of such shares' price on the London Stock Exchange; and (iii) an additional payment in the aggregate amount of up €1.6 million that shall be made on the fourth anniversary of the transfer date (March 2016) and shall be subject to certain adjustments, based on Park Plaza shares' market price, as set forth in the Agreement Based on its terms. This additional payment is classified as a derivative and its fair value as of December 31, 2012 amounted to NIS 8.

The total profit generated from the sale of the hotels, amounted to approximately NIS 188 million, out of which NIS 134 million has been recognized in the shareholders equity of the Company following the application of the revaluation model (see note 2N (i)) and NIS 54 million has been recognized in the income statement for 2012, hence the characteristic of the transaction is the sale of interest in the subsidiaries that held the hotels in oppose to selling the assets held by them.

E. Annual depreciation rates - see note 2N (ii).

F. As of December 31, 2012 the Group pledged property plant and equipment in the amount of NIS 1,053 million in order to secure borrowings provided to the Group by financial institutions, mainly with respect to the hotels. See also note 23D.

G. Within the framework of a lease agreement with the Israeli Land Authority ("ILA") in respect of plot located in, Tiberias Israel, the Company has undertaken to finalize the construction, as extended, in July 2013. As for December 31 2012, the Company believes that an extension will be obtained. Within the framework of the lease agreement the Company has provided the ILA with two bank guarantees in the aggregate amount of NIS 10 million linked to the increase in the Israeli consumer price index in order to secure the Company's undertakings under the lease agreement. In accordance with the lease agreement, in case of non-compliance with its terms the contract can be canceled. See also note 31 K.

H. Operating Hotels valuation sensitivity analysis is detailed below:

Change in Discount rate	change in hotel FV (NIS '000)
+0.5%	(11,316)-(16,531)
-0.5%	12,792-16,974
+1%	(21,648)-(32,668)
-1%	27,552-32,915

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - INVESTMENT PROPERTY

A. Composition:

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
At fair value		
Balance as of January 1	2,672,571	2,232,322
Additions during the year	20,492	59,116
Additions due to increase in holding rate	-	111,932
Net gain (loss) from fair value adjustments (see note 29)	(10,937)	100,819
Disposal during the year (see note 29)	(2,623,673)	-
Foreign currency translation adjustments	65,270	168,382
	123,723	2,672,571

Refer to note 23D (2) for information on non-current assets pledged as security.

As for commitments in respect of construction services and purchase of plots see note 23A (3).

B. Land plot in Kochi, India:

In September 2006, the Company together with an Indian corporation ("Project SPV") wholly owned by certain unrelated third parties (the "Third Parties Shareholder") entered into an transaction (as amended in January 2007), comprising of a land purchase agreement and a share subscription agreement, for the purchase of a land located in Kochi, India. In accordance with the terms of the land purchase agreement, the Project SPV acquired 13 acres ("Property A") for a total consideration of INR 1,495 million (NIS 118 million) payable subject to fulfillment of certain obligations and conditions by the seller in respect of the land including obtaining all permissions required for construction thereon and making good and marketable title with regard to Property A and others ("Conditions Precedent"), out of which an advance of app. 25% of the total purchase price was paid to the seller in consideration for the transfer of title in Property A to the Project SPV. The land purchase agreement further provides that additional 28 acres ("Property B") would be transferred by the seller to the Project SPV without any consideration and the seller will be entitled to receive 40% of the constructed area which will be built by the Project SPV on Property B. As of December 31, 2012, the seller has failed to transfer Property B and accordingly, the seller was not awarded any percentage out of the planned constructed area. The agreement also provides that if the seller fails to comply with the aforementioned conditions precedent by an agreed date, the Project SPV and the Company shall have the right to terminate the agreement. As of December 31, 2012, the net book value of the project totaled NIS 52 million.

Under the share subscription agreement, the Company will be allotted 50% shareholding and voting rights in the Project SPV, subject to obtainment of certain regulatory provisions in respect of the land and securing of sanctioned plans for the project, which as of December 31, 2012 have not been fully obtained. However, as the Company holds the right to appoint two directors in the Project SPV's board which constitutes 50% of the voting rights in the Project SPV, the Project SPV's financial statements were proportionally consolidated (50%) with those of the Group's consolidated financial statements as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - OTHER ASSETS AND DEFERRED EXPENSES

Composition:

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Cost		
Advance for plot purchase (i)	223,760	237,922
Prepaid leasehold rights	8,747	13,542
Other	12,647	9,778
	<u>245,154</u>	<u>261,242</u>
Accumulated amortization		
Prepaid leasehold rights	8,747	10,160
Other	178	123
	<u>8,925</u>	<u>10,283</u>
Amortized cost	<u>236,229</u>	<u>250,959</u>

(i) Include mainly advances in the amount of NIS 219 million (2011: NIS 230 million) for the purchase of plots in India (see note 8D).

NOTE 15 - INTANGIBLE ASSETS

Composition:

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Cost		
Goodwill (i)	41,242	61,753
Intangible assets - Intellectual property and other	10,620	25,325
Distribution rights	1,040	2,427
	<u>52,902</u>	<u>89,505</u>
Accumulated amortization of Intangible assets and impairment	6,184	15,090
	<u>46,718</u>	<u>74,415</u>
Amortized cost		

(i) The goodwill is attributable mainly to the following cash generating units: As for December 31, 2011 and 2012: an amount of NIS 14 million is attributable to the activities of Varcode (note 11 F) an amount of NIS 27 million is attributable to the Bucuresti hotel (note 11 C (2)) and in 2011 an amount of NIS 20 million is attributable to the activities of InSightec.

The goodwill attributable to Bucuresti was tested for impairment based on the fair value of the Bucuresti complex which was determined in December 2012 and 2011 based on independent third party appraiser who used the net operational cash flow expected to be generated from the hotel complex discounted in applicable interest rate.

The goodwill attributable to Varcode was tested for impairment based on independent third party appraiser who used the net operational cash flow expected to be generated from the activity discounted in applicable interest rate. The rate used as for December 31, 2012 and 2011 was 25%.

During 2012, the Group recorded an impairment loss in the amount of NIS 3 million in respect of its goodwill as a result of these impairment tests.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 - SHORT-TERM CREDITS AND BORROWING RELATING TO TRADING PROPERTY

A. Composition short-term credits:

	December 31	
	2 0 1 2	2 0 1 1
	Interest rate %	(in thousand NIS)
U.S. Dollar		1,044
EURO	Euribor + 0.4-5.5	-
INR	11.5	34,382
NIS (i)	Prime + 1.5-1.75	8,124
		14,566
Current maturities (*)		43,550
		227,353
		1,493,460
		1,435,581
		1,537,010
		1,662,934

The balance as of December 31, 2012 includes bank loans in the total amount of NIS 570 million that are presented as short-term liabilities due to incompliance with financial covenants – see also note 23 E(3)).

B. Liens and financial covenants - see note 23D and 23E respectively.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - PAYABLES AND OTHER CREDIT BALANCES

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Income taxes	31,658	12,283
Other governmental institutions	3,790	9,531
Wages and fringe benefits	16,868	30,473
Accrued interest payable	27,593	39,504
Real estate taxes payable	-	25,021
Derivative measured at fair value through profit and loss (i)	16,335	-
Related parties	763	2,900
Liability in respect of acquisition of trading property	8,863	7,148
Loan from third parties	6,127	39,521
Accrued expenses, commissions and others (*)	23,692	95,363
	135,689	261,744

(*) The balance as of December 31, 2012 was decreased mainly due to a provision with respect to the settlement described in note 23 B 6 and to accrued expenses that as for December 31 2012 were classified to discontinued operation.

(i) PC is paying a fixed interest of 6.98% based on a nominal EUR amount of EUR 15.1 million and receiving an interest of six months WIBOR + 4.5% with the same amortization schedule as the Polish bonds. As of December 31, 2012 and 2011 (see note 20) the fair value of the EURO-PLN cross-currency swap, based on independent valuation, was negative in the amount of NIS 4 million and NIS 10 million, respectively.

NIS 12 million as of December 31, 2012 relates to hedge transactions with respect to three commercial centers according to which the project companies will pay fixed interest rate of 1.00%-2.13% and receive EURIBOR three months.

NOTE 18 - OTHER LIABILITIES

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Income in advance	39,528	80,124
other	-	2,941
	39,528	83,065

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - BORROWINGS

A. Composition:

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
At amortized cost:		
Loans from banks and financial institutions (see D below)	1,984,241	3,797,318
Debentures issued by the Company (see E below)	2,050,326	2,480,058
Debentures issued by PC (see F2 below)	360,163	537,685
Convertible debentures issued by the Company (see G below)	103,196	104,139
	4,497,926	6,919,200
At fair value through profit and loss:		
Debentures issued by PC (see F1 below)	571,510	707,384
Debentures re-issued by the Company (see E3 below)	90,732	-
	662,242	707,384
Total borrowings	5,160,168	7,626,584
Less - current maturities (see note 23E)	(1,493,460)	(1,435,581)
	3,666,708	6,191,003

B. Linkage basis and interest rates:

	December 31, 2012	
	Interest rates	(in thousand NIS)
	%	
NIS	6.25	103,196
NIS	Israeli CPI + 4.5-6.0	2,985,915
NIS	Libor + 6	84,968
EURO	Euribor + 1.75-5.5	1,431,733
EURO	3.4-5.56	30,537
INR	13.25-15	132,655
U.S. Dollar	Libor+ 2.65-4.0	318,940
PLN	Wibor + 4.5	72,226
		5,160,170

C. Repayment schedule:

	December 31	
	2 0 1 2	(in thousand NIS)
2013 - current maturities	1,493,460	
2014	1,000,419	
2015	758,841	
2016	633,999	
2017	543,736	
2018 and thereafter	729,715	
	5,160,170	

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - BORROWINGS (CONT.)

D. The following table provides breakdown of the Group's loans from banks and financial institutions:

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Loans provided to the Company (i)	290,396	318,501
Loans provided to PC (mainly with respect to trading property)	1,294,509	1,198,934
Loans provided to Group Companies in the hotels segment (ii)	399,336	692,401
Loans provided to Group Companies mainly in the investment property segment (see note 29B)	-	1,587,482
	1,984,241	3,797,318

(i) For collaterals and financial covenants see also note 23 D (1) and E (3). As of December 31, 2012 the Company is non-compliant with these financial covenants.

(ii) In October, 2011 a subsidiary holding the Bucharest hotel in Bucharest, Romania ("Bucuresti") consummated a refinancing of its loan. According to the Facilities Agreement, the bank ("Lender"), has granted Bucuresti a loan of up to €11.5 million (the "Loan"). Tranche A in the amount of approximately €62.5 million has been drawn down in September 2011 and tranche B in the amount of approximately €9.0 million is drawable until March 31, 2013. As of the date of approval of these financial statements Tranche B hasn't been drawn down.

The Loan bears interest at the rate of 3 months Euribor rate plus a margin of 4.6% per annum. According to the facility agreement, approximately 20% of the principal will be paid during the term of the Loan in quarterly installments with the remainder to be paid as a bullet repayment at the end of the term. The final maturity date of the Loan is June 30, 2016.

The Loan will be secured by, inter alia, a first-ranking mortgage over the Radisson Blu Hotel, Bucharest and the Centreville Apart Hotel, and other commercial areas within such hospitality complex (the "Mortgage"). In addition, the Company is guarantee for (i) the annual debt service payments of Bucuresti (including interest, but excluding the final bullet repayment (an amount of €58 million); (ii) the principal amounts required to be prepaid by Bucuresti in order for it to meet certain financial covenants during the term of the Loan to the extent such financial covenants are not satisfied; and (iii), the obligations of Bucuresti towards the Lender solely in the event that the Lender is unable to exercise its rights under the Mortgage due to invalidity or other defects in respect of the Mortgage as set forth in the guarantee.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - BORROWINGS (CONT.)

E. Company's debentures

With respect to management's plans to re-finance its debentures, see note 31E.

(1) Following are the significant terms of the Company's debentures as of December 31, 2012:

Series	Linkage basis	Interest rate %	Repayment terms	Amortized cost as at December 31,	
				2012	2011 (in thousand NIS)
A (ii)	Israeli CPI (i)	6.0	10 semi-annual equal installments commencing August 2009	197,515	338,142
B (ii)	U.S. Dollar	Libor+2.65	10 semi-annual equal installments commencing August 2009	15,366	28,083
C (ii)	Israeli CPI (i)	5.3	10 annual installments commencing September 2009	260,064	342,221
D (ii) (iii)	Israeli CPI (i)	5.0	8 annual installments commencing April 2013	781,293	858,804
E (ii)	Israeli CPI (i)	6.3	10 annual installments commencing July 2012	59,575	73,243
F (ii)	Israeli CPI (i)	5.7	6 annual installments commencing October 2010	272,221	371,224
G (ii)	Israeli CPI (i)	5.08	5 annual installments commencing December 2014	464,292	468,341
				<u>2,050,326</u>	<u>2,480,058</u>

Series A through G debentures are un-secured and non-convertible and are registered for trade on the Tel Aviv Stock Exchange ("TASE").

- (i) Linked to the increase in the Israeli CPI over the base index as of the date the debentures were issued.
- (ii) The debentures terms provide that the debentures will be prepaid by the Company at the discretion of the holders of the debentures under certain circumstances, including: (i), if the Company's securities are de-listed from trade on both the TASE and the Nasdaq Global Select Market, (except for series E, F and G) (ii) if forced payment is required of another series of the Company's debentures, (iii) if a stay of proceedings is imposed by a court upon the Company and not rescinded within 45 days, and (iv) if the Company ceases to make payment on its debentures or if there is a material risk that it will cease to make such payments.
- (iii) In March 2011, the Company issued additional unsecured non-convertible Series D debentures to investors in Israel, by expanding the existing series, in an aggregate principal amount of approximately NIS 96 million for gross proceeds of approximately NIS 108 million (USD 29 million).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - BORROWINGS (CONT.)

E. Company's debentures (cont.)

(2) Buyback plan of Company's debentures

In May 2011, the Company's board of directors approved the repurchase of up to NIS 150 million (approximately \$43 million) of its series A through G debentures. In November 2012 the board of directors of the Company approved the increase of the bond repurchase program to allow repurchase of up to an additional NIS 125 million (approximately \$33 million) of the Company's Series A through G and Series 1 Notes.

The repurchases will be made either on an arm's length basis through brokerage trading services. The board approval should not be deemed a commitment to purchase any debentures. The timing and amounts of any debentures repurchased will be determined by the Company's management, based on its evaluation of market conditions and other factors. The repurchase programme may be suspended or discontinued at any time.

As for December 31, 2011 and 2012, the Company directly or by a subsidiary purchased NIS 67.6 million and NIS 157.8 million par value, respectively, from various series, for a total consideration of NIS 53 million and NIS 93.4 million respectively, resulting in a gain of NIS 25 million and NIS 92 million, which was recorded in the statement of income. NIS 23.7 million par value of the debentures repurchased have been fully redeemed.

<u>Series</u>	<u>Par Value</u>	<u>Debentures repurchased that have been redeemed and removed from trading</u>
A	19,467,003	3,380,000
B	1,747,463	-
C	58,289,688	3,611,497
D	92,395,506	4,910,157
E	8,146,801	1,810,000
F	22,707,088	5,000,000
G	18,995,130	5,000,000
Convertible debentures	3,642,561	-
	<u>225,391,240</u>	<u>23,711,654</u>

(3) Transactions with financial institutions for financing repurchase of bonds

(i) In August 2012, the Group entered into a NIS 75 million bond structured transaction with a leading global financial institution (the "Transaction" and the "Counterparty" respectively), pursuant to which, the Group has purchased a NIS denominated zero-coupon credit linked note (the "CLN") from the Counterparty. The CLN references a portfolio of the Company's bonds (having a market value of NIS 75 million) (the "Bond Portfolio"). In the framework of the Transaction, the Group has sold the Bond Portfolio to the Counterparty. In consideration, the Counterparty has paid the Group, the market value of the Bond Portfolio and arranged for the issuance of the CLN, at an issue price of NIS 37.5 million.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - BORROWINGS (CONT.)

E. Company's debentures (cont.)

(3) Transactions with financial institutions for financing repurchase of bonds (cont.)

(i) (Cont.)

During the term of the CLN, all the proceeds derived from the Bond Portfolio (principal and interest) shall be retained by the Counterparty. At maturity of the CLN, subject to no early termination event having occurred, the CLN shall be redeemed by delivery to the Group (as note holder) of the remaining, unamortized portion of the Bond Portfolio.

As of December 31, 2012, the bonds and the CLN are presented at fair value. As for an early termination of the transaction in February 2013, due to default event, see note 31B.

(ii) In November 2012, the Group, entered into a NIS 150 million bond structured transaction with a leading global financial institution (the "Transaction" and the "Counterparty" respectively), pursuant to which, the Group was granted a NIS 75 million credit line for the purchase of a portfolio of the Company's bonds having an aggregate market value of up to NIS 150 million (the "Bond Portfolio"). As of December 31, 2012 the Company utilized approximately NIS 21 million of the credit line.

During the term of the Transaction, all the proceeds derived from the Bond Portfolio (principal and interest) shall be retained by the Counterparty.

Upon the occurrence of an early termination event, the Counterparty may sell the Bond Portfolio and shall be entitled to receive an agreed upon IRR plus unwind costs, and thereafter the parties shall execute a cash settlement with respect to any remainder derived from the sale of the Bond Portfolio. The bonds and the

CLN are presented at fair value. As for an early termination of the transaction in February 2013, due to default event, see note 31B.

As a result of the above described transactions, the following Company's debentures are measured at fair value through profit and loss ("FVTPL"):

Series	Fair value as of December 31,		Payments to be paid contractually at maturity as of December 31,	
	2 0 1 2(ii)	2 0 1 1(ii)	2 0 1 2(ii)	2 0 1 1(ii)
	(In thousand NIS)		(In thousand NIS)	
A	8,896	-	13,601	-
B	920	-	1,110	-
C	23,446	-	55,828	-
D	42,705	-	104,274	-
E	2,522	-	7,316	-
F	7,212	-	17,063	-
G	5,031	-	15,033	-
	90,732	-	214,225	-

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - BORROWINGS (CONT.)

F. PC's debentures

PC's debentures are un-secured and non-convertible and are registered for trade in both the Tel Aviv Stock Exchange ("TASE") and in Warsaw, Poland.

The debentures traded in TASE will be repaid by PC, inter alia, at the option of the trustee or the holders of the debentures if PC delays the publication of its financial statements for more than 60 days from the dates provided by applicable law, or if the debentures cease to be rated for a period of more than 60 days.

Following are the significant terms of PC's debentures as of December 31, 2012:

(1) PC's debentures measured at fair value through profit and loss ("FVTPL"):

Series	Linkage basis	Interest rate %	Repayment terms	Fair value as of December 31,		Payments to be paid contractually at maturity as of December 31,	
				2012(ii) (In thousand NIS)	2011(ii) (In thousand NIS)	2012(ii) (In thousand NIS)	2011(ii) (In thousand NIS)
A	Israeli CPI (i)	4.5	8 annual equal installments commencing December 2010	138,363	170,839	203,124	266,986
B	Israeli CPI (i)	5.4	5 annual equal installments commencing July 2011	433,147 571,510	536,545 707,384	549,491 752,615	722,212 989,198

- (i) The debentures are linked (principal and interest) to the increase of the Israeli CPI over the base index at the date of the debentures' issuance.
- (ii) PC's debentures (except the additional Notes issued during 2009-2011 see (2) below) were designated to FVTPL in accordance with the provisions stipulated in note 2U. The Fair value of PC's debentures as of December 31, 2012 and 2011 was determined based on their quoted market price in the TASE (see note 30D(2)d).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - BORROWINGS (CONT.)

F. PC's debentures (cont.)

Significant terms of PC's debentures as of December 31, 2012 (cont.):

(2) PC's debentures measured at amortized cost

In Israel - During 2009-2011, PC issued to Israeli investors approximately an additional amount of NIS 88 million (approximately \$23.0 million) in principal amount of Series A debentures for an aggregate consideration of approximately NIS 99 million (approximately \$26 million), and an additional NIS 631.5 million principal amounts of Series B Notes (the "Additional Notes") for an aggregate consideration of approximately NIS 683 million. The terms of the Additional Notes are identical to PC's terms of the Series A and Series B debentures as described above.

In Poland - In November 2010, PC completed the first tranche of a bond offering to the Polish institutional investors. PC raised a total of PLN 60 million (approximately NIS 72 million). The unsecured bearer bonds governed by Polish law (the "Bonds") have a three year maturity and will bear interest rate of six months Polish Wibor plus a margin of 4.5% (8.48% as of December 31, 2012). Interest will be paid to holders every six months.

Under the offering memorandum certain circumstances shall be deemed events of default giving the Bondholders the right to demand Early Redemption, which includes among others the following covenants:

- a) Breach of the Cash Position as a result of the payment of dividend or the buy-back program- if at any time during a period of 90 days from the payment of dividend, or the acquisition of its own shares, the Cash Position falls below €50 million.
- b) Breach of financial ratios - the Net Capitalization Ratio exceeds 70%; Net Capitalization Ratio is the Net Debt divided by the Equity plus the Net Debt, as calculated by the PC's auditor; "Net Debt" mean the PC's total debt under: loans and borrowings, lease agreements, bonds, other debt securities and other interest bearing or discounted financial instruments in issue, less related hedge derivatives, cash and cash equivalents, short and long-term interest bearing deposits with banks or other financial institutions, available for sale marketable securities and restricted cash, calculated based on the Consolidated Financial Statements.
- c) Failure to repay material debt - PC fails to repay any matured and undisputable debt in the amount of at least €100 million (NIS 492 million) within 30 days of its maturity.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - BORROWINGS (CONT.)

F. PC's debentures (cont.)

(3) Buyback plan of PC's debentures

In May and December 2011, PC's Board of Directors approved a buyback plan in the total amount of up to NIS 300 million of its Series A and Series B Debentures, which are traded on the Tel Aviv Stock Exchange.

On November 20, 2012, PC's Board approved the extension of the PC bond buyback programme to be concluded by 31 December 2014 with a maximum amount to be purchased of up to NIS 750 million.

PC's board approval should not be deemed a commitment to purchase any of its debentures. The timing and amounts of any debentures repurchased will be determined by PC's management, based on its evaluation of market conditions and other factors. The repurchase plan may be suspended or discontinued at any time.

A company within the Group which is engaged in the debenture buyback programme of PC has secured its credit facility awarded by the financing bank in a total amount of EUR 17.3 million (NIS 85 million), as of December 31, 2012, by providing a first ranking charges on the debentures owned thereby.

As of December 31, 2012, PC directly and by a subsidiary has purchased a total of NIS 271 million par value Debentures (with adjusted value of NIS 315 million), for a total consideration of NIS 247 million resulting in a gain of NIS 39 million and NIS 28 million recorded in the statement of income in 2011 and 2012, respectively. 38.6 million par value of the debentures repurchased have been fully redeemed.

Series	Par Value	Debentures repurchased that have been redeemed and removed from trading
A	100,256,975	10,161,662
B	170,684,843	28,486,672

G. Company's convertible debenture

Series 1 convertible debenture issued by the Company in 2009 bearing a fixed interest rate of 6.25% per annum, without linkage. The Series 1 convertible debentures are to be paid in two equal installments on December 31, 2013 and December 31, 2014 and are convertible into the Company's ordinary shares at the price of NIS 128 per share until July 31, 2013 and at the price of NIS 200 per share thereafter.

The debentures are un-secured and are registered for trade in Tel Aviv Stock Exchange ("TASE"). The equity component of the convertible debentures amounted to NIS 19.3 million and was calculated based on reports of a third party expert in accordance with the provisions mentioned in note 2U. Such equity component was recorded directly to the Company's 2009 shareholders' equity as share premium. The effective interest rate, while taking into consideration the equity component and issuance costs, is 4.9%.

H. Liens and financial covenants - see note 23D and 23E.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 - OTHER LONG-TERM FINANCIAL LIABILITIES

Composition:

	December 31	
	2 0 1 2	2 0 1 1
(in thousand NIS)		
Grants from the Israeli Office of Chief Science ("OCS") (i)	-	24,827
Embedded derivative financial liability carried at fair value through profit and loss	-	2,417
Derivative measured at fair value through profit and loss (ii)	11,250	24,860
Loan from third parties (iii)	2,771	163,648
	14,021	215,752

(i) The balance for 2011 reflects the fair value of the total grants received from the OCS by InSightec net of royalties paid up to such date discounted at the applicable interest rate for similar loans having the same terms and conditions (27%). InSightec is obliged to pay royalties to the OCS - in respect of products, the development of which was funded by grants provided by the OCS - at a rate of 3.5% of the revenues from said products and up to the amount of the grants received. As for the decrease of the Company's holdings in InSightec, see note 10 B.

(ii) a) As for December 31, 2011: Within the framework of a credit agreement executed in September 2011 (See iii below) the Company granted to the Lender a warrant to purchase the Company's ordinary shares at an exercise price of \$3.00 per share during a two-year period commencing on March 31, 2012. The warrant was entitled the lender to purchase up to 9.9% of the Company's outstanding shares.
 in April 2012, the Company and the lender agreed to amend the warrant granted by the Company in the way that the lender is entitled to purchase from the Company, at any time and from time to time during the period commencing on March 31, 2012 and ending on March 31, 2014, up to 3.3% (instead of 9.9%) of the Company's outstanding shares at a purchase price of 0.00\$ (instead of 3.00\$) per share, subject to the terms and conditions set forth in the warrant.
 As for December 31, 2012 the warrant was classified to the equity of the Company

b) As of December 31, 2011, PC had interest rate and EURO/NIS swap with notional amount of NIS 127 million. PC paid a fix interest of 6.82 % and received 4.5% interest linked to the Israeli CPI. The swaps were measured at fair value. Changes in the fair value were charged to the statement of income. This swap was settled in January 2012.

c) In respect to loan agreement drawn by a subsidiary holding the Radisson Blu, Bucharest ("BUTU") (see Note 19 D (ii)), BUTU entered into IRS transaction in which it will pay fixed interest rate of 1.4% and receives three months Euribor on a quarterly basis starting on January 1, 2013 and ending on June 30, 2016.

(iii) As for December 2011, DDR has originated a USD 14 million (NIS 49 million) loan, to a subsidiary of EDT, at a fixed interest rate of 10%. The loan was assigned as part of selling the US operation (see note 29 B).

In September, 2011, the Group, entered into a loan agreement with Eastgate Property LLC, ("Lender"), pursuant to which the Group received a \$30 Million (NIS 110 Million) loan, bearing interest at the rate of 11.4% per annum. The effective interest of the loan, taking into account the cost of raising the loan as well as the derivatives mention in note (ii) above was 25%. The loan was settled during 2012 as part of selling the U.S operation (see note 29 B).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 - OTHER LONG TERM LIABILITIES

A. Composition:

	December 31	
	2 0 1 2	2 0 1 1
Liability in respect of construction services (i)	76,747	77,020
Provisions	6,243	6,881
Retirement benefit obligation (see B below)	6,983	4,953
Other	1,154	974
	91,127	89,828

(i) Within the framework of an agreement for the acquisition of 75% holding in a company which holds the Casa Radio Project in Romania (Project Company), PC has undertaken to ensure that the Project Company will construct an office building for the Government of Romania at the Project Company's own costs. Aggregately, and as of December 31, 2012, an amount of EUR 1.5 million (NIS 7 million) was utilized from the provision.

B. Retirement benefit obligation

The Group companies' liability to employees upon their retirement includes, primarily, voluntary and/or involuntary termination severance payments as well as adaptation grants. The liabilities are partially covered by ordinary deposits to employees' accounts at accredited pension and severance-pay funds and/or by acquiring insurance policies. Such deposits are not under the custody or management of the Group companies.

The Company's CEO terms of employment by EIL shall be taken into consideration in calculating the period of his employment with the Company, for all purposes. EIL undertook to transfer to the Company's ownership all amounts deposited in severance-pay funds, in order to cover all rights accumulated throughout the period of the CEO's employment with EIL. As of December 31, 2012, balances of approximately NIS 0.9 million have not yet been transferred to the Company.

The obligations of foreign subsidiaries in respect of severance-pay to their respective employees, in terms of the laws of their respective countries of residence, and various valid labor agreements are generally covered by ordinary payments executed to that end to governmental institutions, as well as by current payments to insurance companies for pension benefits and by the balance-sheet accrual. The amount included in the balance sheet arising from the Group's obligation in respect of its defined benefit plans is as follows:

	December 31	
	2 0 1 2	2 0 1 1
Present value of funded defined benefit obligation	19,469	14,965
Fair value of plan assets	(12,486)	(10,012)
Net liability arising from defined obligation	6,983	4,953

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2 0 1 2	2 0 1 1
Discount rates	4.7-5.1	5-5.6
Expected return on plan assets	2.4-7	2.7-7.8
Expected nominal salaries increase	5	5

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - INCOME TAXES

A. Composition:

	Year ended December 31		
	2 0 1 2	2 0 1 1	2 0 1 0
	(in thousand NIS)		
Current	7,276	1,659	771
Deferred	(21,480)	61,038	3,312
In respect of prior years	3,956	586	(91)
	(10,248)	63,283	3,992

B. Principle tax laws applicable to the major Group companies in their country of residence:

(1) Israel

a. The provision for current taxes of the Company and its Israeli subsidiaries was determined until 2007 in accordance with the provisions of the Israeli Income Tax Ordinance and the Income Tax Law (Adjustments for Inflation)-1985, which established the measurement of the results for tax purposes on a real basis pursuant to changes in the consumer price index. Commencing from 2008, the provisions of that law would no longer apply, except for transitional provisions intended to avoid distortions in the tax computations.

Corporate tax rate applicable to companies in Israel in 2012 is 25% (in 2011 and 2010 - 24% and 25%, respectively).

In December 2011, new legislative amendments came into force according to which:

- (1) Planned reductions in corporate tax rates for the years 2012-2016 were fully cancelled.
- (2) Increase of the corporate tax rate in 2012 to 25%.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - INCOME TAXES (CONT.)

B. Principle tax laws applicable to the major Group companies in their country of residence: (cont.)

(1) Israel (cont.)

b. As from January 1, 2003, certain statutory provisions came into force and effect, concerning, among other things, the tax reform in Israel in respect of the following:

1) (i) Taxation of profits of foreign companies considered as Controlled Foreign Companies ("CFC"), if all the following conditions are met: (i) its shares or its rights on it are not listed in a stock exchange, however if they are partly listed, then less than 30% of the shares or of the rights of the company were offered to the public (ii) majority of revenues thereof are passive, as same is defined by law, or majority of profits thereof derive from passive revenues; (iii) the tax rate applying to the passive profits thereof in their country of residence does not exceed 20%; and (iv) more than 50% of the means of control therein are held, directly or indirectly, by Israeli residents. In accordance with the statutory provisions, a controlling shareholder in those companies having unpaid profits, as defined by law, is deemed to have been distributed as a dividend representing its respective share in such profits ("Deemed Dividend").

(ii) Taxation of a dividend received in Israel, out of profits generated or accrued abroad, as well as a dividend originating abroad.

A Deemed Dividend and/or the distribution of dividends, as stated, will be subject to a tax rate of 25%, less withholding taxes which would have been paid abroad in respect of such dividend, had it in fact been distributed. Each Israeli assessee has the right to elect, at its sole discretion, to be assessed according to the Israeli corporate tax rate less taxes payable abroad in respect of these profits (including under certain circumstances taxes payable by a company held by the distributing company), as the case may be.

2) Capital gain from the realization of assets which were acquired subsequent to January 1, 2003 will be taxed at a rate of 25%. Capital gain for assets which were acquired before January 1, 2003, will be taxed at a rate of 25% for the portion of the gain relating to the period subsequent to this date up to the realization date and corporate tax rate for the portion of the gain relating to the period from the acquisition date up to January 1, 2003.

3) Method of loss offsetting - regarding business losses, capital losses, passive losses, marketable securities losses and CFC losses.

c. During 2004, the Company, EIL and Elscint have finalized an arrangement with the Israeli Tax Authorities, effective from December 31, 2002, whereby a new tax basis has been determined for the Company's investments (on a consolidated basis) in foreign subsidiaries ("Regulated Revaluation" and "Regulated Assets"). The arrangement provides for no additional tax to be imposed in Israel on gains generated from the realization of Regulated Assets, and on dividends distributed therefrom, and all up to the amount of the Regulated Revaluation.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - INCOME TAXES (CONT.)

B. Principle tax laws applicable to the major Group companies in their country of residence: (cont.)

(1) Israel (cont.)

d. In August 2010, the Israeli Tax Authority approved the request made by the Company for restructuring (hereinforth - "restructuring approval"). Within the framework of the restructuring, the Tax Authority approved the execution of a procedure composed of several stages, at the end of which Elbit Medical Technologies Ltd., a direct subsidiary of the Company, became the owner of the Group's entire holdings in InSightec and Gamida.

(2) The Netherlands

a. Companies resident in the Netherlands are subject to corporate income tax at the general rate of 25% (25.5% prior to the year 2011). The first €200,000 of profits are taxed at a rate of 20%. Tax losses may be carried backwards for one year and carried forward for nine years. Taxpayers can elect for an extension of the loss carry backwards period to three years (instead of one year). The election is only available for losses suffered in the taxable years 2009, 2010 and 2011. If a taxpayer makes use of the election, two additional limitations apply: (i) the loss carry forward period for the taxable years 2009, 2010 and/or 2011 will be limited to a maximum of six years (instead of nine years); and (ii) the maximum amount of loss that can be carried backwards to the second and third year preceding the taxable year will be limited to €10 million per year. The amount of loss that can be carried back to the year directly preceding the taxable year for which the election is made will remain unrestricted. As of the taxable year 2012, the election for extended loss carry back is not available anymore and the regular loss carry back and carry forward limitations apply.

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

- (i) Motive Test, the investee company is not held as passive investment;
- (ii) Tax Test, the investee company is taxed locally at an effective rate of at least 10% (calculated based on Dutch tax accounting standards);
- (iii) Asset Test, the investee company owns (directly and indirectly) less than 50% low taxed passive assets.

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - INCOME TAXES (CONT.)

B. Principle tax laws applicable to the major Group companies in their country of residence: (cont.)

(3) India

The corporate income tax applicable to the income of Indian subsidiaries is 32.445%. Minimum alternate tax (MAT) of 20% is applicable to the book profits (i.e. profits shown in the financial statements), if the final tax payable is higher of the MAT liability or corporate tax payable. If taxes are paid under MAT, then credit to the extent of MAT paid over corporate tax is available (MAT credit). MAT Credit will be credited if the company has taxable profits in the following ten years. Capital gains on sale of fixed assets (on which tax depreciation has not been claimed) and real estate assets are taxed at the rate of 21.63% provided that they were held for more than 36 months immediately preceding the date of the transfer, or 32.445% if they were held for less than 36 months. Dividends paid out of the profits are subject to Dividend Distribution Tax at the rate of 16.2225%. There is no withholding tax on dividends distributed by an Indian company. Business losses can be offset against taxable income for a period of eight years from the incurrence year's end. There is no limit for carry forward of unabsorbed depreciation.

(4) Cyprus

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

(5) USA

- a. The US federal corporate income tax rate is 35%. Some states may also impose corporate income taxes, which vary from zero to approximately 12%, resulting in an effective corporate tax rate of generally around 40%. The federal tax rate on corporate capital gains is the same as that of ordinary income.
- b. The statutory withholding tax rate on US sourced income is generally 30%, which may be lowered under a relevant tax treaty. The US-Israel Tax Treaty sets a 17.5% withholding tax on interest payments to Israeli corporations, and a 25% or 12.5% withholding on dividends (depending on share of ownership).
- c. Due to EPN's acquisition of the remaining shares of EDT in September 2011, the REIT election status of REIT I and REIT II were terminated effective January 1, 2011 as a result of the closely-held nature of EPN Group. As such, the REITs are subject to US income taxes as a C-corporation at maximum of 35% of taxable income.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - INCOME TAXES (CONT.)

C. Effective tax rate:

The following is reconciliation between the income tax expenses computed on the pretax income at the ordinary tax rates applicable for the Company ("the theoretical tax") and the tax amount included in the consolidated statement of operations:

	Year ended December 31		
	2 0 1 2	2 0 1 1	2 0 1 0
	(in thousand NIS)		
Israeli company's statutory tax rate (%)	25	24	25
Loss before income taxes	(560,571)	(207,847)	(301,321)
The theoretical tax	(140,143)	(49,883)	(75,330)
Differences in tax burden in respect of:			
Exempt income, net of unrecognized expenses	1,351	17,646	(63,335)
Prior-year losses for which deferred taxes had not previously been recorded, including utilization	6,420	(29,295)	(10,114)
Losses and other timing differences for which deferred taxes had not been recorded	34,417	130,652	135,946
The effect of different measurement principles applied for the financial statements and those applied for income tax purposes (including exchange differences)	45,010	(52,390)	(43,036)
Differences in tax rates on income of foreign subsidiaries	40,720	46,614	59,045
The Group's share in results of associated companies	2,180	267	1,610
Taxes for prior years	3,956	586	(1,463)
Other differences, net	(4,159)	(914)	669
	(10,248)	63,283	3,992

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - INCOME TAXES (CONT.)

D. Carry forward losses and deductions:

As of December 31, 2012 the Group companies had accumulated tax losses and deductions amounting to NIS 2,721 million (see also note 31 O), which may be utilized in the coming years against taxable income at rates ranging from 10% to 35% depending on the country of residence. The realization of the carry-forward losses is subject to taxable income available in those periods when these losses are deductible. Utilizing InSightec's losses at the amount of approximately NIS 82 million is limited as a result of a merger pursuant to section 103 of the Income Tax Ordinance.

Tax laws in respect of certain Group subsidiaries operating outside of Israel have set a time limitation on the utilization of losses. Accordingly, the right to utilize carry-forward losses in the amount of NIS 2,721 million, against taxable income, will gradually expire over the following years:

	December 31 2 0 1 2 (in thousand NIS)
2013	109,073
2014	80,944
2015	88,911
2016	94,215
2017 and thereafter	<u>2,347,747</u> <u>2,720,890</u>

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - INCOME TAXES (CONT.)

E. Deferred income taxes:

(1) Composition:

	Year ended December 31, 2012						Balance as of December 31, 2012
	Balance as of January 1, 2012	Charge to profit and loss account	Charged to foreign currency translation reserve	Charge to AFS reserve	Foreign currency translation adjustments	out of consolidation/ Discontinued operations	
Accelerated depreciation differences in respect of property plant and equipment	(79,852)	2,220	(59,072)	-	(30)	52,359	(84,375)
Differences between fair value of real estate at acquisition and related cost for income tax purposes	(20,802)	606	-	-	(120)	1,595	(18,721)
Timing differences - income and expenses	(77,838)	24,038	1,805	(3,120)	73	534	(54,508)
Carry forward tax losses and deductions	73,224	(5,384)	-	-	317	(22,839)	45,318
Net deferred taxes	(105,268)	21,480	(57,267)	(3,120)	240	31,649	(112,286)

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - INCOME TAXES (CONT.)

E. Deferred income taxes: (cont.)

(1) Composition: (cont.)

	Year ended December 31, 2011							
	Balance as of January 1, 2011	Charge to profit and loss account	Charged to foreign currency translation reserve	Charge to AFS reserve (In thousand NIS)	Foreign currency translation adjustments	Discontinued operations	Changes in the tax rates	Balance as of December 31, 2011
Accelerated depreciation differences in respect of property plant and equipment and fair value adjustments of investment property	(34,294)	2,480	-	-	(1,163)	(46,875)	-	(79,852)
Differences between fair value of real estate at acquisition and related cost for income tax purposes	(20,704)	545	-	-	(511)	(132)	-	(20,802)
Timing differences - income and expenses	(645)	(76,212)	(3,695)	2,215	499	-	-	(77,838)
Carry forward tax losses and deductions	38,608	9,906	-	-	1,004	23,993	(287)	73,224
Net deferred taxes	(17,035)	(63,281)	(3,695)	2,215	(171)	(23,014)	(287)	(105,268)

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - INCOME TAXES (CONT.)

E. Deferred income taxes: (cont.)

(2) The deferred taxes are presented as follow:

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Long-term liabilities	(113,309)	(108,642)
Long-term receivables	1,023	3,374
	<u>(112,286)</u>	<u>(105,268)</u>

(3) The Group did not record deferred tax assets in respect of the following items:

	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
Accelerated depreciation differences in respect of property plant and equipment and investment property	15,044	(9,375)
Timing differences - income and expenses	88,981	52,878
Carry forward tax losses and deductions	534,283	670,205
	<u>638,308</u>	<u>713,708</u>

F. Final tax assessments:

The Company, Elscint and certain Israeli subsidiaries have received final tax assessments, through 2003. Certain foreign group companies have received final tax assessments while others have not been assessed since incorporation.

G. Deferred taxes in respect of investment in investee companies:

As of December 31, 2012, the Group did not record deferred tax liability, in respect of gains from realization of certain investee companies or upon receiving their retained earnings as dividend, in the amount of NIS 224 million.

H. The total accumulated current and deferred taxes expenses, which were charged directly to the shareholders' equity, as of December 31, 2012, 2011, and 2010 is NIS 60,387 NIS 1,480 and NIS 24,093 thousands, respectively.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - INCOME TAXES (CONT.)

I. Tax Merger:

In March 2011, the Company and Elscint have completed a tax merger according to which the Company has merged Elscint ("Merger"). In accordance with a pre ruling from the Israeli Tax Authorities, the Merger will not impose any tax liability on the Company and Elscint. The merger however is subject to several conditions as specified below:

- (1) Majority of the assets transferred to the Company in the Merger and majority of the assets owned by it immediately prior to the Merger will not be sold during the period of two years following the Merger date. For this purpose, "majority of the assets" are the assets which market value at the Merger date was more than 50% of the total market value of the Company's assets on that date;
- (2) The Controlling Shareholder of the Company is not allowed to sell more than 10% of the Company's total shares, and/or to dilute its rights in the company under 25.29%, at any time during the two years following the Merger date.

J. Tax assessments under inspection

With respect to tax assessments inspection of the Company and other two Israeli subsidiaries, according to which the Israeli Tax Authority claims for additional tax payments of NIS 287 million and a settlement reached see notes 23 B (5) and note 31 O, respectively.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS

A. Commitments:

(1) Hotels' management fees

In 2010 a new management agreement with Rezidor was signed relating to Radisson Blu Bucuresti hotel and apartment hotel complex in Bucharest, Centreville. The new agreement will be effective till 31/12/2033.

Upon the termination of the management agreements by the Group, the companies owning the respective hotel (except the Bucharest hotel) are obliged to pay to the respective Management Company an amount equal to the Base fee, the Management fee and the Franchise fee (if applicable), paid to the Management Company in the 12 months period preceding such termination.

(2) Minimum future rental payments

Minimum future rental payments due under the Group's current operating leases as of December 31, 2012 are as follows:

Year ended December 31,	(in thousand NIS)
2012	27,567
2013	27,184
2014	26,451
2015	25,802
2016	23,843
Thereafter	128,428
	259,275

(3) Commitments in respect of construction services

The aggregate amount of the Group's commitments in respect of construction services and in respect of purchase of plots totaled, as of December 31, 2012, approximately NIS 682 million including estimated payments to related party see note 27 A (1).

(4) Elbit Trade - franchise agreements

Elbit Fashion Ltd. (formerly Trade and Retail) ("Elbit Fashion") is a party to a distribution, support and service agreements signed in May 2005 with a third party for a 10-year period, which entitled it to market the brand name MANGO-MNG™ in Israel.

(5) As for commitments to related parties, see note 27.

(6) In relation to commitments deriving from lease agreement with Israel Land Authority, see note 12G.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

B. Claims:

Certain legal claims have been filed against the Group's companies, including two claims that have been applied to certify as class actions suits.

In the opinion of the managements of the Group, which is based, *inter alia*, on legal opinions as to the probability of the claims, including the applications for their approval as class actions, appropriate provisions have been included in the financial statements (including provisions in respect of discontinued operation), with respect to the exposure involved in such claims. As of December 31, 2012 the Group provision for claims (including claims in respect of discontinued operation) in the total amount of approximately NIS 10 million.

In the opinion of the managements of the Group's companies, the amount of the additional exposure as of December 31, 2012, in respect of claims their chances to be realized are not remote, amounts to approximately NIS 10 million, excluding class actions. Said amount does not include interest. In respect to motions to certify certain claims as class actions, for which the Group has additional exposure in excess of the aforesaid (due to the fact that the exact amount of the claim was not stated in the claim), see items B1 and B2 below.

Following are the Group's material claims as of December 31, 2012:

(1) The Company - application for 1999 class action

In November 1999, a number of institutional and other investors (the "Plaintiffs"), holding shares in Elscint, instituted a claim against the Company, Elscint, EIL, Control Centers Ltd, past and present officers in the said companies and others. Together with the claim a motion was filed to certify the claim as a class action on behalf of everyone who was a shareholder in Elscint on September 6, 1999 and until the submission of the claim, excluding the Company and certain other shareholders. The claim alleges suppression of the minority shareholder rights, causing monetary damage due to, *inter-alia*, the sale of the control over Elscint to the Company's controlling party (who serves also as its CEO) and a breach of a tender offer made by the Company to purchase the minority share in Elscint and an agreement between the Company and the Company's CEO for the sale of the business of Elscint to the Company at a lower value. The Plaintiffs allege that the value of Elscint's shares dropped during the period between February 24, 1999 and the date at which the claim was instituted from \$13.25 per share to \$7.25. The relief sought is an order for the Company to consummate the purchase offer for \$14 per share, and alternatively, to purchase Elscint's shares held by the Plaintiffs at a price to be set by the court. In January 2009, the district court dismissed the Plaintiffs' motion to certify the claim as a class action, which was appealed by them in March 2009.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

B. Claims: (cont.)

(1) The Company - application for 1999 class action (cont.)

The motion for Discovery

In May 2009, the Plaintiffs filed a motion for discovery claiming that the court dismissed only their motion to certify the claim as a class action, while their personal and/ or derivative claims were still pending. In June 2009, the district court dismissed the Plaintiffs motion for discovery. The court expressed, *inter alia*, its opinion that the Plaintiffs could not continue to plead this case as a derivative claim.

In November 2009, 18 out of 31 plaintiffs (two of them later withdrew their claims) filed their position, according to the court's decision of June 30, 2009, regarding the question whether the claim should be dismissed in limine. The remaining 13 Plaintiffs have not filed their position. The Plaintiffs claimed that all proceedings before the district court should be postponed until the Supreme Court gives its decision on the appeal.

In May 2012, the Israeli Supreme Court upheld the plaintiff's motion to certify the claim as a class action, and certified the claim as a class action, with regard to the execution of an agreement by and between Elscint and the Company's mother Company (Europe-Israel (M.M.S.) Ltd., or EIL) for the acquisition of EIL's hotels portfolio and the execution of an agreement by and between Elscint and Control Centers Ltd. EIL's mother company ("Control Centers") for the acquisition of the Arena commercial center in Israel ("September 99 Transactions"), allegedly, at a higher value than the actual value of the properties sold, which is part of the Plaintiff's claim for alleged oppression of the minority shareholders in Elscint. In addition, the Supreme Court has upheld certain other claims that related to other defendants and rejected certain other claims that were included in the original proceedings.

Taking into account the significant change in the course of this proceedings after the Supreme Court's resolution (namely, the certification of part of the claim as a class action), the fact that the certified causes of actions and their scope with regard to each of the defendants are not yet fully clear, the fact that the plaintiffs should now file a new and amended statement of claim, and the low number of case precedents with regard to certified class actions which were trialled on their merits, the Company's management, based on the Company's legal consultants' opinion, cannot estimate, at this stage, the prospects of this litigation.

As for a dispute with an insurer which insured this law suit, see C 5 below.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

B. Claims: (cont.)

(2) The Company - application for 2006 class action

In September 2006, a third party (the "Plaintiff") instituted two claims before the Haifa District Court in which he sued the Company, Elscint, EIL, Control Centers Ltd. and others.

These statements of claim are almost identical to the claim detailed in section (1) above and the Plaintiff asked to combine the hearings of these statements with the above said matter. In the statements of claim the Plaintiff asked to approve the claims he had instituted as class actions, however up to December 31, 2012 no separate motions have been served asking to certify the claims as class actions. In the first claim, the Plaintiff alleges acts of oppression towards the Company's shareholders and in the second claim the Plaintiff alleges acts of oppression towards Elscint's shareholders.

The main relief sought in the claim is compensation, which consists of (i) punitive damages for the acts of the defendants; and (ii) damages for "mental anguish" to the Plaintiff and to the proffered class. In addition, the Plaintiff is also suing for compensation for the difference between the price at which Elscint shares were actually sold by the Plaintiff and the proffered class members and for the sum of \$14, plus interest and linkage differences since 1999. Furthermore, the Plaintiff is also claiming for harm caused to the value of his holdings in the Company's shares. It will be noted that the statements of claim in both proceedings require clarifications, due to the wording of the claims. In addition, the court asked the parties to refer to the issue of the overlap between the claims lodged by the Plaintiff and the institutional claim detailed in section (1) above. See Court's decision in this matter in note 31 F.

The Group's legal counsels are of the opinion that- in light of the early legal stages of these proceedings, before the lodging of statements of defense or responses to the applications to certify the claims as class actions, and even before any substantive hearing has been held on the motion to certify the claim as class action and/or of the claim - it is difficult to evaluate the chances of the proceedings.

Nevertheless, management estimates, based on the Group's legal counsels belief that- taking into account, amongst other things, the great similarity with the claim mentioned in section (1) as detailed above, and given that these proceedings were instituted without legal representation for the Plaintiff, at this stage, and so long as the Plaintiff is not represented in the proceedings - the probability of the claims being upheld is not greater than 50%.

For subsequent resolution of the court relating to the class actions under (1) and (2) above, see note 31E.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

B. Claims: (cont.)

(3) The Company and its subsidiaries - other claims

The Company and its subsidiaries are parties to several written demands as well as certain court claims, filed against them by third parties (including governmental institutions), some without any specified amount, and others in the aggregate principal amount of \$ 9.3 million (NIS 35 million), as royalties or compensation for damages allegedly caused as a result of the companies' actions and/or products, which mainly relate to the medical imaging business sold by Elscint in 1998 and 1999. Management of the companies believes, based-inter alia- on legal opinions and/or on past experience that no material costs will incur thereof as a result of said claims and or written demands exceeding the provisions included in respect thereof in the financial statements.

(4) Claims filed by a former employee of EIL group

In May 2006, the Plaintiff instituted an action against the Company, the Company's Chairman of the board at that time and Control Centers. In the action the court was asked to declare the annulment of any resolution passed, if any, and/or to be passed, by the Company, by use of the shares which are the subject of the rights alleged by the Plaintiff, as described in (a) above, dealing with the grant of any benefits to the Company's chairman of the board and/or to Control Centres and/or members of the board of directors and/or the management companies under the control of the Company's chairman of the board and/or Control Centres and all with respect to the Company's general meeting held on May 31, 2006.

Alternatively, the court was asked to rule that at every meeting convened as aforementioned, the shares which are the subject of the alleged rights of the plaintiff would be counted in the part objecting to the passage of such resolutions, while maintaining the Plaintiff's rights to institute the appropriate legal proceedings to prevent harm, to him as a minority shareholder in the Company.

Further alternatively, the court was asked to rule that at every meeting to be convened to pass such resolutions as aforementioned, the shares which are the subject of the plaintiffs' alleged rights will not be counted as agreeing with the said resolutions and not as part of the objecting votes, while maintaining the plaintiff's rights to institute such proceedings. Underlying this action is a factual base which is similar to additional claims made by the plaintiff against the Company's CEO & Executive President and companies controlled by him as described in (a) above. Following the defendant's request, in December 2008 the court handed down its decision to postpone the proceeding in this matter until the Court's ruling upon the other actions filed by the plaintiff.

The Company's legal counsels noted that in this claim, the plaintiff did not ask for a financial remedy from the Company and the maximum exposure to a financial remedy from the Company, manifested in the payment of the attorney's fee and/or court expenses.

Management estimates, based on the Company's legal counsels belief, that- to the best of their understanding (and also considering, inter alia, that this matter is in its preliminary legal stages, and that statements of defense have not yet been lodged, nor has any hearing been held on material matters on the claim, and also considering the fact that they have not yet received all the information and documents in connection with this claim, and have not yet interviewed all the relevant entities - the probability of the claim being upheld is not greater than 50%.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

B. Claims: (cont.)

(5) Tax assessments under inspection

The Company and its subsidiaries received from the Israeli Tax Authorities ("ITA") corporate tax and VAT assessments in the total amount of NIS 287 (including interest and CPI linkage). As of December 31, 2012, all issues raised by the ITA are being discussed at court. The main arguments by the ITA are as follows:

- The financial expenses, initiation expenses, general and administrative expenses and selling and marketing expenses are nondeductible for tax purposes, as in view of the ITA, the Company is a holding company, and these expenses were not incurred in the process of generating of business income.
- Business loss shouldn't be allowed to set off against financial incomes, since for tax purposes providing loans is not the Company's business.
- Gain from sale of the Company's shares by a subsidiary, is not tax exempt although the sale transaction was recorded as re-issuance of shares in the Company's financial statement.
- Undistributed gains of a subsidiary accumulated through December 31, 2005, which is incorporated in Netherland and was classified as a Controlled Foreign Corporation ("CFC") until such date should be taxed in Israel. In 2005, the subsidiary entered into a preliminary agreement for a future sale of commercial centers. The ITA argues that profits derived from this agreement in 2006-2008 should be recognized for tax purposes in the year in which the preliminary agreement was signed, that is, 2005. The Company recognized the gains from selling the underlying assets in the tax years 2006-2008, which are the dates in which the actual sales have occurred and all conditions precedent have been fulfilled. In 2006, PC was registered as a public company, and accordingly the CFC rules are not applicable commencing 2006. Accordingly, the subsidiary's classification as a CFC argument is not applicable.

ITA claims, in addition, that accumulated losses of the CFC are not deductible against those gains.

Management estimates, based on tax advisors that the probability of the majority of the ITA's arguments being upheld is not greater than 50%. Accordingly, an appropriate provision has been recorded in the financial statements. In August 2013, the Company and ITA reached a final agreement See note 31 O.

(6) In April 2010, a lawsuit was filed in the US ("Litigation") by former customers of InSightec (the "Plaintiffs") who in 2005 and 2006 purchased systems from InSightec. The lawsuit asserted claims based on alleged representations by the defendants in connection with, and following, the sale of the systems to the Plaintiffs.

On June 12, 2012 the settlement agreement has been completed, leading to the dismissal of all claims and prejudice, without an admission of either side to the other side's allegations. The full effect of the settlement has been reflected in the Company's financial statements as of December 31, 2011.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

B. Claims: (cont.)

(7) One of the Group's subsidiary, Fantasy Park So. Zo.o. ("Fantasy Park"), is involved in several legal proceedings with Klepierre S.A subsidiaries ("Klepierre") in Poland relating to certain terms of the lease agreements signed between the parties and certain amendments related thereto ("Lease"). As of the date of the approval of these financial statements, an agreement was settled between the parties (under which Fantasy Park shall pay to Klepierre EUR 0.5 million (NIS 2.5 million) and premises were vacated that settle all the pending disputes, as well as any other disputes that may arise in the future in connection with the Lease referred to above.

(8) Other legal proceedings in the ordinary course of business

As of December 31, 2012, the Company and its subsidiaries are involved in various legal proceeding relating to their ordinary course of business. Although the final outcome of these claims cannot be estimated at this time, the managements of these companies believe based on legal advice, that the claims, individually and in the aggregate, are not expected to materially impact the Company's financial statements.

C. Other contingent liabilities

(1) Indemnification to directors and officers of the Company

The General Meeting of the Company's shareholders approved the grant of prospective indemnification undertaking to directors (including the controlling shareholder) and officers (including in their capacity as officers of subsidiaries). Total aggregate indemnification shall not exceed the lower of 25% of the shareholders' equity as recorded in the Company's most recent financial statements prior to such payment, or \$40 million, and all in excess of an amount paid (if paid) by insurance companies under certain risk policies. The Company's Board of directors and Audit committee also approved an exemption of officers from liability for any damage caused by breach of a duty of care towards the Company.

(2) Indemnification to directors and officers of Elscint

Elscint shareholders approved, in their General Meeting (in October 2000), the grant of prospective indemnification undertaking to directors and officers of Elscint (including in their capacity as officers of subsidiaries). Total indemnification shall not exceed the lower of 25% of the shareholders' equity as set forth in Elscint's most recent consolidated financial statements prior to such payment or \$50.0 million, in excess of any amounts paid (if paid) by insurance companies pursuant to insurance policies maintained by the Company from time to time. Elscint's shareholders also approved an exemption of directors and officers from liability in respect of any damage caused to Elscint by breach of duty of care.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

C. Other contingent liabilities (cont.)

(3) Indemnification to directors and officers of Plaza Centers

PC is obliged to indemnify and to hold harmless its directors and officers, to the fullest extent permitted by the laws of any relevant jurisdiction, against any liability arising out of their powers, duties or responsibilities as a director or officer of any PC group member. Such indemnification was approved for grant by PC's board. In November 2007 the Company's shareholders approved the grant of deed of indemnity to one of PC's directors who serves as a non-executive director of PC and as the chairman of the Company, and to the Company's CEO who serves as PC's Executive of the Board and its controlling shareholder, save that the maximum indemnification -shall not exceed 25% of the shareholders equity of PC based on PC's last consolidated financial statements prior to such payment.

(4) a. Indemnification to directors and officers of InSightec

InSightec (associated company) is obliged to indemnify and to hold harmless its directors and officers (including InSightec's chairman of the board of director who is also the Company's CEO and controlling shareholder and some of the Company's officers), to the fullest extent permitted by the laws of any relevant jurisdiction, against any liability. The total indemnity for each of InSightec's directors and officers, in accordance with the letter of indemnity (in addition to the amounts received from the insurers), will not exceed the lower of \$10 million and \$3 million with the addition of 25% of InSightec's shareholders' equity, in accordance with its latest audited financial statements (as long as its equity is positive) with the addition of the reimbursement of legal expenses totaling \$1 million, subject to the terms and conditions laid down in the letter of indemnity.

Furthermore, InSightec granted its officers and directors an exemption from all responsibility and any damage that will be caused to InSightec by them, in case of breaching their obligation of caution, (with the exception of the breach of the obligation of caution in division, as defined in the Israeli Companies Law) subject to the Israeli Companies Law. Letter of indemnity and exemption provision constitutes a transaction with the controlling shareholder of the Company, as is defined in the Corporate Act, and requires the approval of the Company's general shareholders' meeting.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

C. Other contingent liabilities (cont.)

(4) (Cont.)

b. Indemnification to directors and officers of Gamida

In May 2012, Gamida (associated company) granted its Board members including the Company's CEO and controlling shareholder, a letter of indemnity for any monetary obligation with respect to a claim, including a compromise agreement or arbitration verdict, carried out in respect to actions taken by the director during the time of the service as Gamida's or Gamida's Subsidiary or Affiliate's (as such terms defined therein) Director and in such capacity, as well as with respect to reasonable legal expenses including payments of legal fees expended by the Directors as a result of an investigation or proceeding instituted against the Director. Following the activation of the Amendment No. 16 (the "Amendment") to the Israeli Companies Law, the general meeting of Elbit Technologies approved in July 2012 the amendment of the letter of indemnity to the Company's CEO and controlling shareholder.

c. Indemnification to directors and officers of Elbit Technologies

In November 2010, the shareholders' of Elbit Technologies approved an exemption and indemnification to directors and officers of Elbit Technologies (including representatives of the Company's CEO and controlling shareholder and some of the Company's officers). In the framework of the exemption and indemnification letter, Elbit Technologies exempted the recipients of the indemnification letter from liability for actions performed while on duty as officers of Elbit Technologies or its subsidiaries or a company in which Elbit Technologies is an interested party. The total indemnity that Elbit Technologies shall pay to each of the recipients of the indemnification letter (in addition to amount received from the insurance companies according to the insurance policies) shall not exceed USD 40 million. The maximum amount of indemnification shall not be affected by payment according to the insurance policies or from their existence. Receiving indemnity shall not prejudice the rights of the recipients of the indemnification document to receive insurance money, unless the indemnity amount was already covered by the insurance companies or by any third party.

The undertakings of Elbit Technologies towards the directors and officers (including the representatives of Company's CEO and controlling shareholder and some of the Company's officers) as set forth above, in the framework of the indemnification document, shall remain in effect also after the end of tenure of the later provided that the liability is due to acts performed during their tenure as directors and officers as aforementioned.

On July 2012, the general meeting of Elbit Technologies approved the amendment of the Indemnification letters to its directors and officers (including the Company's CEO and controlling shareholder and additional Company's officer), mainly due to the recent activation of the Amendment No. 16 (the "Amendment") to the Israeli Companies Law.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

C. Other contingent liabilities: (cont.)

(5) The Company received, in 2003, a letter from a certain insurer ("the Insurer") of EIL, Elscint and the Company (the "Insured Companies"), which insured against, inter alia, the lawsuit as described in item B(1) above, alleging against the Insured Companies, inter alia, that the Insured Companies have breached their disclosure duties under the Insurance Contract Law 1981, by failing to disclose to the Insurer material information prior to the issuance of additional cover to the policy purchased by EIL (the "Policy"), effective as of July 1999 (the "Additional Cover"), and prior to the replacement of the Policy and the Additional Cover by the issuance of a new policy effective as of August 1999 (the "Replacement Cover"). The letter states that the Policy, Additional Cover and Replacement Cover (the "Insurance Cover") issued by the Insurer will be cancelled unless the Insured Companies indicate that circumstances as at the issuance of the Insurance Cover differ from those stated in the letter. The Company's legal counsel replied on behalf of the Insured Companies In March 2003, rejecting all allegations. The parties conducted discussions between them pertaining to the matter referred to herein to negotiate a settlement. No notice of cancellation has been issued.

(6) Indemnifications relating to sale of real estate assets

In the framework of the transactions for the sale of the Group's commercial centers, the Group has undertaken to indemnify the respective purchasers for any losses and costs incurred in connection with the sale transactions. The indemnifications usually include: (i) Indemnifications in respect of integrity of title on the assets and/or the shares sold (i.e: that the assets and/or the shares sold are owned by the Group and are free from any encumbrances and/or mortgage and the like). Such indemnifications generally survived indefinitely and are capped to the purchase price in each respective transaction. To the Company's management best knowledge as of December 31, 2012, no claim of any kind was received at the Group with respect to these indemnifications; and (ii) Indemnifications in respect of other representation and warranties included in the sale agreements (such as: development of the project, responsibility to defects in the development project, tax matter and others). Such indemnifications are limited in time (generally 3 years from closing) and are generally capped to 25% to 50% of the purchase price.

The Tax authorities have challenged the applied tax treatment in two of the entities previously sold in Hungary. As for December 31, 2012 the issue is partially being examined by the competent tax authorities. In respect of one of the former subsidiary of the Company, the tax authorities decision of reducing the tax base by HUF 427 million (NIS 7 million), was challenged by one of the previously held entities. As for December 31, 2012 such extraordinary legal supervision process is discussed in front of the Supreme Court and the hearing has not yet been scheduled. The Group's management estimates that no significant costs will be born thereby, in respect of these indemnifications.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

C. Other contingent liabilities: (cont.)

(7) Pending lease payments to a purchaser of a commercial center

A former subsidiary of PC incorporated in Prague, Czech Rep. ("Bestes"), which was sold in June 2006 is a party to an agreement with a third party ("Lessee"), for the lease of commercial areas in a center constructed on property owned thereby, for a period of 30 years, with an option to extend the lease period by additional 30 years, in consideration for €6.9 million (NIS 32.7 million), which as of the balance sheet date has been fully paid. According to the lease agreement, the Lessee has the right to terminate the lease subject to fulfillment of certain conditions as stipulated in the agreement. Within the framework of the agreement for the sale of Bestes to Klepierre in June 2006, it was agreed that PC will remain liable to Klepierre in case the Lessee terminates its contract. PC's management is of the opinion that this commitment will not result in any material amount due to be paid by it.

(8) PC is retaining the 100% holding in all its projects in Serbia after it was decided to discontinue the negotiations with a Serbian developer. PC has an obligation to pay the developer in any case there is major progress in the projects. The total remaining obligation is €0.9 million (NIS 4.5 million).

(9) In 2001, the "Elezra Group" won the right to purchase, through privatization, the shares of the State of Israel owned Afridar - Ashkelon Housing and Development Ltd. ("Afridar"). The Elezra Group consists of Elezra Developments and Investments Ltd. ("Elezra") and Elbit Medical Holdings Ltd. - a subsidiary of the Company ("Elbit Holdings"), as well as the Company and Mr. Eli Elezra as an interested party of Elezra (altogether: the "Group"). Immediately following the win of the right, the members of the Group signed a principle-agreement so as to regulate and govern the relations thereof, according to which Elezra would bear the entire acquisition costs of the Afridar shares (NIS 80 million), while the Company and/or Elbit Holdings would hold the Afridar shares, which would be registered in their name, in trust for Elezra.

Transfer of the shares among the members of the Group is subject to the approval of the Israeli Governmental Companies Authority ("IGCA"). In the absence of such approval, the Company and/or Elbit Holdings will remain the owners of the Afridar shares until such time that the restriction on transfer thereof is lifted.

Elbit Holdings and Elezra would remain, under such circumstance, jointly and severally, liable to IGCA as well as to the State of Israel for all undertakings applicable to purchasers of Afridar shares. The sale of control in and to Afridar (directly or indirectly) is contingent on the assignment to the purchaser of all seller's obligations in favor of IGCA, all as stipulated in the agreement. Elezra undertook to indemnify the Company and/or Elbit Holdings for any expense and/or damage and/or claim and/or loss and/or payment demand and/or any other expense incurred by the Company and/or Elbit Holdings in connection with the acquisition of the Afridar shares, the holding of same in trust, transfer thereof by and between the parties and the abovementioned principle-agreement. As of the date of approval of these financial statements, the rights in and to Afridar, had not been assigned Company's management estimates that it is not exposed to any costs and/or damage in respect of these holdings.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

C. Other contingent liabilities: (cont.)

(10) Waiver and reimbursement to Gamida and/or its officers

In November 2010, the general meeting of Elbit Medical Technologies Ltd. approved assignment of obligations granted by the Company for indemnification of Gamida, and its affiliated parties, from the Company to Elbit Technologies, without the right of reimbursement from the Company, as set forth hereunder.

Accordingly, in November 2010, Elbit Technologies irrevocably undertook towards Gamida and/or its officers, that they shall not be under liability, of any kind, directly or indirectly, towards it, its interested parties, its officers and towards any other person and/or third party, regarding the outline published by Elbit Technologies with respect to the transaction according to which the Company acquired control over Elbit Technologies (hereinafter, respectively the "Outline" and the "Transaction") and/or its preparation and/or publication and/or the process of completing the transaction and/or reports of the company and Elbit Technologies as future reporting companies and/or any actions or other implications by virtue of the aforementioned, except: the undertaking and responsibility of Gamida to provide the information in good faith, provided however that such information must be at all times complete and accurate. Likewise Elbit Technologies has irrevocably undertaken, towards Gamida and its officers that, subject to the conditions specified in the undertaking document, it shall reimburse them, for any liability and/or damage and/or expense and/or loss that is caused to any of the aforementioned due to any law suit, claim and/or demand, of any kind and type, that is directed at them, directly or indirectly, in favor of another person and/or body, with respect to the process of completing the transaction, the outline, as well as any report or other action of the company with respect to the aforementioned information and/or to Gamida, its activities, its business etc (including through subsidiaries and affiliated companies) after completing the transaction and any presentation given in its framework or to any other entity and/or reliance on such presentation, and all provided that Gamida and/or its officers do not bear liability as set forth in the undertaking document with respect to the offering of their securities to the public and/or transforming any of them into a reporting company.

Similarly Elbit Technologies has undertaken to grant Gamida Cell - Teva Joint Venture Ltd. (hereinafter: "Gamida Cell"), a company held by Gamida, an irrevocable undertaking, according to which, inter alia, Elbit Technologies shall undertake to indemnify Gamida and Teva Pharmaceutical Industries Ltd. (hereinafter: "Teva"), which together hold the shares of Gamida Cell, as well as, Gamida Cell for any damage, expense or loss that they incur due to a law suit, claim or demand against Gamida Cell and/or against Gamida and/or against Teva, pertaining to transfer of information and/or description of Gamida Cell in the outline.

The undertakings of Elbit Technologies toward Gamida and Gamida Cell as set forth above are instead of a similar undertaking granted to Gamida and Gamida Cell on behalf of the Company. As of December 31, 2012 the Group holds 96% in Elbit Technologies on fully diluted basis.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

D. Liens, collateral and guarantees:

(1) Corporate loans

As security for a loan the balance of which as of December 31, 2012 amounted to NIS 238 million granted to the Company by an Israeli bank the Company has pledged: (i) 86 million shares of PC, representing approximately 29% of PC's issued and outstanding shares, (ii) all of its holdings in Elbit Fashion (iii) a deposit equals next year's principal and interest amount (iv) the last installment of loan provided to PP as mentioned in note 12 C in the amount of €9.36 million (NIS 46 million). As for December 31, 2012, the Company is in compliance with certain covenants stipulated in the loan agreement. As for a notice the bank provided the Company in June 2013 for immediate repayment of the entire amount of the loan, see note 31 C.

(2) Credit facilities financing real estate projects

Certain Project Companies which engaged in the purchase, construction or operation of hotels, investment property and/or trading property ("Project Companies") have secured their respective credit facilities awarded by financing banks, in a total amount of NIS 1,636 million, by providing the first or second ranking (fixed or floating) charges on property owned thereby, including, mainly: rights in the real estate property as well as the financed projects revenues and profits derived from the projects; goodwill and other intangible assets; rights pertaining to certain contracts (including lease, operation and management agreements); and rights arising from insurance policies. Shares of Project Companies were also pledged in favor of the financing banks. Shareholders loans as well as any other rights and/or interests of shareholders in the Project Companies are subordinated to the respective credit facilities, and repayment of such shareholders loans is subject to fulfilling certain preconditions.

The Project Companies undertook not to make any disposition in and to the secured assets, not to sell, transfer or lease any substantial part of their assets without the prior consent of the financing bank. In certain events the Project Companies undertook not to allow, without the prior consent of the financing bank, mainly: (i) any changes in and to the holding structure of the Project Companies nor to allow for any change in their incorporation documents; (ii) execution of any significant activities, including issuance of shares, related party transactions and significant transactions not in the ordinary course of business; (iii) certain changes to the scope of the project; (iv) the assumption of certain liabilities by the Project Company in favor of third parties; (v) receipt of loans by the Project Company and/or the provision thereby of a guarantee to third parties.

Company's and PC's guarantees - The Company is a guarantor to certain Project Companies' obligations under loan agreements up to an aggregate amount of NIS 205 million. In some loans the Company guarantees the interest as well. In addition, PC is a guarantor to obligations under loan agreements in respect of its project companies up to an aggregate amount of NIS 261 million. PC also guaranteed fulfilment of other transaction entered into by three of its subsidiary for a total aggregate amount of NIS 4 million

(3) Secured bank deposits - As to bank deposits made to secure long term borrowings, short term credits and other liabilities of the Group - see note 30C.(7).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

D. Liens, collateral and guarantees: (cont.)

- (4) **Standby letters of credit** - Within the framework of the franchise and support agreements executed by Elbit Fashion with third parties (see note 23A (4)), as for December 2012, Elbit Fashion has furnished the third parties with letters of credit in the aggregate amount of €.75 million (NIS 18.9 million) in order to secure payments to the third parties under the agreements.
- (5) Within the framework of PC cross currency interest rate swap ("IRS") transactions, selling call options and regular swaps (refer to note 17 i), executed between PC and commercial banks (the "Banks"), PC agreed to provide the Banks with a cash collateral deposit which will be calculated in accordance with a specific mechanism provided in each swap transaction agreement. Accordingly, as of December 31, 2012, PC has pledged, a security deposit in the amount of NIS 15 million and also established a bail mortgage up to NIS 20 million encumbering the real estate project.

E. Financial covenants

Within the framework of loan agreements executed by the Group's Project Companies (i.e., companies which engaged in the purchase, construction and operations of hotels, investment property and/or commercial centers), the Project Companies have undertaken to comply with certain financial and operational covenants. As of December 31, 2012, substantially all of the Group's borrowings from banks are subject to various financial and operational covenants and ratios, such as: complying with a "minimum debt service cover ratio," "loan to value"; complying with certain restrictions on interest rates; maintaining certain cash balances for current operations; maintaining an equity to project cost ratio and EBITDA to current bank's debt ratio; occupancy percentage; average room or rental fee rates; a minimum "ratio of total room revenue per available rooms" and others. Should the Project Companies fail to comply with said financial covenants, or upon the occurrence of certain events of default, the bank is entitled to demand immediate repayment of the loans.

As of December 31, 2012 the Group is in compliance with its financial covenants except with respect to the following:

- (1) Company loans in the amount of NIS 238 million (see (3)) below and NIS 52 million (see note 31). As for notices these banks provided the Company in June 2013 for immediate repayment of the entire amount of the loans, see note 31C.
- (2) PC's subsidiaries, which have been granted with loans the balance of which as of December 31, 2012, amounted to €88 million (NIS 433 million) for financing construction of trading property, are not in compliance with certain covenants included in the loans agreements. PC is negotiating with the financing banks in respect of settling the bank requirement and agreeing on new covenants and/or waivers. PC obtained waiver in place in respect of two of the secured bank facilities, and is in negotiations to secure waiver or agreement in respect of the remaining two facilities.

All the above mentioned loans are under non-recourse loan agreements. In the event of default of such a loan, the impact could be that the lender would have recourse only to that the specific property but not to any other assets (since the agreements do not contain cross-collateral provisions).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (CONT.)

E. Financial covenants (cont.)

(3) As for December 31, 2012 the financial covenants that may materially impact the Company's operations and financial position are presented in the table below:

Segment	Financial covenants	Actual ratio	Comments	Balance as of December 31, 2012 (NIS '000)
The Company	Total shareholders' equity higher than NIS 1,500 million	NIS 1,421 million	As for collaterals, see D (1) above. See also note 31C	238
	LTV (loan to value) < 0.75 (according to certain adjustments specified in the loan agreement)	0.93		
	Total financial assets (solo) > \$50 million	\$74 million		
	Ratio Net Debt / Cap < 85%	74%		
	PC's total financial assets > \$80 million	\$134 million		
Hotels	Ratio Equity/Total Assets of PC > 25%	47%		
	LTV (loan to value) < 0.6	0.34		289
	DSCR (debt service coverage ratio) > 1.2	1.82		
Commercial centers	LTV < 0.7	0.45		244
	LTV < 0.7	0.69		160
	LTV < 0.75	1.14	Waiver in place	106
	LTV < 0.65	0.73	Under Negotiation	152
	LTV < 0.85	0.72		105
	LTV < 0.70	0.75	Waiver in place	157

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24 - SHARE CAPITAL

A. Composition:

	Ordinary shares of NIS 1.00 par value each		
	December 31	2012	2011
Authorized share capital		50,000,000	50,000,000
Issued and outstanding (*)		24,885,833	24,885,833

(*) As of December 31, 2012, 2011 and 2010 excluding 3,388,910 treasury shares held by the Company.

In May 2010, the Company approved a plan to repurchase ordinary shares of the Company on the Tel Aviv Stock Exchange (the "TASE") from time to time for an aggregate amount of up to NIS 30 million (approximately \$7.8 million), subject to market conditions. During 2010 the Group repurchased 588,910 ordinary shares in the aggregate amount of approximately NIS 28 million.

The Ordinary Shares confer upon the holders thereof all rights accruing to a shareholder of the Company, inter alia, the right to receive notices of, and to attend meetings of shareholders; for each share held, the right to one vote at all meetings of shareholders; and to share equally, on a per share basis, in such dividend and other distributions to shareholders of the Company as may be declared by the Board of Directors in accordance with the Company's Articles and the Israeli Companies Law, and upon liquidation or dissolution of the Company, in the distribution of assets of the Company legally available for distribution to shareholders in accordance with the terms of applicable law and the Company's Articles. All Ordinary Shares rank pari passu in all respects with each other.

B. Company's Dividend policy:

In January 2007, the Company's board of directors adopted a dividend distribution policy (the "Policy"), pursuant to which the Company will distribute a cash dividend of at least 50% of its net profits accrued by the Company every year, provided such dividend does not exceed 50% of the cash flow accrued by the Company from dividends and repayment of owners' loans received by the Company from its subsidiaries in that year, all determined in accordance with the Company's audited and consolidated annual financial statements.

Any distribution of dividends under the Policy is subject to a specific resolution of the Company's board of directors which shall determine the Company's compliance with the distribution criteria prescribed in the Israeli Companies Law, as may be from time to time, and in any other applicable law. In making such determination, the Company's board of directors will consider, inter alia, the Company's liabilities and undertakings towards third parties, the Company's cash-flow needs and financing resources available to the Company. The board of directors is authorized in its sole discretion to change or terminate the Policy at any time. The adoption of the Policy does not constitute any undertaking towards any third party to dividend distribution.

In June 2011, the Board of Directors of the Company resolved not to distribute any dividends for at least a 12 month period ending in June 2012. In June, 2012, the Board of Directors of the Company has resolved to extend its decision not to distribute any dividends for an additional period of at least 12 months.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 - OPTIONS PLANS

A. Options plan adopted by the Company:

2006 option plan

In March 2006, the Company's audit committee and board of directors adopted option plan for the grant of up to 1,000,000 non-marketable options to the employees, directors and officers of the Company and companies under its control ("2006 Option Plan). The Options were granted to the employees, directors and officers of the Company and companies under its control ("Offerees") for no consideration. The Exercise Price of each option will be reduced upon distributions of dividend by the dividend per share net of tax.

Following amendments to the 2006 Option Plan approved by the Company's board of directors in August 2008 and March 2010, the number of options issuable under the 2006 Option Plan was increased to 2,300,000.

In September, 2011 the Board of Directors following the recommendation of the Audit Committee resolved to amend the exercise price per share to 1,248,295 outstanding options granted by the Company in accordance with the 2006 Plan to offerees still employed by the Company, to the average trading price during the 30 days period following the date of such resolution, and to extend the expiration date of such options to December 31, 2015.

As of December 31, 2012, 1,729,251 options were outstanding under 2006 Option Plan, at an average exercise price of NIS 18.

The vesting period of the options will occur ratably over a three years period (33.33% of the Options shall vest on each of the first three anniversaries of the date of grant) (the "Vesting Period"). Following is a summary of the Company's 2006 Option Plan:

	Number of options					
	Year ended December 31					
	2 0 1 2	2 0 1 1	2 0 1 0	2 0 1 2	2 0 1 1	2 0 1 0
	Number of options	Weighted average exercise price (NIS)	Number of options	Weighted average exercise price (NIS)	Number of options	Weighted average exercise price (NIS)
Balance at the beginning of the year	1,709,251	18	2,148,917	53	1,780,917	52
Granted	20,000	10.25	-	-	399,500	55
Exercised	-	-	-	-	(30,500)	53
Forfeited	-	-	(439,666)	90	(1,000)	32
Balance at the end of the year (*)	<u>1,729,251</u>	18	<u>1,709,251</u>	18	<u>2,148,917</u>	53
Options exercisable at the year end	<u>1,576,084</u>	17	<u>1,399,918</u>	19	<u>1,431,583</u>	57
(*) Includes options granted to other Company's key personnel	<u>185,000</u>	32	<u>557,500</u>	17.47	<u>771,000</u>	54.9

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 - OPTIONS PLANS (CONT.)

A. Options plan adopted by the Company: (cont.)

2006 option plan (cont.)

The weighted average contractual life of the options outstanding as of December 31, 2012 is 2.4 years. The average exercise price is NIS 198. The average estimated fair value of the options was calculated based on the Binomial model based on a valuation of a third party expert, using the following assumptions:

	Year ended December 31	
	2011	2010
Risk free interest rate (%)	3.75	3.59
Exercise coefficient	2.34	2.34
Contractual term	4.3	5
Expected volatility (%)	67.8	61.91
Expected dividend yield	None	None
Forfeited (%)	-	-
Total cost of benefit (NIS thousand)	3,971	9,756

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 - OPTIONS PLANS (CONT.)

A. Options plan adopted by the Company: (cont.)

InSightec plan

In February 2010, the Company's board of directors adopted an option plan ("option plan") for the grant of up to 500,000 non-marketable options up to 35 employees of the Company exercisable into 500,000 ordinary shares of InSightec. Each option is exercisable into one share of InSightec for an exercise price of \$2. The exercise price of each option will be reduced upon distribution of dividend, stock dividend etc., according to the approved option plan. As of December 31, 2012 430,000 options were granted to the Company's employees and directors.

The vesting period of the options will occur ratably over a three years period (33% of the options shall vest on each of the first three anniversaries of the date grant. The options will expire 7 years following the date of grant.

	Number of options					
	Year ended December 31					
	2 0 1 2		2 0 1 1		2 0 1 0	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Balance at the beginning of the year	430,000	2	430,000	2	430,000	2
Granted	-	-	-	-	-	-
Balance at the end of the year (*)	<u>430,000</u>	<u>2</u>	<u>430,000</u>	<u>2</u>	<u>430,000</u>	<u>2</u>
Options exercisable at the year end	<u>286,667</u>	<u>2</u>	<u>143,000</u>	<u>2</u>	<u>-</u>	<u>-</u>
(*)Includes options granted to the Company's key personnel	<u>80,000</u>	<u>2</u>	<u>180,000</u>	<u>2</u>	<u>180,000</u>	<u>2</u>

The weighted average contractual life of the options outstanding as of December 31, 2012 is 4.23 years. The average estimated fair value of the options was calculated based on the Binomial model based on a valuation of a third party expert, using the following assumptions:

	Year ended December 31	
	2 0 1 0	
Risk free interest rate (%)		3.15
Exercise coefficient		2.5-3.5
Contractual term		7
Expected volatility (%)		75.86
Expected dividend yield		None
Forfeited (%)		0-3
Total cost of benefit (NIS thousand)		11,635

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 - OPTIONS PLANS (CONT.)

A. Options plan adopted by the Company: (cont.)

Elbit Medical plan

In April 2011, the Company's board of directors adopted an option plan ("option plan") for the grant of up to 158,637,000 options exercisable into 79,443,500 ordinary shares of Elbit Medical for an exercise price of NIS 0.4. The exercise price of each option will be reduced upon distribution of dividend, stock dividend etc. The exercise mechanism of the options into the Elbit Medical's shares will be as follow: At the exercise date the Company shall issue to each option exercised shares equal to the difference between (A) the price of Elbit Medical's shares on the TASE on the exercise date, provided that if such price exceeds 100% of the Exercise Price, the opening price shall be set as 100% of the Exercise Price ("Capped Exercise Price"); less (B) the Exercise Price of the options; and the result (A minus B) will be divided by the Capped Exercise Price. In November, 2012, the Company's board of directors adopted an amendment to the Option Plan increasing the number of options issuable from 158,637,000 to 187,708,000 and resolved to amend the exercise price per share to NIS 0.133 and to extend the expiration date of such options to November 29, 2017, As of December 31, 2012 159,304,500 options were granted to the Company's employees and officers and additional 28,153,500 are subject to approval of the Company shareholder meeting.

The vesting period of the options will occur ratably over a three years period (33% of the options shall vest on each of the first three anniversaries of the amendment date grant. The options will expire 5 years following the date of grant.

	Year ended December 31			
	2012		2011	
	Number of options (*)	Weighted average exercise price (NIS)	Number of options (*)	Weighted average exercise price (NIS)
Balance at the beginning of the year	130,233,500	0.4	-	-
Granted	29,071,000	0.13	130,483,500	0.4
Exercised	-	-	(250,000)	0
Balance at the end of the year (*)	159,304,500	0.14	130,233,500	0.4
Options exercisable at the year end	-	-	-	-
(*)Includes options granted to the Company's key personnel	-	-	43,639,000	0.4

The weighted average contractual life of the options outstanding as of December 31, 2012 is 4.9 years. The average estimated fair value of the options was calculated based on the Binomial model based on a valuation of a third party expert, using the following assumptions:

	Year ended December 31	
	2012	2011
Risk free interest rate (%)	3	4.83
Exercise coefficient	None	None
Contractual term	5	5
Expected volatility (%)	54.5	53.1
Expected dividend yield	None	None
Forfeited (%)	0	0
Total cost of benefit (NIS thousand)	6,127	19,924

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 - OPTIONS PLANS (CONT.)

B. Options plan adopted by PC:

In October 2006 PC's board of directors approved the grant of up to 33,834,586 non-negotiable options over PC's ordinary shares to PC's board members, employees in PC's group and other persons who provide services to PC including employees of the Group ("Offerees"). The options were granted to the Offerees for no consideration.

In November 2011, PC's general shareholders meeting and its Board of Directors approved to amend the 1st employee share option plan (ESOP) to extend the Option Term, being the term during which options can be exercised under the 1st ESOP) from 7 to 10 years from the Date of Grant. Furthermore, 2nd ESOP plan was adopted in November 2011 which is based on the terms of the 1st ESOP as amended in accordance with the terms as referred to above, with a couple of amendments, the most important of which is the total number of options to be granted under the 2nd ESOP is fourteen million (14,000,000) and a cap of GBP 2.

The immediate effect of the modification on the 2011 profit and loss statement was an expense of approximately NIS 5 million.

In November 2012, PC's general shareholders meeting and the Board of Directors approved to amend the 1st ESOP to extend the Option Term (i.e., as defined in the 1st ESOP, being the term during which options can be exercised under the 1st ESOP) from ten to fifteen years from the Date of Grant. As a result the Company recorded an incremental fair value of EUR 0.5 million which is included in the consolidated income statement.

Exercise of the options is subject to the following mechanism: on exercise date the Company shall allot, in respect of each option so exercised, shares equal to the difference between (A) the opening price of the Company's shares on the LSE (or WSE under certain conditions) on the exercise date, provided that if the opening price exceeds GBP 3.24, the Exercise Price the opening price shall be set at GBP 3.24 (Except 2nd ESOP as stated above) of the Exercise Price; less (B) the Exercise Price of the Options; and such difference (A minus B) will be divided by the opening price of the Company's Shares on the LSE (or WSE under certain conditions) on the exercise date. The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Following the modification of the option plan, the maximum number of shares issuable upon exercise of all outstanding options, as of December 31, 2012 is 33,176,682.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 - OPTIONS PLANS (CONT.)

B. Options plan adopted by PC: (cont.)

Following is a summary of PC's option plan:

	Number of options					
	Year ended December 31					
	2 0 1 2		2 0 1 1		2 0 1 0	
	Number of options (i)	Weighted average exercise price (GBP)	Number of options	Weighted average exercise price (GBP)	Number of options	Weighted average exercise price (GBP)
Balance at the beginning of the year	26,905,132	0.46	24,889,225	0.61	26,255,482	0.532
Granted	(108,335)	0.42	6,169,000	0.46	2,789,000	1.23
Exercised	(2,989,557)	0.96	(951,564)	0.53	(3,954,541)	0.52
Forfeited	1,190,000	0.47	(3,201,529)	1.4	(200,716)	0.52
Balance at the end of the year (*)	<u>24,997,240</u>	<u>0.43</u>	<u>26,905,132</u>	<u>0.43</u>	<u>24,889,225</u>	<u>0.61</u>
Options exercisable at the year end	<u>12,471,556</u>	<u>0.43</u>	<u>19,380,778</u>	<u>0.458</u>	<u>15,279,330</u>	<u>0.527</u>
(*) Includes:						
Options granted to the Company's CEO & Executive President	<u>3,907,895</u>	<u>0.43</u>	<u>3,907,895</u>	<u>0.43</u>	<u>3,907,895</u>	<u>0.52</u>
Options granted to other Company's key personnel	<u>2,116,541</u>	<u>0.43</u>	<u>14,566,917</u>	<u>0.43</u>	<u>14,566,917</u>	<u>0.64</u>

(i) The options outstanding at 31 December 2012 have an exercise price in the range of GBP 0.39 to GBP 1.32 and have weighted average remaining contractual life of 10.3 years. The weighted average share price at the date of exercise for share options exercised in 2012 was GBP 0.48 (2011: GBP 0.88).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 - OPTIONS PLANS (CONT.)

B. Options plan adopted by PC: (cont.)

The average estimated fair value of each option granted was calculated based on the binomial-lattice model, based on a report from a third party expert, using the following assumptions:

	Year ended December 31		
	2 0 1 2	2 0 1 1 (i)	2 0 1 0
Risk free interest rate (%)	0.24-4.13	0.46-5.49	0.55-5.65
Expected life of options (years)	9-10	7-10	5-7
Expected volatility (%) (ii)	40-60	33-52	40-58
Expected dividend yield	-	-	-
Forfeited (%)	2.5-5.9	2.5-5.9	2.5-5.9
Suboptimal exercise multiple	1.5-2	1.5-2	1.5-2
Total cost of benefit for options granted (or modified) during the year (NIS thousands)	3,783	11,897	7,164

- (i) Not including information in respect of the modification of the option plan in November 2011 (see above).
- (ii) Since PC has been a publicly traded company since October 2006, there is not enough information concerning PC share price. Therefore, in order to derive the expected stock price volatility, analysis was performed based on the data of PC, and of three other companies operating in the similar segment, which have similar market capital and are traded at the Warsaw Stock Exchange. The weight of the standard deviation for PC was ranging between 45% - 65% and the weight of the average of standard deviations of comparative companies was 35% - 55% (2011: the same).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 - OPTIONS PLANS (CONT.)

C. Options plan adopted by EPUS

In August 2011, EPUS 2011 Incentive Plan (the “2011 EPUS Incentive Plan”) that provides for the grant of options exercisable into up to 500,000 Participation Units of EPUS to employees, directors and officers of the Company and of affiliate companies, at an exercise price per option of USD 17. The exercise price of each option will be reduced upon any event that EPUS makes cash distributions of the proceeds to all Partners or repays the Partners and/or any Affiliate any outstanding loan, interest, charges and/or current debt, etc.

Under the 2011 EPUS Incentive Plan, upon winding up of EPUS the entire amount of 500,000 Participation Units shall entitle their holders to receive 5% of an amount which equals to any and all amounts that EPUS has received from all sources of income less the costs and expenses pertaining to the applicable transaction and less any and all taxes paid or payable if any with respect to such transaction.

	Year ended December 31			
	2012	Weighted average exercise price (USD)	2011	Weighted average exercise price (USD)
Balance at the beginning of the year	488,750	12.74	-	-
Granted	11,250	12.74	488,750	17
Exercised (*)	<u>(500,000)</u>	1.9	<u>488,750</u>	12.74
Balance at the end of the year (**)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Options exercisable at the year end	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(**) Includes options granted to the Company's key personnel	<u>-</u>	<u>-</u>	<u>300,000</u>	<u>12.74</u>

(*) During 2012 and as part of the U.S transaction (see note 29) the Administration of the plan accelerated the vesting period

The average estimated fair value of the options was calculated based on the Binomial model based on a valuation of a third party expert, using the following assumptions:

	Year ended December 31
	2 0 1 2
Risk free interest rate (%)	0.48
Exercise coefficient	None
Contractual term	3.5
Expected volatility (%)	51.1
Expected dividend yield	None
Forfeited (%)	0
Total cost of benefit (USD thousand)	8,060

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25 - OPTIONS PLANS (CONT.)

D. Options plan adopted by PC India and Elbit India real estate

In March 2011 ("Date of grant") the Company's subsidiaries PCI ("PC India Holdings Public Company Ltd.") and EPI ("Companies") granted non-negotiable Options, exercisable into the Companies' Ordinary Shares, to employees, directors and officers of the Companies and/or Affiliates of the Companies. The options were granted for no consideration and have 3 years of vesting with contractual life of 7 years following the Date of Grant. PCI had granted 14,212 (out of which 3,306 were granted to Company's key personnel) Share options with exercise price of €227 per option. EPI had granted 51,053 share options (out of which 11,835 were granted to Company's key personnel) with exercise price of €0.01 per option. PCI and EPI common shares valuation methodology was based on net asset value Model. The expected stock price volatility was based on 5 Indian publicly traded real estate companies and set to range 43.31%-54.4%. The Annual risk free Interest rate range was: 1.25% -4.03%. The suboptimal exercise multiple for Key management personnel were set to 2 and for Employees 1.5 in 2011.

As a result the Company recorded options costs of €0.75 (NIS 4 million) in the income statement.

The Option Plans include, among others, a Cashless Exercise mechanism prior to/following IPO and Conversion upon the Listing of a Subsidiary.

The total number of Underlying Shares reserved for issuance under PCI Plan and EPI Plan and any modification thereof shall be 14,697 Underlying Shares and 52,600 Underlying Shares, respectively (representing approximately 5% of the share capital of the Companies on a fully diluted basis, inclusive of all Underlying Shares).

E. Options plan adopted by Investee Company

InSightec has adopted several options plans exercisable to its ordinary shares to be granted to InSightec's board members, employees and other persons who provide services to InSightec including employees of the Group ("Offerees"). Based on the these plans, 250,000 options with \$6 exercise price were granted to the Company's CEO & Executive President and 100,000 with \$3 exercise price were granted to other Compan's key personnel.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT

	Year ended December 31		
	2 0 1 2	2 0 1 1	2 0 1 0
	(in thousand NIS)		
A. Income from commercial centers			
Revenues from sale of trading property	127,109	3,525	4,345
Rental income and management fees	141,025	76,300	61,260
Other	34,128	35,445	37,290
	<u>175,153</u>	<u>111,745</u>	<u>98,550</u>
B. Revenues from hotel operations and management			
Rooms	137,146	179,396	259,894
Food, beverage and other services	69,370	92,009	129,195
Rental of commercial space	16,312	15,143	14,733
	<u>222,828</u>	<u>286,548</u>	<u>403,822</u>
C. Cost of commercial centers			
Direct expenses:			
Cost of trading property sold	109,628	3,203	5,185
Wages and fringe benefits	10,341	9,089	10,019
Allowance for doubtful debts	-	-	3,223
Energy costs	22,250	18,676	18,375
Taxes and insurance	10,281	6,595	5,168
Maintenance of property and other expenses	29,627	26,418	23,672
	<u>182,127</u>	<u>63,981</u>	<u>65,642</u>
Other operating expenses:			
Wages and fringe benefits	22,952	24,086	25,380
Stock-based compensation expenses	7,755	19,000	13,366
Professional services	23,933	19,756	17,830
Advertising	20,063	12,931	14,637
Other	12,705	14,845	13,845
	<u>87,408</u>	<u>90,618</u>	<u>85,058</u>
Depreciation and amortization	<u>3,275</u>	<u>5,027</u>	<u>6,045</u>
	<u>272,810</u>	<u>159,626</u>	<u>156,745</u>

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT (CONT.)

	Year ended December 31		
	2 0 1 2	2 0 1 1	2 0 1 0
	(in thousand NIS)		
D. Cost of hotel operations and management			
Direct expenses:			
Wages and fringe benefits	55,575	77,814	107,574
Food and beverages	17,235	22,483	28,806
Other	56,669	67,814	95,352
	<u>129,479</u>	<u>168,111</u>	<u>231,732</u>
Other operating expenses:			
Wages and fringe benefits	573	834	499
Management fees and reimbursement expenses	12,677	15,252	21,884
Business taxes, insurance and lease payments	8,592	11,838	25,536
Other	3,819	3,432	7,746
	<u>25,661</u>	<u>31,356</u>	<u>55,665</u>
Depreciation and amortization	<u>47,018</u>	<u>41,317</u>	<u>53,894</u>
	<u>202,158</u>	<u>240,784</u>	<u>341,291</u>
E. Cost of fashion merchandise			
Direct expenses:			
Inventories - opening balance	36,140	28,504	26,652
Purchases	61,620	101,550	78,222
Less disposal during the year	19,982	-	-
Less - inventories closing balance	10,676	36,140	28,330
	<u>67,102</u>	<u>93,914</u>	<u>76,544</u>
Other operating expenses:			
Wages and fringe expenses	32,562	38,417	38,512
Rental, management fee and shops' maintenance	39,281	56,485	54,899
Advertising	5,397	11,788	14,398
Depreciation and amortization	6,064	7,379	8,520
Other	5,366	3,760	4,701
	<u>88,670</u>	<u>117,829</u>	<u>121,030</u>
	<u>155,772</u>	<u>211,743</u>	<u>197,574</u>
F. General and administrative expenses			
Wages and fringe benefits	24,718	24,262	30,274
Stock-based compensation expenses	11,853	22,644	13,980
Depreciation and amortization	1,752	1,852	1,990
Other	10,563	13,099	19,048
	<u>48,886</u>	<u>61,857</u>	<u>65,292</u>

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT (CONT.)

	Year ended December 31		
	2 0 1 2	2 0 1 1	2 0 1 0
	(in thousand NIS)		
G. Financial expense			
Interest and CPI linkage on borrowings (i)	393,941	463,500	417,539
Gain from buy back of debentures	(112,857)	(64,110)	-
Sub Total	281,084	399,390	417,539
Loss (gain) from foreign currency translation differences (net of exchange results recorded in foreign currency translation reserve)	21,483	(42,754)	55,451
Other financial expenses	7,507	4,968	7,954
Total financial expenses	310,074	361,604	480,944
Financial expenses capitalized to qualified assets (ii)	(134,296)	(197,603)	(164,238)
	175,778	164,001	316,706
(i) Including results of swap transactions designated as cash flow hedge for the years ended December 31, 2010. In addition interest on debentures measured at FVTPL in the amount of NIS 61 million, NIS 56 million and NIS 51 for the years ended December 31, 2012, 2011 and 2010, respectively.			
(ii) The rate applicable to non-specific credit	7.3%	8.0%	7.2%
H. Financial incomes			
Interest on deposits and receivables	27,974	65,017	59,169
Gain (loss) from foreign currency translation differences	3,109	554	(18,242)
	31,083	65,571	40,927
I. Change in fair value of financial instruments at FVTPL			
Change in fair value of embedded derivative	-	2,158	9,146
Change in fair value of financial instruments measured at FVTPL (mainly debentures)	98,798	(353,368)	236,837
Change in fair value of derivatives (mainly swap and forward transactions)	(57,888)	60,857	(173,813)
Gain (loss) on marketable securities	9,319	14,816	(19,154)
	50,229	(275,537)	53,016
J. Write down, charges and other expenses, net			
Write down, other property and other receivables (i)	413,564	263,720	44,446
Initiation expenses (ii)	15,454	22,159	37,832
Other, net (iii)	(17,393)	397	1,382
	411,625	286,276	83,660

(i) Includes mainly impairment related to PC trading property based on external expert valuations.
(ii) Includes mainly cost and expenses in respect of the Group's operations in India.
(iii) The balance for 2012 includes NIS 37 million receivable from insurance company (see note 8 C)

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT (CONT.)

	Year ended December 31					
	2 0 1 2	2 0 1 1	2 0 1 0			
	(in thousand NIS)					
K. Earnings per share						
1. Basic earnings per share:						
The earnings and weighted average number of ordinary shares used in the calculation of the basic earnings per share are as follows:						
Loss from continuing operations	(391,947)	(284,610)	(308,924)			
Profit from discontinued operation	98,357	19,691	370,922			
Weighted average number of shares used in computing basic earnings per share (thousands)	<u>24,886</u>	<u>24,883</u>	<u>25,291</u>			
2. Diluted earnings per share:						
The earnings and weighted average number of ordinary shares used in the calculation of the diluted earnings per share are as follows:						
Profit (loss) from continuing operations	(391,947)	(284,610)	(308,924)			
Profit from discontinued operation	98,357	19,691	370,922			
Weighted average number of shares used in computing diluted earnings per share (thousands)	<u>24,886</u>	<u>24,883</u>	<u>25,737</u>			
Effect of diluted options on the number of shares (thousands)	<u>-</u>	<u>-</u>	<u>-</u>			

The earnings used in the calculation of all diluted earnings per share are same as those for the equivalent basic earnings per share measures, as outlined above.

NOTE 27 - RELATED PARTIES

A. Transactions with related parties:

Transactions between the Company, its subsidiaries and its jointly controlled companies, which are related parties of the Company, have been eliminated on consolidation and therefore are not disclosed in this note.

- (1) As of December 31, 2012 the Company and/or its subsidiaries are bound by the following agreements, with Control Centers Ltd. ("CC"), the ultimate controlling party of the Company, and/or companies controlled thereby:
 - a. An agreement according to which the Company will receive from CC (either directly or through its subsidiaries or affiliates) coordination, planning, execution and supervision services (the "Services") over real estate projects of the Company and/or its subsidiaries and/or affiliates as defined in the agreement in consideration for a fee equal to 5% of the actual execution costs (excluding land acquisition costs, financing cost and the consideration for CC under the agreement) of each such project ("Supervision Fees").

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27 - RELATED PARTIES (CONT.)

A. Transactions with related parties: (cont.)

(1) (Cont.)

a. (Cont.)

The agreement applies to real estate projects whose initiation began following the approval of the agreement by the Company's shareholders meeting (May 31, 2006) and to three other real estate projects which were under early stage of development as of May 31, 2006 ("Real Estate Projects"). Supervision Fees are paid in installments upon the attainment of certain milestones. In addition, the Company will reimburse CC for all reasonable costs incurred in connection with the Services rendered thereby, not to exceed a total of €75,000 per real estate project.

If the designation of a real estate project is changed for any reason prior to its completion, the Company may either terminate the agreement with respect to the said project or conduct a settlement of accounts on the basis of the actual project's costs as of such date as if the project had been terminated (as per the termination settlement method appearing below), and thereafter, any additional payment milestones shall be calculated on the basis of the new budget of the project following the change of designation. If the development of the real estate project is terminated for any reason (including its sale or as a result of a change in the designation of the project), the payment for the Services to CC will be calculated as a percentage of the budget of the project as of such date provided however, that the rate upon which the consideration is calculated, shall not exceed the rate determined for the next milestone of the project had it been continued as planned. The calculation of such payments to CC will be subject to the approval of an external accountant and the Company's audit committee and board of directors. In addition, the Group may also purchase from CC through Jet Link Ltd. (a company controlled by CC) up to 125 flight hours per calendar year in consideration for payments to Jet Link Ltd. in accordance with its price list deducted by a 5% discount. This agreement does not derogate from a previous agreement entered into between the Company and Jet Link Ltd. for the purchase by the Company of aviation services (see Item b. below).

The agreement with CC has expired in May, 2011, but it continues to apply to Services with respect to projects that commenced prior such date.

- b.** An agreement between the Company and Jet Link Ltd., for the provision of aviation services, up to 150 flight hours per annum, for the operations and in connection with projects abroad, in consideration for payment calculated on the basis of the price list of Jet Link Ltd., deducted by a 5% discount. This aviation services agreement has expired in May 2011.
- c.** In October 2011 PC extended for additional four-years term an agreement between PC and Jet Link Ltd under which the PC and/or its affiliates may use the airplane for their operational activities up to 275 flight hours per annum. PC will pay Jet Link Ltd. in accordance with its price list, deducted by a 5% discount.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27 - RELATED PARTIES (CONT.)

A. Transactions with related parties: (cont.)

(2) The Group furnished a local municipality with a bank guarantee in a principal amount of approximately NIS 4.5 million to secure payment of the land betterment tax by Marina Herzliya Limited Partnership Ltd. (a subsidiary of the Control Centers Group). The above sum, including the interest and index accrued thereupon, as of December 31, 2012 amounted to NIS 9.6 million. In December 2012, the court, based its decision on the assessment of the valuator that was appointed by it, decided to reject the betterment tax demand. Consequently the bank guarantee was canceled.

B. Benefits to key management personnel:

In July 26, 2012 the Company's board of directors approved a structural reorganization of the Company's headquarters in the framework of which several changes were made in executive positions within the Group. All the appointments which have been approved by the board are effective as from August 1, 2012.

(1) CEO & Executive President's services for the Company

On May 31, 2006, the Company's shareholders' approved a service agreement with a company controlled by the Company's CEO & Executive President (the "Management Company") pursuant to which, the Company's CEO & Executive President, who at time served as the Company's Executive Chairman, commencing January 1, 2010, serves in addition as Executive President, and commencing August 1, 2012 serves in addition as the Company's CEO, provides the Company with services (the "Services") via the Management Company. The agreement was for a five-year term commencing retroactively on August 1, 2005. In September, 2010 the Company's shareholders' approved an extension of the agreement for an additional five-year term commencing in August 2010 ; however, pursuant to the Israeli Companies Law, 1999-5759, this agreement will require shareholder approval again in the Company's shareholder meeting in 2013. The Management Company may also provide the Services to private subsidiaries and/or affiliates of the Company. Under the agreement, the Services will be provided by the CEO & Executive President only, as an employee of the Management Company and the CEO & Executive President will devote at least 80% of his time, skills and efforts to his role as CEO & Executive President and CEO. During the term of the agreement the Management Company may not affect any change of control of its shareholders. In consideration for the Services, the Company pays the Management Company a monthly fee of \$50,000 (NIS 185 million as of December 31, 2012) as well as reimbursement of direct expenses incurred directly with the provision of the Services. In addition, the Management Company is entitled to other benefits, such as an appropriate vehicle, telephone, facsimile, mobile phone, computer, printer and modem, including installation costs and all reasonable expenses related thereto. Under the agreement, the Management Company will be the sole employer of the CEO & Executive President and no employer-employee relationship will exist between the CEO & Executive President and the Company. The Management Company has agreed to indemnify the Company with respect to any amount, rights or benefits the Company would be required to pay the CEO & Executive President including legal fees, in connection with any determination by the labor court and/or any other competent authority that the CEO & Executive President was or is an employee of the Company during the term of the agreement. The CEO & Executive President has guaranteed all of the Management Company's obligations as far as they relate to it and has further guaranteed the Management Company's indemnification undertakings and responsibility for damages.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27 - RELATED PARTIES (CONT.)

B. Benefits to key management personnel: (cont.)

(2) Executive Director services for PC

On November 1, 2007, the Company's shareholders approved a service agreement between PC and the CEO & Executive President, according to which, the CEO & Executive President will serve as PC's Executive Director of the board of directors in consideration of monthly salary of \$25,000 (NIS 93,000 as of December 31, 2012) as well as reasonable expenses incurred by the Executive Director in the performance of his duties under the service agreement. The salary will be reviewed by PC's board of directors each year and may be increased at the discretion of PC's board and subject to applicable law. The Executive Director has waived his right to any entitlement to severance pay under the Israeli Severance Pay Law and social benefits. Under Israeli law, however, a waiver of certain social benefits, including severance pay, has no effect, and therefore PC may be exposed to potential additional payments to the Executive Director in an aggregate amount which is estimated as immaterial, should the agreement be regarded as an employment agreement. The service agreement commenced on October 26, 2006. Each party may terminate the service agreement by a 12-month prior notice.

(3) Company's CEO & Executive President Bonus

On November 1, 2007 the Company's shareholders approved an annual bonus payment for the CEO & Executive President which will be calculated as follows: (i) 0% of the first NIS 100 million of Profits (as defined below); (ii) 2.5% of Profits between NIS 100 million and NIS 125 million; (iii) 3% of Profits between NIS 125 million and NIS 150 million; and (iv) 3.5% of Profits exceeding NIS 150 million. The annual bonus is payable for so long as the CEO & Executive President serves as a director or officer of the Company or any of its subsidiaries.

For the purpose of determining the annual bonus, in accordance with resolutions of the Company's audit committee and board of directors as of May 29, 2008 and also based on legal advice obtained, "Profits" shall mean profit of the Company before taxes, as disclosed in the Company's annual audited consolidated financial statements for that year minus profits (losses) before tax allocated to the minority and minus such losses (before taxes and after deduction of profits (losses) allocated to the minority) as disclosed in the Company's annual consolidated audited financial statements for all years commencing 2007, that had not already been deducted for the purpose of calculating of such annual bonus for any previous year. Notwithstanding the above, the annual bonus the CEO & Executive President is entitled to shall not exceed NIS 18.0 million. Pursuant to an amendment to the Israeli Companies Law, 5759-1999, the effectiveness of this bonus is subject to re-approval by the Company's shareholders

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27 - RELATED PARTIES (CONT.)

B. Benefits to key management personnel: (cont.)

(4) Company's Chairman Bonus

On May 31, 2006, the Company's shareholders approved bonus payments for the fiscal years commencing 2006 to the Company's Chairman, which will be calculated as follows: (i) 0.75% of the first NIS 125 million of Profits (as defined below); (ii) 0.875% of Profits between NIS 125 million and NIS 150 million; and (iii) 1% of Profits exceeding NIS 150 million.

For the purpose of determining the annual bonus, in accordance with the resolutions of the Company's audit committee and board of directors of May 29, 2008 and also based on legal advice received, "Profits" for any year, shall mean profit of the Company before taxes, as disclosed in the Company's annual consolidated audited financial statements for that year minus profits (losses) before tax allocated to the minority shareholders.

(5) Company's agreement with its former executive vice chairman

On January 17, 2008, the Company's shareholder's approved an agreement with an officer who served as the Company's executive vice chairman of the board ("VC") according to which the Company has undertaken to allot the VC 5% of the aggregate issued and outstanding share capital in each entity through which the Group (excluding operations of PC and its investees) will conduct its operations in India and in Asia (the "Investment Vehicle") during the Sourcing Period (as defined below). In the event the Investment Vehicle is not wholly owned by the Group, the VC will be allotted that number of shares equal to 5% of the issued and outstanding share capital in such Investment Vehicle held by the Group ("VC Shares"). The VC Shares shall not be entitled to receive any distributions (including, but not limited to, payment of dividends, interest, other expenses and principal repayments of shareholder loans, management fees or other payments made to the VC and any loans provided by the Investment Vehicle to the VC) from the Investment Vehicle until the Group's investments (principal and interest calculated in accordance with a mechanism provided for in the agreement) in such Investment Vehicle have been fully repaid. As of December 31, 2012, the VC's right to receive the shares in each Investment Vehicle is fully vested. The Group's obligation to issue the VC Shares shall apply to all the Group's operations (excluding operations of PC and its investees) initiated in the territory since the Group has commenced its operations in India and shall remain in effect for a period of 2.5 years subsequent to the date on which the VC ceases, for any reason, to devote, in the aggregate, a substantial part of his time and attention to the sourcing activities (the "Sourcing Period"). The agreement includes tag-along rights, preemptive rights and registration rights in favor of the VC and transfer restrictions, right of first refusal and drag-along rights in favor of the Group. Effective as of December 31, 2010, the VC resigned from his position with the Company, and accordingly the Sourcing Period will end in June 2013.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27 - RELATED PARTIES (CONT.)

B. Benefits to key management personnel: (cont.)

(6) PC's agreement with the Company's former executive vice chairman

On October 27, 2006, PC has entered into an agreement with an officer who served as the Company's executive vice-chairman of the board ("VC") with respect to its operations in India, under which the VC will be entitled to receive options ("the Options") to acquire up to 5% of the holding company through which PC will carry out its operations in India. However, where considered appropriate and by agreement, the VC will be entitled to up to 5% interest in specific projects, in which case necessary adjustments will be made at the holding company level. PC and the VC will agree on the form of the Option for each project, taking into account taxation, securities laws and regulations applicable to either party or their respective affiliates, and other considerations of the respective parties. If the VC exercises all his Options (5%) at the holding company level, his right to take up interests on a project by project basis will elapse. As of December 31, 2012, the VC's right to receive the shares in each holding company is fully vested.

The Options may be exercised at any time, for cash or on a cashless basis, at a price equal to PC's net equity investment made in the projects as of the date in which the Option is exercised plus interest at the rate of LIBOR plus 2% per annum from the date of the investment made by PC until the Options exercise date ("Exercise Price"). The VC has a put right to require PC to purchase shares held by him following the exercise of the Options, at a price to be determined by an independent appraiser. In addition, the VC has the right to pay the Exercise Price on a partial exercise of Options by way of the surrender to PC of Options valued at the Exercise Price of the exercised Options.

The agreement includes tag-along rights and a right of first refusal. If PC sells its shares in the holding company to a third party, the VC's Options will not be affected. However, if a new investor is allotted shares in the holding company, the VC's Options will be diluted pro-rata.

The VC and PC have agreed to enter into a new agreement in substantially the same terms and conditions as the agreement described in item (5) above (the "New Agreement") which will replace and supersede the previous agreement. The New Agreement shall enter into effect following the receipt of the approval of the Company's shareholders and the approval of PC's relevant organs as required under applicable law.

The agreement was approved by the Company's shareholders meeting on January 17, 2008. As of the balance sheet date, a liability of NIS 2 million was recorded in the consolidated financial statements in respect of this agreement.

Effective as of December 31, 2010, the VC resigned from his position with the Company. The agreement is still valid.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27 - RELATED PARTIES (CONT.)

B. Benefits to key management personnel: (cont.)

(7) a. Insurance policy for the Company's directors and officers

The directors and officers of the Company and of companies (excluding PC and its subsidiaries which are covered under a separate policy, in which the directors serve on behalf of the Company, are covered by insurance of up to \$40.0 million per occurrence and in the aggregate during the duration of the policy. The first layer of such policy in the amount of \$10.0 million shall also cover the liability of directors and officers of EIL and its subsidiaries. The allocation of the insurance costs between the Company and its subsidiaries (90%) and EIL (10%) was approved by the Company's shareholders. In addition, the directors and officers of the Company and of PC (excluding their respective subsidiaries) are covered under an umbrella policy, up to a \$20.0 million per occurrence and in the aggregate. The shareholders of the Company approved the renewal of such policies and the purchase of other directors and officers policy and the purchase of any other policy upon the expiration of such policies, provided that the coverage will not exceed the amount described above and that the premium will not exceed an amount representing an increase of 20% as compared to the previous year. The shareholder's meeting of December 2011 approved the coverage of liability of the Executive Chairman under the above insurance policy.

b. Insurance policy for PC's directors and officers

PC's directors and officers (including the Company's directors who are non-controlling shareholders of the Company) are covered through September 2012 by Public Offering of Securities Insurance of up to \$5.0 million for losses arising under the prospectus filed by PC in October 2006. Such coverage was approved by the Company's shareholders.

c. Insurance policy for the InSightec's directors and officers

InSightec's directors and officers are covered by two insurance policies; (i) Run Off policy, which is valid for a period of 7 years commencing December 2012, covering damages occurring until December 2012, and (ii) a second policy covering damages occurring from December 2012, which is valid for 12 months commencing December 2012. Each policy is up to \$20.0 million, including a component of special coverage for risk management (up to an amount of \$100 thousands) and they are valid worldwide (Insurance Policy). In July 2012, Elbit Technologies' Audit Committee and Board of Directors has approved the Insurance Policy applicability the Company's CEO and controlling shareholder and another Director in the Company, the latter of which is subject to the approval of Elbit Technologies' general meeting.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27 - RELATED PARTIES (CONT.)

B. Benefits to key management personnel: (cont.)

(7) (cont.)

d. Insurance policy for the Gamida's directors and officers

Gamida's directors and officers (including the Company controlling shareholding and some of the Company's officers) are covered by a policy including insurance cover for the Directors and officers in Gamida as well as indemnity for Gamida, cover with respect to financial damage caused to Gamida in the case of claims against the officers and this in the event that Gamida is entitled or obligated, by law, to indemnify the insured with respect to monetary damage. In accordance with the terms and conditions of the policy, the limit of liability of the insurer is \$ 5,000,000. The limit of liability is the total of the accumulated amount of the liability of the insurer for any monetary damage, resulting from all the claims that will be submitted against all the insured parties in accordance with all the clauses of the insurance cover, in accordance with the accumulative policy.

(8) As for directors' indemnification - see note 23C (1-4).

(9) Shares and warrants issued to related parties - see note 25.

C. The following table presents the components of the Group related party transactions and benefit (including bonus) granted to the Group's key management personnel:

	Year ended December 31		
	2 0 1 2	2 0 1 1	2 0 1 0
	(in thousand NIS)		
a. Benefits to key management personnel			
Salaries, management fees, directors' fees and bonuses (i) (*)	9,927	13,038	15,485
Post employment benefits	186	1,261	2,855
Amortization of stock based compensation expenses	19,234	22,085	15,720
	29,347	36,384	34,060
(*) Number of recipients (excluding directors)	1	4	5
b. Project expenses (coordination, supervision and aviation services) - charged, mainly to cost of trading property and property plant and equipment (see note 27 A(1))	8,211	21,960	44,332

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27 - RELATED PARTIES (CONT.)

D. Balances with related parties:

	Year ended December 31	
	2012	2011
	(in thousand NIS)	
Assets:		
Receivables and other debit accounts	5,715	6,151
Deposit, loans and other long-term receivables	1,082	1,082
	<u>6,797</u>	<u>7,233</u>
Liabilities:		
Payables and other credit accounts	759	2,900
Benefits payable to former key management personnel	3,332	5,841
	<u>4,091</u>	<u>8,741</u>

E. Liens and guarantees - see notes 23D.

NOTE 28 - SEGMENTS REPORTING

A. General:

The Group's Chief Operating Decision-Maker ("CODM") has been identified as the CEO & Executive President. The CODM reviews the Group's internal reporting to assess the performance and to allocate resources. The CODM assesses the performance of the Group's segments based on Net Operating Income. Such Net Operating Income is excluding general and administrative expenses attributable to the Company's headquarter, financing income (expenses) and income taxes. In addition, the CODM is assessing separately the specific financial expenses of each segment based on the borrowings which are specifically attributable to the segment. All other financing expenses (income) (i.e: financing expenses in respect of non specific borrowing, interest income on investments and deposits and changes in fair value of financial instruments) were considered as unallocated financing expenses (income). For the purpose of these financial statements the following business segments were identified:

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28 - SEGMENTS REPORTING (CONT.)

A. General: (cont.)

- Commercial and entertainment centers - Initiation, construction and sale, shopping and entertainment centers and other mixed-use real property projects, predominantly in the retail sector. In certain circumstances and depending on market conditions, the Group operates and manages a commercial and entertainment centers prior to its sale.
- Hotels - Hotels operation and management.
- Medical Industries and devices - (a) research and development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment and (b) development of stem cell population expansion technologies and stem cell therapy products for transplantation and regenerative medicine;
- Residential projects - initiation, construction and sale of residential projects and other mixed-use real property projects, predominately residential.
- Fashion apparel - distribution and marketing of fashion apparel and accessories.
- Other activities - venture-capital investments,- investments in high tech companies which are mainly engaged in research and development operations.

During 2010 the Company decided to suspend its investment activities in hospitals and farm and dairy plants in India, until the Company is satisfied that the economy has recovered sufficiently to resume such activities.

The Group's reportable segments for each of the years ended December 31 2012, 2011 and 2010 are: Commercial and Entertainment Centers, Hotels, Medical Industries and devices, Residential Projects and Fashion Apparel. All the other operations identified by the CODM are included as "other activities". The assets of a reportable segment include mainly property plant and equipment (with respect to the Hotels and fashion apparel segments), investment property attributable to the U.S. Real Property segment, and trading property and payments on account of trading property attributable to the Commercial and Entertainment Centers and the Residential Projects. Unallocated assets include mainly cash and cash equivalent as well as short and long term deposits and investments.

The liabilities of the reportable segments include mainly specific borrowings provided directly to the Project Companies (i.e.; mainly companies which are engaged in the purchase, construction and initiations of commercial centers, investment property and hotels) and which are usually secured by a mortgage on the property owned by these Project Companies. Other borrowings which were raised by the Group with no identification to certain operations (i.e.: mainly debentures rose by the Company and PC) were considered as unallocated liabilities.

The accounting policies of the reportable segments are the same as those of the Group described in note 2.

In June 2012, the Company fully realized the U.S Real Property segment. Therefore this segment is no longer considered as a reportable segment, and accordingly was excluded from segmental disclosure for each of the years ended December 31 2012, 2011 and 2010 (see note 29).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28 - SEGMENTS REPORTING (CONT.)

B. Data regarding business segments

Year ended December 31, 2012

	Commercial and entertainment Centers (i) (ii)	Hotels	Medical industries and devices	Residential (in thousand NIS)	Fashion Apparel	Other activities and allocations	Total
Income – revenues and gains	300,541	276,703	69,457	1,622	152,470	(66,463)	734,330
Gain from loss of control over a subsidiary	-	-	216,574	-	-	(216,574)	-
Segment profit (loss)	(378,419)	81,396	174,793	(8,135)	(3,302)	(174,370)	(308,037)
Financial expenses	(57,861)	(35,966)	-	-	(1,569)	48	(95,348)
Share in losses of associates, net	(427)	-	(8,299)	-	-	-	(8,726)
Unallocated general and administrative expenses							(48,886)
Unallocated financial expenses							(80,428)
Financial income							31,083
Change in fair value of financial instruments measured at FVTPL							(50,229)
Profit before income taxes							(560,571)
Income taxes							10,248
Profit from continuing operations							(550,323)
Profit from discontinued operation							94,823
Loss for the year							(455,500)
Purchase cost of segment assets	138,846	2,897	73	-	3,626	2,674	148,116
Unallocated Purchase cost							148,116
Depreciation and amortization of segment assets	3,275	47,018	-	-	6,064	253	56,610
Unallocated depreciation and amortization							1,752
							58,362
Provision for impairment of segment assets	406,249	(8,223)	-	-	-	(8,157)	389,869
Unallocated provision for impairment							6,303
							396,172
December 31, 2012:							
Segment assets	3,436,990	1,267,412	106,928	1,046,965	47,339	290,296	6,195,930
Investment on the equity basis	(5,680)	-	18,952	-	-	150,752	164,024
Unallocated assets							734,456
							7,094,411
Segment liabilities	1,158,185	434,510	81,368	1,753	38,011	(56,489)	1,657,338
Unallocated liabilities							4,015,944
							5,673,282

(i) Includes mainly rental income from commercial centers under operation until their sale and consideration from sales of trading property.
(ii) Includes trading property and payments on accounts of trading property.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28 - SEGMENTS REPORTING (CONT.)

B. Data regarding business segments

Year ended December 31, 2011

	Commercial and entertainment Centers (i) (ii)	Hotels	Medical industries and devices	Residential (in thousand NIS)	Fashion Apparel	Other activities and allocations	Total
Income – revenues and gains	111,726	286,548	53,324	3,544	183,552	(51,794)	586,900
Segment profit (loss)	(320,949)	58,812	(112,807)	(12,579)	(29,532)	101,526	(315,529)
Financial expenses	(34,058)	(37,045)	654	-	(3,294)	(728)	(74,471)
Share in losses of associates, net	(743)	-	(6,130)	-	-	(695)	(7,568)
Unallocated general and administrative expenses							(61,857)
Unallocated financial expenses							(89,530)
Financial income							65,571
Change in fair value of financial instruments measured at FVTPL							275,537
Profit before income taxes							(207,847)
Income taxes							63,283
Profit from continuing operations							(271,130)
Profit from discontinued operation							24,101
Loss for the year							(247,029)
Purchase cost of segment assets	404,028	27,464	-	14,881	3,087	2,956	452,416
Unallocated Purchase cost							58,123
							510,539
Depreciation and amortization of segment assets	5,027	41,317	1,273	-	7,379	1,242	56,238
Unallocated depreciation and amortization							1,852
							58,090
Provision for impairment of segment assets	274,563	(13,048)	-	-	1,341	(2,377)	260,479
Unallocated provision for impairment							7,638
							268,117
December 31, 2011:							
Segment assets	3,357,612	1,227,194	39,873	1,061,866	99,888	150,731	5,937,164
Investment on the equity basis	(5,657)	-	16,213	-	-	-	10,556
Unallocated assets							4,423,347
							10,371,067
Segment liabilities	1,248,294	745,624	115,435	956	70,026	(89,042)	2,091,293
Unallocated liabilities							6,740,904
							8,832,197

(i) Includes mainly rental income from commercial centers under operation until their sale.

(ii) Includes trading property and payments on accounts of trading property.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28 - SEGMENTS REPORTING (CONT.)

B. Data regarding business segments (cont.)

Year ended December 31, 2010

	Commercial and entertainment Centers (i) (ii)	Hotels	Medical industries and devices	Residential (in thousand NIS)	Fashion Apparel	Other activities and allocations	Total
Income – revenues and gains	102,895	602,599	33,631	-	174,817	(33,631)	880,311
Segment profit (loss)	(97,536)	276,369	(88,856)	(19,480)	(28,081)	58,625	101,041
Financial expenses	(19,490)	(87,715)	(1,073)	-	(3,482)	1,073	(110,687)
Share in losses of associates, net	(1,899)	-	-	-	-	(6,376)	(8,275)
Unallocated general and administrative expenses							(65,292)
Unallocated financial expenses							(206,019)
Financial income							40,927
Change in fair value of financial instruments measured at FVTPL							(53,016)
Profit before income taxes							(301,321)
Income taxes							3,992
Profit from continuing operations							(305,313)
Profit from discontinued operation							378,838
Profit for the year							73,525
Purchase cost of segment assets	375,554	99,965	3,379	66,607	11,605	17,182	574,292
Unallocated Purchase cost							2,441,795
							3,016,087
Depreciation and amortization of segment assets	6,044	53,894	628	-	8,520	(628)	68,458
Unallocated depreciation and amortization							2,618
							71,076
Provision for impairment of segment assets	43,686	(15,061)	-	5,466	3,580	-	37,671
Unallocated provision for impairment							5,833
							43,504
December 31, 2010:							
Segment assets	4,071,426	1,204,159	43,141	1,046,146	95,873	39,377	6,500,122
Investment on the equity basis	(4,697)	-	-	-	-	29,824	25,127
Unallocated assets							4,177,465
							10,702,714
Segment liabilities	1,726,315	622,775	61,596	1,069	75,870	(54,485)	2,433,140
Unallocated liabilities							6,092,052
							8,525,192

(i) Includes mainly rental income from commercial centers under operation until their sale.

(ii) Includes trading property and payments on accounts of trading property.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28 - SEGMENTS REPORTING (CONT.)

C. Data regarding geographical areas:

(1) Revenues and gains by geographical areas

Revenues information above is based, mainly, on the locations of the assets.

	Year ended December 31		
	2 0 1 2	2 0 1 1	2 0 1 0
	(in thousand NIS)		
East and central Europe(i)	400,325	246,860	232,044
West Europe (ii)	169,319	171,359	484,617
Israel	152,470	183,552	171,275
Other and allocations	12,216	(14,871)	(7,625)
	<u>734,330</u>	<u>586,900</u>	<u>880,311</u>

(i) The following table provides an additional information in respect of the revenues and rental income in east and central Europe per countries:

	Year ended December 31		
	2 0 1 2	2 0 1 1	2 0 1 0
	(in thousand NIS)		
Hungary	42,152	8,638	6,993
Poland	89,852	66,134	56,345
Czech Republic	18,178	14,305	18,321
Romania	136,473	136,103	126,050
Latvia	23,947	19,372	15,245
Serbia	21,228	-	-
Bulgaria	68,495	2,308	9,090
	<u>400,325</u>	<u>246,860</u>	<u>232,044</u>

(ii) The following table provides additional information in respect of the revenues in west Europe per countries:

	Year ended December 31		
	2 0 1 2	2 0 1 1	2 0 1 0
	(in thousand NIS)		
England	-	-	338,944
Netherland	69,849	81,635	73,404
Belgium	72,002	72,352	64,200
Other	27,468	17,372	8,069
	<u>169,319</u>	<u>171,359</u>	<u>484,617</u>

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28 - SEGMENTS REPORTING (CONT.)

C. Data regarding geographical areas:

(2) Non current assets by geographical areas

The Group's non current assets provided in the following table include also trading property and payment on account of trading property.

	Segment assets	
	December 31	
	2 0 1 2	2 0 1 1
	(in thousand NIS)	
East and central Europe	4,310,458	3,736,362
West Europe	330,376	583,180
Israel	446,183	247,624
India	1,431,761	1,414,232
Other	(140,537)	(33,675)
	6,378,241	5,947,723

NOTE 29 - DISCONTINUED OPERATION

In June 2012, the Group sold its shopping centres in the U.S. as detailed in B below, and consequently this operation was classified as discontinued operation.

In December 2012, the Group lost control over InSightec, due to a new shareholder's agreement, and consequently the Group ceased to consolidate InSightec's financial statements in its financial statements, and the investment in InSightec is presented on the equity method (see note 10B(2)). Accordingly, the medical industry and devices operations are considered discontinued operation. The Group represent prior period's results and cash flows from the operations discontinued as discontinued operations.

A. Significant accounting policies related to discontinued operations

(i) Revenue recognition of medical devices:

Revenues from sale of medical devices and rendering services are recognized when all the following conditions have been satisfied:

- a. persuasive evidence of an arrangement exists;
- b. delivery has occurred, or services have been rendered;
- c. the amount of revenue can be measured reliably; and
- d. it is probable that the economic benefits associated with the transaction will flow to the Group.

NOTE 29 - DISCONTINUED OPERATION (CONT.)

A. Significant accounting policies related to discontinued operations (cont.)

(i) Revenue recognition (cont.):

For sale arrangements which include multiple deliverables such as system sales, installation at the customer's site and technical support services, the revenue is recognized by allocating the consideration to the deliverables. A deliverable is considered a separate accounting unit in case the customer earns benefits from that deliverable regardless of the delivery of the other deliverables included in the transaction. The Group allocates total consideration to each deliverable by using objective evidence of selling price for each deliverable at the date of transaction. In the absence of objective evidence, the Group uses its own assumptions of the estimated selling price, which is the price that the Group would charge in case that product or service were sold separately. Consideration allocated to each deliverable is recorded as revenues when all the above mentioned revenue recognition criteria are satisfied.

The price of technical support services provided under a multiple deliverables arrangement is determined based on renewals of annual contracts. The Group generally uses objective evidence of fair value to allocate the selling price, while the Group's own assumptions of the estimated selling price of the services are used only in limited cases.

Products are generally considered delivered when all significant risks and rewards associated with the ownership over the products were transferred to the customer and the Group is no longer involved in the continuing management. In general, the delivery date is the date on which ownership was transferred.

In cases in which an acceptance of the system by the customer is required, revenue is deferred until all acceptance criteria have been met. Revenue from technical support services is deferred and recognized ratably over the period during which the services are to be performed (typically one to three years). The Group's arrangements generally do not include any provisions for cancellation, termination, or refunds that would significantly impact recognized revenue.

In arrangements in which sales to end customers are made by a distributor, who is considered as agent or mediator of the Group, and the Group bears the risks and rewards associated with the transaction, revenues are recorded upon the sale to the end-customer in an amount equal to the end customer purchase price (gross basis), while entitled commissions to the distributor are included in selling and marketing expenses.

In arrangements in which the distributor bears the risks and awards associated with the transaction the distributor is considered as the end-customer, and accordingly revenues are recorded upon the sale to the distributor in an amount equal to distributor purchase price, while entitled commissions to the distributor are characterized as a reduction from revenues (net basis).

(ii) Research and development costs:

Research costs are charged to the statement of income, as incurred.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29 - DISCONTINUED OPERATION (CONT.)

A. Significant accounting policies related to discontinued operations (cont.)

(iii) Critical Judgment in applying accounting policies

As for 31, December 2011: according to the Company's management judgment the rights specified in InSightec's shareholders agreement which stipulated several limitations on the execution of certain material transactions or activities not in the ordinary course of business of InSightec, without obtaining GE's prior approval and the approval of certain transactions that require the vote of 70% (of InSightec's preferred B shares of which as of December 31, 2011 the Company held 65.9%) do not confer rights to the non-controlling interests to participate in operational and financial decisions of InSightec in the ordinary course of business, and therefore would not overcome the presumption of the Company's control over InSightec as of such date.

B. Discontinued operations:

Investment in US real estate market - EPN

In June 2010, EPN Group completed a transaction to hold 43.35% interest in a company which at that time held 47 retail shopping centers in the United States. In August 2011, the Group completed full takeover over of those assets. As described below, in June 2012, EPN Group completed the sale of the entire of its retail shopping centers portfolio. Accordingly, the US operations were classified in these financial statements as discontinued operations.

Sale of investment property during 2012

In January 2012, certain indirect subsidiaries of EPN Group entered into an agreement to sell 47 (out of total of 49) shopping centers to BRE DDR Retail Holdings LLC, a joint venture between Blackstone Real Estate Partners VII L.P. and/or its affiliates and DDR Corp. and/or its affiliates, for a purchase price of \$1.43 billion.

The sale transaction was closed in June 2012. In addition, EPN Group posted an escrow of \$14.2 million for the benefit of the buyer in the event any of the representations and warranties in the purchase and sale agreement are violated. The escrow balance is expected to be released to EPN Group by March 31 2013.

As a result of the transaction, the Group recognized net expenses relating to realization of investment property, fair value adjustment and realization of foreign currency translation reserve In the amount of NIS 76 million. In July 2012, the remaining 2 shopping centers were sold for the total amount of \$ 41 million.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29 - DISCONTINUED OPERATION (CONT.)

B. Discontinued operations (cont.):

Results of discontinued operations:

	December 31			
	2 0 1 2	2 0 1 1	2 0 1 0	2 0 1 2
	(in thousand NIS) (Except for per-share data)			Convenience translation (Note 2D) U.S.\$'000
Revenues and gains				
Gain from bargain purchase	-	-	397,082	-
Gain from changes of shareholding in investee	216,574	15,450	-	58,016
Gain from fair value adjustment of investment property	-	81,118	42,550	-
Investment property rental Revenues	133,640	254,806	122,462	35,800
Sale of medical systems	69,901	53,324	33,631	18,725
	<u>420,115</u>	<u>404,698</u>	<u>595,725</u>	<u>112,541</u>
Expenses and losses				
Investment property expenses	58,063	112,262	50,571	15,554
Expenses relating to realization of investment property and fair value adjustment	76,104	-	-	20,387
Cost and expenses of medical systems operation	67,742	101,498	63,973	18,147
Research and development expenses	44,192	58,776	58,514	11,838
Financial expenses	85,567	94,183	47,327	22,922
other expenses (income), net	(452)	(9,391)	(4,426)	(121)
	<u>331,216</u>	<u>357,328</u>	<u>215,959</u>	<u>88,727</u>
Profit from discontinued operations before income taxes				
Income tax (income) expenses	(5,924)	23,269	928	(1,587)
Profit from discontinued operations	<u>94,823</u>	<u>24,101</u>	<u>378,838</u>	<u>25,401</u>
Earnings (loss) per share - (in NIS)				
Basic earnings per share	3.95	0.79	14.67	1.06
Diluted earnings per share	<u>3.95</u>	<u>0.79</u>	<u>14.41</u>	<u>1.06</u>

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29 - DISCONTINUED OPERATION (CONT.)

B. Discontinued operations (cont.):

Statement of Cash flows

The statement of cash flows includes the following amounts relating to discontinued operations, the majority of which are attributable to the discontinued U.S. operations:

	December 31			
	2 0 1 2	2 0 1 1	2 0 1 0	2 0 1 2
	(in thousand NIS)			Convenience translation (Note 2D) U.S.\$'000
Reconcile to CF statement				
Operating activities	(32,096)	38,675	31,167	(8,598)
Proceeds from sale of investment property	1,361,965	-	-	364,844
Other investment activities	(72,134)	(61,416)	(178,463)	(19,323)
Repayment of investment property loans	(597,953)	-	-	(160,180)
Other financing activities	13,164	(297,092)	(39,991)	3,526
Net cash provided by (used in) discontinued operations	<u>672,946</u>	<u>(397,183)</u>	<u>(187,287)</u>	<u>180,269</u>

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS

A. Principal accounting policies:

The principal accounting policies adopted by the Group in respect of financial instruments and equity components including recognition criteria, measurement and charges to the statement of income and other comprehensive income are included in note 2.

B. Balances of financial instruments by categories:

(1) Composition:

	December 31	
	2012	2011
	(in thousand NIS)	
Financial assets		
Cash and cash equivalents	535,070	602,292
Loans and receivables	429,499	493,668
Financial assets held for trading	10,675	21,466
Available for sale financial instruments	87,044	144,702
Held to maturity financial instruments	-	187,648
Financial assets designated at fair value through profit and loss	-	62,701
Derivative financial assets at fair value through profit and loss	22,934	15,148
	1,085,222	1,527,625
Financial Liabilities		
Derivative financial liabilities at fair value through profit and loss	27,585	27,277
Financial liabilities designated at fair value through profit and loss	662,242	732,212
Financial liabilities at amortized cost	4,704,044	7,747,286
	5,393,871	8,506,775

(2) Additional information:

- a. As for financing income and expenses resulting from the aforementioned financial instruments -see note 26G.
- b. The total change in fair value which is attributable to the change in the credit risk of PC's debentures measured at FVTPL for the year ended December 31, 2012 and 2011 amount to revenue of NIS 14 million and loss of NIS 297 million respectively.

The accumulated change in fair value which is attributable to the change in the credit risk of PC's debentures measured at FVTPL from its issuance amount to income of NIS 133 million.

The group estimates changes in fair value due to credit risk, by estimating the amount of change in the fair value that is not due to changes in market conditions that give rise to market risk.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks:

The operations of the Group exposes it to risks that relate to various financial instruments, such as: market risks (including currency risk, fair value risk with respect to interest rates, cash flow risk with respect to interest rates and other price risk), credit risk and liquidity risk.

Market risk - is the risk that the fair value or future cash flow of financial instruments will fluctuate because of changes in market prices

Credit risk - is the risk of financial loss to the Group if counterparty to a financial instrument fails to meet its contractual obligations.

Liquidity risk - Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The comprehensive risk management program of the Group focuses on actions to minimize the possible negative effects on the financial performance of the Group. In certain cases the Group uses derivatives and non-derivative financial instruments in order to mitigate certain risk exposures.

The Company's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board has established a continuous process for identifying and managing the risks faced by the Group, and confirms that any appropriate actions have been or are being taken to address any weaknesses.

The Group has exposure to the following risks which are related to financial instruments:

(1) Foreign currency risk

The Group has international activities in many countries and therefore it is exposed to foreign currency risks as a result of fluctuations in the different exchange rates.

Foreign currency risks are derived from transactions executed and/or financial assets and liabilities held in currency which is different than the functional currency of the Group's entity which executed the transaction or hold these financial assets and liabilities. in order to minimize such exposure the Group policy is to hold financial assets and liabilities in a currency which is the functional currency or the Group's entity. The Company's functional currency is the NIS and its investees use different functional currencies (mainly the EURO, Indian Rupee, U.S. Dollar and the RON). In addition, part of the Company's long term loans (mainly U.S. Dollar) were used to hedge the exposure of the Company's investments in foreign operations. As for foreign currency risk in respect of PC's debentures, for which PC executed swap transactions in order to mitigate such risk, see C.(4) below.

Forward transactions

PC entered into a Forward transaction to mitigate its foreign currency exposure risk in respect of Series B debentures. In January 2010 PC settled the Forward for a total consideration of NIS 29.6 million (approximately €5.6 million).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(1) Foreign currency risk (cont.)

Foreign Currency Mitigate using selling options

During 2011, PC decided to use selling options strategy (through major Israeli and foreign banks) in order to mitigate its foreign currency risk (EURO-NIS) inherent in its long term debentures series A and series B issued in NIS which are not mitigated by other derivative instruments (e.g. cross currency interest rate swaps, forwards).

During 2011, PC wrote call and put options with an expiration date of December 28, 2011. The options activity generated a net cash gain of NIS 25.9 million.

During 2012, PC wrote call and put options with an expiration date of December 31, 2012. The options activity generated a net cash gain of NIS 57.8 million.

The following tables details sensitivity analysis to a change of 10% in the Group's main foreign currencies against their relevant functional currency and their effect on the statements of income and the shareholders' equity (before tax and before capitalizing any exchange results to qualified assets):

As of December 31, 2012:

	Functional currency	Linkage currency	Change in the exchange rate (%)	Profit (loss)
				In thousand NIS
Assets				
Cash and deposits	NIS	U.S. Dollar	+10%	24,306
Cash and deposits	EURO	PLN	+10%	1,966
Cash and deposits	NIS	EURO	+10%	1,002
Cash and deposits	EURO	NIS	+10%	2,312
Available for sale assets	EURO	U.S. Dollar	+10%	17,264
Loan to third party	EURO	GBP	+10%	4,606
				51,456
Financial liabilities				
Loans at amortized cost	NIS	U.S. Dollar	+10%	(29,032)
Loans at amortized cost	EURO	NIS	+10%	(8,496)
Debentures at amortized cost	NIS	U.S. Dollar	+10%	(1,537)
Debentures at amortized cost (i)	EURO	NIS	+10%	(36,016)
Loans at amortized cost	EURO	U.S. Dollar	+10%	(1,368)
Loans at amortized cost	RON	EURO	+10%	(28,878)
				(105,327)

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(1) Foreign currency risk (cont.)

(i) In respect of PC's series B debentures and series A debentures which are represented at amortized cost.

Regarding the foreign currency risk of PC's debentures at FVTPL, see C (4) below.

As of December 31, 2011:

	<u>Functional currency</u>	<u>Linkage currency</u>	<u>Change in the exchange rate (%)</u>	<u>Profit (loss)</u> <u>In thousand NIS</u>
Assets				
Cash and deposits	NIS	U.S. Dollar	+10%	13,603
Cash and deposits	EURO	PLN	+10%	5,127
Cash and deposits	NIS	EURO	+10%	713
Cash and deposits	EURO	NIS	+10%	508
Available for sale assets	EURO	U.S. Dollar	+10%	1,950
Loan to third party	EURO	GBP	+10%	5,942
				<u>27,843</u>
Financial liabilities				
Loans at amortized cost (i)	NIS	U.S. Dollar	+10%	(31,873)
Loans at amortized cost	EURO	NIS	+10%	(6,000)
Debentures at amortized cost	NIS	U.S. Dollar	+10%	(2,812)
Debentures at amortized cost (ii)	EURO	NIS	+10%	(62,232)
Loans at amortized cost	EURO	U.S. Dollar	+10%	(3,247)
Loan at amortized cost	EURO	GBP	+10%	(337)
Loans at amortized cost	RON	EURO	+10%	(30,246)
				<u>(136,747)</u>

(i) The effect of the exchange rates results in respect of these financial liabilities is offset against the exchange rate resulting from investments in foreign operations with the same functional currency.

(ii) In respect of PC's series B debentures which are represented at amortized cost.

Regarding the foreign currency risk of PC's debentures at FVTPL, see C (4) below.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(1) Foreign currency risk (cont.)

As of December 31, 2010:

	Functional currency	Linkage currency	Change in the exchange rate (%)	Profit (loss)
				In thousand NIS
Assets				
Cash and deposits	NIS	U.S.Dollar	+10%	9,744
Cash and deposits	EURO	PLN	+10%	3,984
Cash and deposits	NIS	EURO	+10%	6,996
Cash and deposits	EURO	U.S. Dollar	+10%	1,510
				<u>22,234</u>
Financial liabilities				
Loans at amortized cost	NIS	U.S. Dollar	+10%	(15,702)
Loans at amortized cost (i)	NIS	EURO	+10%	(20,349)
Debentures at amortized cost	NIS	U.S. Dollar	+10%	(3,648)
Debentures at amortized cost (ii)	EURO	NIS	+10%	(49,184)
Loans at amortized cost	EURO	U.S. Dollar	+10%	(1,465)
Loans at amortized cost	RON	EURO	+10%	(18,707)
				<u>(109,055)</u>

(i) The effect of the exchange rates results in respect of these financial liabilities is offset against the exchange rate resulting from investments in foreign operations with the same functional currency.

(ii) In respect of PC's series B debentures which are represented at amortized cost.

Regarding the foreign currency risk of PC's debentures at FVTPL, see C (4) below.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(2) Price risk

Marketable securities

The Company invests in marketable securities based on the investment policy adopted by the Company's investment committee. As of December 31, 2012 the Investment of the Company in marketable securities is NIS 10.7 million.

Available for sale

The Group is exposed to equity price risks arising from equity investments classified as Available for sale assets (see note 4). Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity analysis - The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower: profit for the year ended 31 December 2012 would have been unaffected as the equity investments are classified as available for sale and no investments were disposed or impaired, and other comprehensive income for the year ended 31 December 2012 would increase/decrease by NIS 4 million as a result of the changes in fair value of available for sale shares. The Group's sensitivity to equity prices has not changed significantly from the prior year.

Derivative measured at FVTPL

- (1) The balance as of December 31, 2012 and 2011 includes an amount of GBP 2.5 and 2.6 million (NIS 15) with regard to the sale of the Group's hotels in UK. As of December 31, 2012, the balance also include amount of GBP 1.2 (NIS 8) with regard to the sale of the Group's hotels in The Netherland. Said amounts determined by a third party expert and represents the fair value of a derivative contemplated in the sale agreements (see note 12 C and D).
- (2) December 31, 2011 - Within the framework of a credit agreement executed in September 2011 (see iv below) the Company granted to the Lender a warrant to purchase the Company's ordinary shares at an exercise price of \$3.00 per share during a two-year period commencing on March 31, 2012. The warrant will entitle the lender to purchase up to 9.9% of the Company's outstanding shares. In April 2012, the Company and the Lender agreed to amend the warrant granted by the Company in the way that the lender is entitled to purchase from the Company, at any time and from time to time during the period commencing on March 31, 2012 and ending on March 31, 2014, up to 3.3% (instead of 9.9%) of the Company's outstanding shares at a purchase price of 0.00\$ (instead of 3.00\$) per share, subject to the terms and conditions set forth in the warrant. As for December 31, 2012 the warrant was classified to the equity of the Company in its fair value as of that date.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(2) Price risk (cont.)

Embedded derivative

December 31, 2010 and 2011 - Within the framework of a credit agreement executed in April 2010 B.H. jointly controlled subsidiary that holds a hotel in Netherland was committed to pay the financing bank additional exit fee. The subsidiary was sold within the share purchase agreement as described in note 12(D).

The following table details sensitivity analysis to changes in market prices and/or fair value and their effect on the statements of income (before tax):

	Scope of price change %	Profit (loss)		
		Year ended December 31		
		2012	2011	2010
Increase in the prices of marketable securities held for trade	+10%	1,067	2,147	15,576
Increase in the fair value of Park Plaza shares	+10%	(2,192)	(1,159)	-
Increase in the fair value of the underlying assets used for the calculation of the embedded derivative's fair value	+5%	-	(318)	(200)
Increase in the fair value of the underlying assets used for the calculation of the derivative's fair value (2)	+10%	-	1,442	-
		<u>(1,125)</u>	<u>2,112</u>	<u>15,376</u>

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(3) Credit risk

The Group holds cash and cash equivalents, short term investments and other long- term investments in financial instruments in various reputable banks and financial institutions. These banks and financial institutions are located in different geographical regions, and it is the Group's policy to disperse its investments among different banks and financial institutions. The maximum credit risk exposure of the Group is approximate to the financial assets presented in the balance sheet.

The investment of the group in HTM structures was realized during 2012.

Due to the nature of their activity, the Group companies, which operates at the hotels and the fashion merchandise business, are not materially exposed to credit risks stemming from dependence on a given customer. The Group companies examine on an ongoing basis the credit amounts extended to their customers and, accordingly, record a provision for doubtful debts based on those factors they consider having an effect on specific customers.

(4) Interest rate risk

Fair value risk

A significant portion of the Group's long term loans and debentures bearing a fixed interest rate and are therefore exposed to change in their fair value as a result of changes in the market interest rate. The vast majority of these loans and debentures are measured at amortized cost and therefore changes in the fair value will not have any effect on the statement of income. With respect of three projects loans, PC mitigates its exposure to cash flow due to floating interest (IRS) (see note 17(i)). The aggregate fair value of these three IRS, based on a valuation technique, was a negative value in an amount of NIS 12.3 million, a change of 1% in the market interest, is expected to have immaterial effect on the statement of income. The Group has invested in financial Notes (see note 9A.) which are classified as held to maturity, and therefore change in the fair value of these financial Notes did not have any effect on the statement of income. The Notes were sold in June 2012 for a total consideration of EUR 37.2 million (NIS 183 million). In respect to loan agreement drawn by a subsidiary holding the Radisson Blu, Bucharest ("BUTU") (see Note 19 D (ii)), BUTU entered into IRS transaction in which it will pay fixed interest rate of 1.4% and receives three months Euribor on a quarterly basis starting on January 1, 2013 and ending on June 30, 2016. In addition, the Group has invested in Available for sale assets which changes in their fair value do not have any effect on the statements of income, since it is included directly in the comprehensive income.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(4) Interest rate risk (cont.)

PC's debentures at FVTPL and PC EURO/PLN debenture and swap transaction

As of December 31 2012, PC has issued two series of debentures which are presented at FVTPL: Series A in the total aggregate amount of NIS 305 million, Series B in the aggregate amount of NIS 799 million. PC series A and Series B debentures are linked to the Israeli CPI and bear a fixed interest rate 4.5%-5.4% per annum. Close to the date of their issuance PC entered into a cross currency EURO-NIS interest rate swap transactions in respect of the entire amount of Series A debentures. Such swap transaction was settled in January 2009. In February 2011, PC entered into a new cross currency interest rate swap transaction in respect of a principal amount of NIS 127 million of Series A debentures. According to the swap transaction, PC will pay a fixed interest of 6.82% and will receive the same interest of the debentures linked to the Israeli CPI, with the same amortization schedule as the debentures. The new series A swap was settled in January 2012. In addition, PC entered into several swap transactions for its Series B debentures, NIS 799 million par value ("Series B at FVTPL") close to the date of their issuance. PC did not execute Swap transaction for the additional amount of Series B debentures. According to the Swap transactions PC will pay an interest equal to the Euribor plus a margin of 3.52%-3.66% and will receive the same interest of the debentures linked to the Israeli CPI with the same amortization schedule as the debentures. Series B debentures swap transactions were settled in September 2011 for total proceeds of NIS 153 million. The swap derivatives are measured at fair value, changes in the fair value are charged to the statements of income. The debentures (other than those for which a swap transaction were not executed) are designated at fair value through profit and loss since it significantly reduces a measurement inconsistency with the said derivative. The debentures are presented at FVTPL although the swap was settled. The debentures and the derivative associated to it (i.e. the swap transactions) are mainly exposed to changes in the EURO/NIS exchange rate, the Israeli consumer Price Index and the market interest rates. In respect of EURO-PLN cross currency interest rate swap related to PC PLN debentures at amortized cost (see note 30 (4) (a) (ii)), PC included a negative value in the amount of NIS 4 million (December 31, 2011 - NIS 10.3 million).

Set forth is an analysis of the net change in the fair value of the debentures and the derivatives. This analysis assumes that in each case all other parameters affecting the derivatives and the debentures fair value remain constant:

	Scope of price change	Profit (loss)		
		Year ended December 31		
	%	2 0 1 2	(*)2 0 1 1	2 0 1 0
Devaluation of the NIS against the EURO	(i)	57,151	70,738	101,789
Change in the Israeli CPI	(ii)	(12,573)	(15,562)	(23,055)
Change in the market interest rate	+1%	8,036	10,646	20,804

(i) December 31, 2012, 2011 and 2010: +10%;

(ii) December 31, 2012 and 2011: +2.2%, December 31, 2010 +3%

(*) During 2011, the exposure to the above changes was lower, due to a EURO-NIS swap transaction which was in effect and was settled during September 2011.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(4) Interest rate risk (cont.)

Cash flow risk

a. Part of the Group's long term borrowings as well as long term loans receivable are bearing variable interest rate (see notes 17 and 20). Cash and cash equivalent, short term deposits and short term bank credits are mainly deposited in or obtained at variable interest rate. Change in the market interest rate will affect the Group's finance income and expenses and its cash flow. In certain cases the Group uses interest rate swap transaction in order to swap loans with a variable interest rate to fixed interest rate or alternatively entered into loans with a fixed interest rate.

The following table presents the effect of an increase of 2% in the Libor rate with respect to financial assets and liabilities which are exposed to cash flow risk (before tax and before capitalization to qualifying assets):

	Profit (loss)		
	Year ended December 31		
	2 0 1 2	(*)2 0 1 1	2 0 1 0
	(in thousand NIS)		
Deposits linked to the EURO	644	-	-
Deposits linked to the PLN	-	227	-
Held to Maturity financial notes linked to the EURO	-	5,007	-
Loans, debentures and convertible debentures linked to the U.S. Dollar	(6,390)	(12,481)	(9,710)
Loans and debentures linked to the EURO (i) (ii)	(28,636)	(32,703)	(44,328)
Loans linked to the NIS	(1,859)	(1,498)	(1,034)
	<u>(36,241)</u>	<u>(41,448)</u>	<u>(55,072)</u>

(i) In respect of PC's debentures which are linked to the Israeli CPI and for which PC has executed swap transactions in order to exchange the interest to variable interest rate (see note C(4) above).

(ii) PC raised a total of PLN 60 million (approximately NIS 71 million) from Polish institutional investors. The unsecured bearer bonds governed by Polish law (the "Bonds") have a three year maturity and will bear interest rate of six months Polish Wibor plus a margin of 4.5%. PC entered into a EURO-PLN cross-currency interest rate swap, in order to mitigate the expected payments in PLN (principal and interest) and to correlate them with the EURO. The derivative is measured at fair value and the debentures are measured at amortized cost.

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

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(5) Liquidity risk

The Group's capital resources include the following: (a) proceeds from sales of trading property and real estate assets subject to market condition (b) lines of credit obtained from banks, financial institutions and others; (c) public issuances of unsecured debentures by the Company and PC subject to market condition; and (d) available cash and cash equivalents. Such resources are used for the following activities:

- (i) Equity investments in the Group's shopping and entertainment centers, hotels and residential projects, which are generally constructed by the Group's Project Companies. The Company and/or PC generally finance approximately 25%-30% of such projects through equity investments in the Project Companies, while the remaining 70%-75% is generally financed through a credit facility secured by a mortgage on the project constructed by the respective Project Company, registered in favor of the financial institution that provides such financing. The equity investments in the Project Companies are typically provided by the Company or PC through shareholders loans that are subordinated to the credit facilities provided to the Project Company;
- (ii) Interest and principal payments on the Group debentures and loans;
- (iii) Payment of general and administrative expenses; and
- (iv) Additional investment in associates (mainly venture capital investments).
- (v) New Real Estate Investments.

As for the Company's ability to repay its financial liabilities see note 3.

The following tables present the cash flow of financial liabilities and assets (principal and interest) in accordance with the contractual repayment dates:

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(5) Liquidity risk (cont.)

As of December 31, 2012:

	1st year (iii)	2nd year	3rd year	4th year (in thousand NIS)	5th year	6th year and thereafter	Total
Financial liabilities							
Borrowing with fixed interest rate							
Loans linked to EURO	3,549	3,448	3,348	3,248	3,147	21,509	38,249
Convertible Debentures	60,954	57,568	-	-	-	-	118,522
PC's debentures linked to the Israeli CPI	366,757	349,845	332,938	44,285	42,460	-	1,136,285
Debentures linked to the Israeli CPI	529,874	486,416	444,646	328,657	339,784	588,765	2,718,142
	961,134	897,277	780,932	376,190	385,391	610,274	4,011,198
Borrowing with variable interest rate							
Loans linked to the EURO	188,774	360,214	198,275	345,355	349,276	480,752	1,922,646
Debenture linked to the EURO	79,482	-	-	-	-	-	79,482
Loans linked to the NIS	100,846	-	-	-	-	-	100,846
Loans linked to the U.S. Dollar (ii)	310,527	12,907	-	-	-	-	323,434
Debentures linked to the U.S. Dollar	10,657	5,260	-	-	-	-	15,917
	690,286	378,381	198,275	345,355	349,276	480,752	2,442,325
Suppliers, payable and other credit balances	184,486	3,274	503	9,740	-	-	198,003
Total financial liabilities	1,835,906	1,278,932	979,710	731,285	734,667	1,091,026	6,651,526
Financial assets							
Cash and cash equivalent (i)	535,064	-	-	-	-	-	535,064
Short term deposits (i)	327,830	-	-	-	-	-	327,830
Trade receivables and other receivables	183,804	-	-	-	-	-	183,804
Long term deposits, loans and investments	-	23,493	-	22,934	5,329	2,760	54,516
Total financial assets	1,046,698	23,493	-	22,934	5,329	2,760	1,101,214

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(5) Liquidity risk (cont.)

As of December 31, 2011:

	1st year (iii)	2nd year	3rd year	4th year (in thousand NIS)	5th year	6th year and thereafter	Total
Financial liabilities							
Borrowing with fixed interest rate							
Loans linked to EURO	20,335	20,003	180,941	6,521	6,416	93,576	327,792
Loans Linked to U.S. Dollar (ii)	281,860	370,988	71,091	523,207	209,772	286,630	1,743,548
Convertible Debentures	7,000	63,003	59,503	-	-	-	129,506
PC's debentures linked to the Israeli CPI	406,870	389,083	371,296	353,509	59,553	57,099	1,637,410
Debentures linked to the Israeli CPI	417,662	509,148	468,974	430,352	318,624	901,892	3,046,652
	<u>1,133,727</u>	<u>1,352,225</u>	<u>1,151,805</u>	<u>1,313,589</u>	<u>594,365</u>	<u>1,339,197</u>	<u>6,884,908</u>
Borrowing with variable interest rate							
Loans linked to the EURO	892,013	131,674	91,695	88,219	385,567	351,435	1,940,603
Debenture linked to the EURO	5,220	79,982	-	-	-	-	85,202
Loans linked to the NIS	35,612	18,372	17,251	16,125	-	-	87,360
Loans linked to the U.S. Dollar (ii)	46,258	341,389	81,966	65,956	70,847	82,686	689,102
Debentures linked to the U.S. Dollar	12,106	11,763	5,796	-	-	-	29,665
	<u>991,209</u>	<u>583,180</u>	<u>196,708</u>	<u>170,300</u>	<u>456,414</u>	<u>434,121</u>	<u>2,831,932</u>
Suppliers, payable and other credit balances	429,631	6,608	2,865	2,729	2,599	16,670	461,102
Total financial liabilities	<u>2,554,567</u>	<u>1,942,013</u>	<u>1,351,378</u>	<u>1,486,618</u>	<u>1,053,378</u>	<u>1,789,988</u>	<u>10,177,942</u>
Financial assets							
Cash and cash equivalent (i)	602,292	-	-	-	-	-	602,292
Short term deposits (i)	409,338	-	-	-	-	-	409,338
Trade receivables and other receivables	173,615	-	-	-	-	-	173,615
Long term deposits, loans and investments	-	91,318	7,252	1,764	16,912	262,831	380,077
Total financial assets	<u>1,185,245</u>	<u>91,318</u>	<u>7,252</u>	<u>1,764</u>	<u>16,912</u>	<u>262,831</u>	<u>1,565,322</u>

(i) The Company's cash (solo report) amounted to NIS 370 million, see notes 11 B(3) and 23 E(1).

(ii) Includes loans in the amount of NIS 395 million, for which the Group is not in compliance with their covenants as of December 31, 2011. See also note 23 E (5).

The Company believes that, based on the current operating forecast, the combination of existing working capital and expected cash flow from operations will be sufficient to finance the ongoing operations in the foreseeable future.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

C. Management of financial risks: (cont.)

(6) Consumer Price Index ("CPI") risk

A significant part of the Group borrowings consist of debentures raised by the Company in the Tel Aviv Stock Exchange (excluding PC's debentures for which PC has executed swap transactions in order to exchange the certain debentures linkage currency into EURO. (See 9 A.(iv).) which are linked to the increase in the Israeli CPI above the base index at the date of the debentures issuance. The swap transaction for Series B debentures was settled during September 2011. An increase of 3% in the Israeli CPI will cause an increase in the Group finance expenses for the years ended December 31, 2012, 2011 and 2010 (before tax and capitalization of borrowings costs to qualified assets) in the amount of NIS 69.7 million, NIS 87.8 million and NIS 79.2 million, respectively.

(7) Collaterals

The following table presents the book value of financial assets which are used as collaterals for the Group's liabilities:

	December 31	
	2 0 1 2	2 0 1 1
Long term borrowings	39,262	33,845
Short term credits	66,374	121,183
Guarantees provided by the Group	19,805	29,375
Interest rate swap transactions	14,762	29,135
Liabilities in respect of sale of Investment property	55,111	-
	195,314	213,538

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

D. Fair value of financial instruments:

The financial instruments of the Group include primarily, cash and cash equivalents, short and long-term deposits, marketable securities, trade receivables, short and long-term other receivables, short-term banks credit, other current liabilities and long-term monetary liabilities.

(1) Fair value of financial instruments

The fair value of traded financial instruments (such as marketable securities and debentures) is generally calculated according to quoted closing prices as of the balance sheet date, multiplied by the issued quantity of the traded financial instrument as of that date. The fair value of financial instruments that are not traded is estimated by means of accepted pricing models, such as present value of future cash flows discounted at a rate that, in the Group's assessment, reflects the level of risk that is incorporated in the financial instrument. The Group relies, in part, on market interest which is quoted in an active market, as well as on various techniques of approximation. Therefore, for most of the financial instruments, the estimation of fair value presented below is not necessarily an indication of the realization value of the financial instrument as of the balance sheet date. The estimation of fair value is carried out, as mentioned above, according to the discount rates in proximity to the date of the balance sheet date and does not take into account the variability of the interest rates from the date of the computation through the date of issuance of the financial statements.

Under an assumption of other discount rates, different fair value assessments would be received which could be materially different from those estimated by the Group, mainly with respect to financial instruments at fixed interest rate.

Moreover, in determining the assessments of fair value, the commissions that could be payable at the time of repayment of the instrument have not been taken into account and they also do not include any tax effect. The difference between the balances of the financial instruments as of the balance sheet date and their fair value as estimated by the Group may not necessarily be realizable, in particular in respect of a financial instrument which will be held until redemption date.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

D. Fair value of financial instruments (cont.)

(2) The principal methods and assumptions which served to compute the estimated fair value of the financial instruments

- a. **Financial instruments included in current assets** (cash and cash equivalents, deposits and marketable securities, trade receivables, other current assets and assets related to discontinued operation) - Due to their nature, their fair values approximate to those presented in the balance sheet.
- b. **Financial instruments included in non-current assets** - the fair value of loans and deposits which bear variable interest rate is an approximate to those presented in the balance sheet.
- c. **Financial instruments included in current liabilities** - (short-term credit, suppliers, other current liabilities and liabilities related to discontinued operation)) - Due to their nature, their fair values approximate to those presented in the balance sheet.

The fair value of derivatives (mainly swap transactions) is done mainly by relying on third party professional expert, which takes into account the expected future cash flow based on the terms and maturity of each contract using market interest rates for a similar instrument prevailing at the measurement date.

- d. **Financial instruments included in long-term liabilities** - the fair value of the traded liabilities (debentures) is determined according to closing prices as of the balance sheet date quoted on the Tel-Aviv and Warsaw Stock Exchanges, multiplied by the quantity of the marketable financial instrument issued as of that date. The fair value of non-traded liabilities at fixed interest rate is determined according to the present value of future cash flows, discounted at a rate which reflects, in the estimation of the Group, the level of risk embedded in the financial instrument. The fair value of liabilities which carried variable interest rate is approximate to those presented in the balance sheet.

(3) The following table presents the book value and fair value of the Group's financial assets (liabilities), which are presented in the financial statements at other than their fair value:

	December 31			
	2 0 1 2		2 0 1 1	
	Book Value	Fair Value	Book Value	Fair Value
(In thousands NIS)				
Financial Notes held to maturity	-	-	187,648	132,875
Long-term loans at fixed interest rate	(30,537)	(30,537)	(1,550,990)	(1,579,736)
Debentures	<u>(2,410,489)</u>	<u>(1,098,999)</u>	<u>(3,166,108)</u>	<u>(1,448,648)</u>
	<u>(2,441,026)</u>	<u>(1,129,536)</u>	<u>(4,529,450)</u>	<u>(2,895,509)</u>

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

D. Fair value of financial instruments (cont.)

(4) Fair value levels

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: fair value measurements derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets at fair value through profit or loss:

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(In thousands NIS)			
Marketable securities	10,675	-	-	10,675
AFS financial assets	87,044	-	-	87,044
Financial notes	-	45,796	-	45,796
Option measured at FVTPL	-	-	22,934	22,934
	97,719	45,796	22,934	166,449

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(In thousands NIS)			
Marketable securities	21,466	-	-	21,466
AFS financial assets	144,702	-	-	144,702
Financial note and option measured at FVTPL (i)	-	-	77,849	77,849
	166,168	-	77,849	244,017

(i) The Company estimates the fair value of structured deposit B based on the bank's quote. This quote is tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of the contract and using market interest rates for a similar instrument at the measurement date. The test is being done by using yield analysis for structured model. The change in the fair value included in the profit and loss for the year ended December 31, 2011 is loss of NIS 6.4 million.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 - FINANCIAL INSTRUMENTS (CONT.)

D. Fair value of financial instruments (cont.)

(4) Fair value levels (cont.)

Financial liabilities at fair value through profit or loss

	December 31, 2012			
	Level 1	Level 2	Level 3 (i)	Total
	(In thousands NIS)			
PC's Debentures	571,510	-	-	571,510
The Company Debentures	90,733	-	-	90,733
PC's swap transactions and other swap transactions		27,586	2,058	29,644
	<u>662,243</u>	<u>27,586</u>	<u>2,058</u>	<u>691,887</u>
	December 31, 2011			
	Level 1	Level 2	Level 3 (i)	Total
	(In thousands NIS)			
PC's Debentures	707,384	-	-	707,384
Exit fee to financing bank	-	-	2,417	2,417
Liability to the Office of Chief Scientist	-	-	24,827	24,827
PC's swap transactions and other	-	17,584	7,276	24,860
	<u>707,384</u>	<u>17,584</u>	<u>34,520</u>	<u>759,488</u>

(i) The changes in the fair value of the Group's financial liabilities included in Level 3 were charged mainly to the profit and loss as follows:

Liability to the Office of Chief Scientist NIS 1.2 million.

Option plan to former VC income of NIS 2.9 and expenses of NIS 0.4 million in 2012 and 2011, respectively.

(ii) See note 20 (A) (i).

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS

A. Suspension of payments to the Company's debenture holders

According to the repayment schedule of the Company's Series A and Series B debentures, on February 20, 2013 the Company is required to pay the holders of the debentures principal and interest in the aggregate amount of approximately NIS 82 million (the "Upcoming Payments"). On February 3, 2013 the trustees informed the Company that in meetings of holders of the Series E and 1 debentures it was agreed to authorize them to take legal action against the Company to prevent the making of the Upcoming Payments, and in connection therewith in a meeting that was held between the Company and the trustees of the debentures and the joint representatives of the Series E, F, and 1 debentures (the "Joint Representatives") the Company was requested by the Joint Representatives to refrain from making the Upcoming Payments.

In addition, in light of the damage that is likely to be caused to the Company and to all its creditors if the Company is pulled into legal proceedings as mentioned, and in order to allow the Company to engage in the process of negotiations mentioned above to the fullest extent and in a manner that is quick and efficient, the board of directors of the Company decided, at this stage, to accede to the demands of the debenture holders and to delay the payment of principal to the holders of the various series of debentures until the conclusion of negotiations with them. Furthermore the Board has also decided that during the forbearance period, it is the Company's intention to make the interest payments on a regular basis to the various series unless it is decided otherwise.

Series A, B and C bond holders have notified the Company that they reject the Company's decision and demanded that the Company shall make all payments it is obligated to towards the bond holders.

On February 19, 2013, the Board of Directors of the Company resolved to suspend any interest payments with respect to all of the Company's Notes.

B. An early termination of the debentures repurchase financing transactions

On February 10, 2013, the financial institutions that had acquired the Company's Series A to G Debentures ("Debentures") under the structured debenture transactions described in note 19 E have notified of the early termination of the Transactions as a result of the decline in the market price of the Debentures and consequently, the failure to meet the loan-to-value covenants under the Transactions.

Accordingly, the financial institutions sold the Debentures held by them in consideration that fully covered the termination amounts. An amount of NIS 10 million and 31 million par value Debentures had been returned to the Company.

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

C. Notice from Bank Hapoalim Ltd.

In respect of Bank Hapoalim loan described in note 23 D (1) and E, the balance of which as of December 31, 2012 amounted to NIS 238 million, on June 6, 2013, the Company received a letter from Bank Hapoalim, demanding repayment within seven days of the outstanding balance of the loan, without prejudicing its right under any other loan facility to which the Company is a party as a guarantor or otherwise. Bank Hapoalim stated that it was taking this action in light of the Company's alleged breaches under the loan, including, inter alia, non-payment to Bank Hapoalim on March 31, 2013 of approximately \$14.5 million, failure to satisfy certain financial covenants under the loan, adverse change in the financial position of the Company etc. In addition, Bank Hapoalim has stated that it had offset a deposit in the amount of approximately \$7.9 million in Bank Hapoalim's accounts against the loan. On June 11, 2013, the Company filed a one-side motion for an injunction relief against Bank Hapoalim, prohibiting Bank Hapoalim from taking any action in accordance with the acceleration notice. On June 20, 2013 the Company and Bank Hapoalim have reached an agreement that Bank Hapoalim will not realize its lien on the Company's shares in Plaza Centers N.V. without giving the Company a seven day prior notice. Accordingly, on June 20, 2013, the Company filed a motion with the Court, with the consent of Bank Hapoalim, requesting to withdraw its motion for a temporary restraining order and its related complaint. On June 20, 2013, the Court issued an order denying the Company's motion and complaint on the one hand, but ordering Bank Hapoalim that any realization of its liens, in Israel or abroad, must be effected with transparency and in good faith in the context of insolvency proceedings before the Court, while taking into consideration the other creditors of the Company, to the extent possible, and the mitigation of their damages.

On November 26, 2013, the Company announced the results of the meeting (the "Meeting") of the Company's unsecured financial creditors that voted on the general terms of agreement to be entered into with Bank Hapoalim B.M. (the "Bank"). At the Meeting, unsecured financial creditors holding approximately 70.6% of the aggregate voting power that have participated in the Meeting, voted in favor of the proposed refinancing agreement with the Bank. The proposed agreement with the Bank remains subject to the approval of the Court and certain other conditions. The general terms of agreement with the Bank includes the following:

1. **Loan Amount:** The outstanding balance of the Bank's loan (principal) as of November 27, 2013 is approximately US\$59 million. Pursuant to that certain assignment by way of a pledge in favor of the Bank of loan proceeds the Company is entitled to receive from a subsidiary of Park Plaza Hotels Limited on or before December 31, 2013 in the amount of approximately EUR 9.36 million (approximately US\$12.6 million) (the "Assigned Proceeds"), the Bank is entitled to credit the Assigned Proceeds either on the account of the Company's existing loan or on account of payment of credit facilities and other banking services that were provided to the Company's wholly owned subsidiary, Elbit Fashion Ltd., by the Bank. Nonetheless, the Assigned Proceeds will be credited in full on the account of the loan of the Company. Accordingly, the balance of the Company's debt to the Bank under the loan (principal), after payment of the Assigned Proceeds, will be in the amount of approximately US\$47 million.
2. **Interest:** The loan will bear interest of LIBOR + 3.8% (to be paid on a quarterly basis) + 1.3% (which shall accrue and be paid in a single installment on the maturity date of the loan principal).
3. **Maturity Date:** The loan principal will be repaid in a single installment at the third anniversary of the Closing Date (as defined below) of the Arrangement.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

C. Notice from Bank Hapoalim Ltd. (cont.)

4. **The Company's Shares:** The Bank shall be allotted ordinary shares of the Company as follows:

- 4.1. At the date upon which the Company shall issue the shares and new notes (Series H and I) to its unsecured financial creditors pursuant to the Arrangement (the "Closing Date"), the Company shall issue to the Bank 16,594,036 ordinary shares of the Company, which shall constitute 3% of the Company's paid-up and issued capital, immediately after the closing of the Arrangement;
- 4.2. If and in the event that the Company shall prepay the loan to the Bank in full prior to the elapse of 60 (sixty) calendar days from the earlier of: (i) the date upon which the Court's approval of the Arrangement shall have been awarded; or (ii) December 31, 2013 (such earlier date shall be referred to herein as the "Determination Date"), the Bank shall not be entitled to any of the shares so issued and accordingly, shall return those shares to the Company without any consideration;
- 4.3. If and in the event that the Company shall prepay the loan to the Bank at any time during the period commencing 60 (sixty) calendar days from the Determination Date and ending 150 (one hundred and fifty) calendar days from the Determination Date, the Bank shall return to the Company, without any consideration, 8,423,368 shares out of the shares issued to the Bank as aforementioned;
- 4.4. If and in the event that the Company shall prepay the loan to the Bank at any time after 150 (one hundred and fifty) calendar days from the Determination Date, the Bank shall be entitled to retain all the shares issued to it by the Company, with no further requirement to return any of those shares.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

C. Notice from Bank Hapoalim Ltd. (cont.)

5. **Collaterals** (It is clarified that the specification of collaterals below does not include securities and/or pledges existing in favor of the Bank in respect of loans to subsidiaries, which shall remain in full effect and unchanged, and that the collaterals as aforesaid are in addition thereto): In addition to the collaterals which currently exist in favor of the Bank in respect of the above loan (i.e., a pledge on approximately 29% of the shares of Plaza Centers N.V. ("Plaza Centers"), the Assigned Proceeds and the share capital of Elbit Fashion Ltd.), the Bank shall receive a pledge on the Company's residual rights in its hotels in Romania and Belgium (subject to exceptions as specified in Section 6 below) to secure all of the Company's debts to the Bank, as specified below:

- 5.1. A first-ranking fixed charge on the entire share capital of BEA Hotels Eastern Europe B.V. (a Dutch company through which the Company indirectly holds approximately 77% of the rights in the Radisson Blu hotel in Bucharest, Romania) ("BHEE") and the rights associated therewith, as well as on the rights to proceeds under shareholders loans provided to BHEE; and
- 5.2. A first-ranking fixed charge on the entire share capital of Astrid Hotel Holdings B.V. (a Dutch company through which the Company indirectly holds all of the rights in two hotels in Antwerp: Radisson Astrid and Park Inn) ("AHH") and the rights associated therewith, as well as on the rights to proceeds under shareholders loans provided to AHH.

The Company will undertake to provide the Bank with all of the data that shall be required thereby in connection with the holdings in the hotels in Romania and in Belgium (and specifically with respect to the existing debts and liabilities in respect of such hotels), and not to increase the sum of the existing debts and liabilities vis-à-vis third parties in connection with the said hotels (with the exception of the provisions of Section 6.1 below).

6. **Exceptions to the Collaterals:**

6.1. So long as the Company, its subsidiaries and companies directly and indirectly controlled by it (the "Subsidiaries") meet all of their debts and liabilities vis-à-vis the Bank, as shall be defined in the definitive agreement to be entered into between the Company and the Bank, the proceeds specified below that shall be received from the pledged assets shall be used by the Company and its Subsidiaries for their on-going operations, at their discretion, and shall not be used to prepay the debt contemplated in the loan to the Bank (subject to the provisions of Section 6.2 below):

- 6.1.1. Net cash flow from the refinancing of the Radisson Blu hotel in Bucharest, Romania, up to EUR 24 million (over and above the debt which currently exists); and
- 6.1.2. Net cash flow which derives from current operations of the pledged hotels.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

C. Notice from Bank Hapoalim Ltd. (cont.)

6. Exceptions to the Collaterals; (cont.)

6.2. Notwithstanding the provisions of Section 6.1, in the event that the Company shall sell, as a willing seller (other than in the framework of mandatory disposition), all or any of its rights in the pledged assets, the Company will undertake to prepay the Bank the amounts as specified below:

6.2.1. Sale of the Company's rights in the Bucharest hotel – in the case of the sale of all of the rights or the sale of the control of the asset, the Company will undertake to prepay the Bank an amount of US\$32 million; in the case of the sale of part of the rights in the asset, after which the Company retains control over the asset – a proportionate share of such amount. The balance of the net cash flow from the sale (if any) will be used by the Company and/or its Subsidiaries for their on-going operations.

6.2.2. Sale of the Company's rights in its hotels in Belgium – in the case of the sale of all of the rights or the sale of the control of the assets, the Company will undertake to prepay the Bank an amount of US\$5 million; in the case of the sale of part of the rights in the assets, after which the Company retains control of the assets – a proportionate share of such amount. The balance of the net cash flow from the sale (if any) will be used by the Company and/or its Subsidiaries for their on-going operations.

6.2.3. In the case of a sale of Plaza Centers' shares which are held by the Company – the Company will undertake that the full net cash flow attributed to the shares held by the Company and pledged to the Bank will be used to prepay the loan to the Bank.

7. **Terms and Conditions of the Loan of Elbit Fashion Ltd.:** The Bank shall extend the existing credit line and the standby letter of credit of Elbit Fashion Ltd. until December 31, 2014.

8. **Financial Covenants:** The agreement shall include a financial covenant whereby if and in the event that the ratio between the Company's debt to the Bank and the total value of the collaterals (Plaza Centers' shares that are pledged to the Bank and the Company's residual rights in the hotels in Belgium and in Romania [i.e., the value of the hotels according to the assessor's appraisal as specified below, net of the debt attributed to the said hotels]) shall exceed the threshold of 85%, then the Bank shall have the right to accelerate the loan provided by the Bank to the Company. The said ratio shall be checked on a quarterly basis. The Company shall provide the Bank with external valuations of the pledged hotels, addressed to the Bank and carried out by an assessor who is acceptable to the Bank, once a year in the framework of the annual statements ("Annual Valuations"). The examination of the said covenant, which shall be made in the annual statement and in each one of the three quarters thereafter, shall be based on the Annual Valuations (unless the quarterly financial statements include an asset's impairment below the Annual Valuations), and on the prices of Plaza Centers' shares on the London Stock Exchange, as being on each one of the measurement dates on the last day of each quarter.

9. **Balance of Contractual Interest to Loan Amount:** Subject to the provisions below, the balance of the contractual interest amounts that the Company shall owe the Bank on the Closing Date will be added to the loan principal.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

C. Notice from Bank Hapoalim Ltd. (cont.)

10. **Credit for Default Interest:** The Bank shall credit the Company for any and all default interest collected or accrued thereby from the date on which the loan was accelerated by the Bank.
11. **Prepayment at the Company's Discretion:** The Company shall be entitled to prepay the loan without prepayment fines or fees. Prepayment without such fines or fees will be made on the interest payment date only, provided, however, that Company shall have the right to prepay the loan to the Bank at any time up and until 150 (one hundred and fifty) calendar days from the Determination Date even if such date is not an interest payment date, and in such event, the Company shall pay the Bank a prepayment fee at the amount equal to the economic damage suffered by the Bank as a result from the prepayment of the loan prior to the consecutive interest payment date.
12. **Mandatory Prepayment:** If and in the event that the Company shall prepay its debt to the noteholders, in whole or any part thereof, from the Company's internal sources (i.e., other than from a raising of capital and/or alternative debt), then the Company shall prepay the Bank an amount equal to the amount paid to the noteholders on such date multiplied by the ratio between the Company's debt to the Bank and the Company's total debt to the Bank and to the noteholders as of such date.
13. **Prepayment in the Case of a Distribution:** In the case of a distribution as defined in the Israeli Companies Law, 5759-1999, including payment of a dividend in any manner to the Company's shareholders, the Company shall prepay the Bank an amount equal to the amount paid to the noteholders on such date multiplied by the ratio between the Company's debt to the Bank and the total debt of the Company to the Bank and to the noteholders as of such date.
14. **Waiver of Breaches and Claims:** The Bank shall waive all and any claims and demands with respect to any existing breaches and/or grounds for acceleration of loans that the Bank has provided to the Company and to its Subsidiaries and any claim available thereto against the Company until this date.
15. The Company and the Subsidiaries shall waive all and any claim or demand against the Bank in respect of the debt of the Company and the Subsidiaries to the Bank, including all of the components thereof and/or in respect of the credit provided to any of them by the Bank and/or in connection with the validity of the collaterals created by any of them in favor of the Bank.
16. Subject to and after approval by the Company's unsecured financial creditors of these principles, the Company and the Bank shall enter into and sign a detailed definitive agreements and pledge documents, which shall reflect the general principles specified above, by and no later than November 30, 2013, subject to agreed extensions between the Bank and the Company. The definitive agreements and the pledge documents as aforesaid shall take effect concurrently and in conjunction with the effectiveness of the Arrangement.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

D. Notice from Bank Leumi

In March 2013, the Company received a letter from Bank Leumi demanding repayment within ten days of the outstanding balance of approximately \$14.1 million (approximately NIS 52 million) due primarily under the loans made by Bank Leumi to the Company (the "Loans"). Bank Leumi stated that it was taking this action in light of the Company's current financial condition and the Company having informed Bank Leumi that it would not be making the upcoming payment to Bank Leumi on March 29, 2013 of principal and interest due under the Loans. Bank Leumi also informed the Company that it had placed a freeze on certain accounts maintained by the Company with Bank Leumi in which the Company holds cash and trading securities in the amount of approximately NIS 13 million ("Leumi Accounts") until the outstanding amounts due are repaid. Bank Leumi has also notified the Company that should such repayment will not be made within ten days Bank Leumi is preserving its rights to take all actions necessary in order to protect its rights under the loan agreements including offsetting any amounts in the Leumi accounts against the Loans.

On May 21, 2013, the Company has received a notice from Bank Leumi, which the Company vigorously reject, stating that Bank Leumi plans to exercise its rights to withdraw the securities deposited by the Company in its securities accounts with Bank Leumi as security for the Company's obligations to Bank Leumi (and which has market price value equals to approximately NIS 8 million (approximately \$2.2 million)), and sell such securities to partially offset the Company's outstanding obligations to Bank Leumi. The Company denies Bank Leumi's rights and in particular, its claim that allegedly, Bank Leumi holds the securities as a security.

In addition, the Company has received a series of notices from Bank Leumi stating that, beginning May 27, 2013, Bank Leumi will terminate the credit lines provided by Bank Leumi to certain accounts maintained by the Company and two of its subsidiaries. The Company intends to vigorously reject and defend such claims and demands.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

E. Claims

1. With respect to the claim described in note 23 B (1) on March 18, 2013, the plaintiffs filed an amended statement of claim in which they argued for oppression of the minority of ELT, mainly by: (a) refraining from distributing dividends; (b) directing ELT's profits to its control-holders in unfair transactions; (c) executing the Harmful Sale transaction (i.e. selling the control in ELT to Europe-Israel); (d) executing the Hotels and Marina Transactions.; (e) refraining from executing a tender offer for the minority shares in ELT .In their amended statement of claim the plaintiffs sought for damages, roughly calculated as follows:
 - a. For class members who held ELT shares prior to February 25, 1999: the value of each member's ELT shares on February 24, 1999 minus the consideration each member actually received when he sold his ELT shares.
 - b. For class members who held ELT shares prior to September 9, 1999: the value of each member's ELT shares on September 8, 1999 minus the consideration each member actually received when he sold his ELT shares.

On May 8, 2013, the Company filed the District Court a motion to order that parts of the amended statement of claim be struck out as they do not correspond with the Supreme Court's decision dated May 28, 2012. More specifically, the Company argued that the plaintiffs' allegation with regard to the alleged tender offer and with regard to the alleged failure to distribute dividends can no longer be trialed in this case. The Company consequently asked the District Court to decide that the Company will remain a defendant in this case only under its capacity as assignee of all rights and obligations of ELT (as ELT had merged into the Company and ceased to exist as a legal entity).

The District Court dismissed this motion on 30 June, 2013, stating, mainly, that the legal ground of "oppression of minority" could possibly contain claims regarding the alleged tender offer and the alleged failure to distribute dividends. The Company intends to file an appeal to the Supreme Court to cancel the District Court's decision, and to uphold the motion.

The defendants should file their general discovery affidavits until October 2013. The Company, based on its legal advisor, believes that due to the impracticability of assessing the monetary exposure in this case and the little legal precedent with regard to certified class actions which were trialled on their merits, at this stage, the prospects of this litigation cannot be estimated.

2. With respect to the claim described in note 23 B (2), in January 2013, the District Court ruled that the claim would not be certified as a class action, due to its similarity to the claim described in note 23 B (1). On March 17, 2013 the plaintiff appealed said ruling before the Supreme Court. On May 26, 2013, the Israeli Supreme Court dismissed the said appeal due to the fact that the appellant failed to pay court fees. This case was initially filed in the District Court of Haifa, Israel in September 2006 by Mr. Beeri against Elscint, the Company, their controlling shareholders (Europe Israel (MMS) Ltd. and Control Centers Ltd.) and past and present officers and directors of such companies and certain unrelated third parties.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

E. Claims (cont.)

3. On April 11, 2013, a holder of Series B Notes filed a purported class action lawsuit against the Company in the District Court of Tel Aviv, in connection with allegations, mainly that the Company failed to pay Series A and B Notes in February 2013. The plaintiff argues that the failure to pay results from the Company's failure to timely identify and react to the decline in its business. The total amount claimed, if the lawsuit is certified as a class action, is estimated by the plaintiff to be approximately NIS 82 million. The personal amount claimed by the plaintiff is approximately NIS 622,000. On July 2, 2013 the Tel Aviv District Court decided that an initial hearing will be set for December 4, 2013. At this preliminary stage, the Company is unable to assess the lawsuit's chances of success and intends to vigorously defend against it.
1. On February 25, 2013, Yoki Shemesh Ltd (the "Plaintiff") filed a claim and a motion to approve the claim as a Class Action, to the Tel Aviv District Court, in the amount of NIS 240,000,000, against the Company, its controlling shareholders, officers and others (the "Claim"). The Claim stated, that the company's decision to postpone payments to Series A and B bond holders is a breach of the rights of the Series A and B bond holders, and a breach of The Securities Law, 5728-1968. The Plaintiff sought that the Company shall make all payments it is obligated to towards the bond holders. On July 2, 2013, the District Court has approved a joint motion to dismiss the purported class action lawsuit.

F. Purported restructuring

With respect to the financial position described in note 3 above, on May 8, 2013, the Company filed its original plan of Arrangement with the Court. Since that date the Company has adjusted its plan of arrangement several times (on June 17, 2013, July 15, 2013, July 16, 2013 and September 18, 2013).

As of June 30, 2013, the outstanding balance of all accrued and unpaid financial debt (including interest and CPI linkage) under the Notes and other unsecured loans (collectively, the "Unsecured Financial Debt") equaled approximately NIS 2.52 billion (approximately \$684 million). Pursuant to the terms of the Company Proposal, (as adjusted from time to time as mentioned above), upon the effectiveness of the Arrangement all of the Company's Unsecured Financial Debt will be extinguished and exchanged for new Shares and new notes to be issued by the Company, as follows:

The Company will issue new Ordinary Shares, representing immediately following such exchange 95% of its outstanding share capital on a fully diluted basis, excluding existing options to purchase up to 1,729,251 Ordinary Shares granted to the Company's and the Company's affiliates' employees and office holders prior to the Arrangement.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

F. Purported restructuring (cont.)

(1) The Company will issue two series of new notes in the aggregate principal amount of NIS 666 million (approximately \$188 million). The first series of new notes ("Series H") will be in the aggregate principal amount of NIS 448 million (approximately \$127 million), repayable in a single payment at the end of four and half years from the earlier of the date of issuance thereof or December 1, 2013. The second series of new notes ("Series I") will be in the aggregate principal amount of NIS 218 million (approximately \$61 million), repayable in a single payment at the end of six years from the earlier of the date of issuance thereof or December 1, 2013. Both series of the new notes will bear interest at the rate of 6% per annum and will be linked to the Israeli consumer price index. Interest on the first series of new notes will be payable in cash on a semi-annual basis, while interest on the second series of new notes will be accrued to the Principal and will be payable on the final maturity date, subject to prepayment in the Company's sole discretion on June 30 and/or December 31 of any particular calendar year.

In addition, the new notes will include mandatory prepayment provisions in the event the Company pays a cash dividend or makes any other distribution within four and half years following the date of issuance thereof, such that the Company will be obligated to prepay an amount equal to the amount distributed by the Company, in the following order: (i) first, towards all unpaid amounts under the Series H, and (ii) secondly, towards all unpaid amounts under Series I.

Collaterals –the notes will be secured by (i) a first ranking floating charge on all the Company's property and assets and first ranking charges over the Company's existing and future interest and rights in and to the Company's wholly owned subsidiaries, Elbit Ultrasound (Luxembourg) B.V./Sa.r.l ("EUL LUX") and Elscint Holdings and Investments N.V. ("Elscint Holdings"), including rights to any amount owed to the Company by each of EUL LUX and Elscint Holdings, in favor of Series H notes and similar second ranking charges in favor of Series I notes, (ii) a corporate guarantee by each of EUL LUX and Elscint Holdings in favor of the new notes, and (iii) a negative pledge over its respective assets to be provided by each of EUL LUX and Elscint Holdings. The collaterals securing the new notes will be subject to exceptions as set forth in the adjusted Arrangement.

In addition, at any time during the term of either series of the new notes, the Company may create a senior lien in order to refinance the Company's outstanding indebtedness to Bank Hapoalim.

The new Shares and the new notes will be allocated among the various unsecured financial creditors in proportion to the outstanding balance (principal, interest and CPI linkage) under each obligation as of the effective date of the Arrangement, and any fraction of a share will be rounded up to the nearest whole number. The new Shares will be listed for trading on both the Tel Aviv Stock Exchange and the NASDAQ Stock Market, and the new notes will be listed for trading on the Tel Aviv Stock Exchange at the effective date of the Arrangement. The Company will endeavor to file with the Securities and Exchange Commission within 30 days of the effective date of the Arrangement a registration statement with respect to the new Shares held by shareholders who are deemed "affiliates" by virtue of their holdings.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

F. Purported restructuring (cont.)

(2) Eastgate warrant

Eastgate Property LLC ("Eastgate") holds a warrant to purchase up to 3.3% of the Company's fully diluted share capital (subject to certain exceptions) at the time of exercise of the Warrant, for no consideration, until March 31, 2014. Pursuant to an understanding between the Company and Eastgate, Eastgate will exercise the warrant for 1,924,215 Shares immediately following the consummation of the Arrangement, at which time the warrant will terminate.

(3) Amendments to the Company's Articles of Association

Pursuant to the terms of the Adjusted Arrangement, the Company will amend its Articles of Association such that it will include the following Articles:

Special tender offer

In the event a person is required to conduct a "Special Tender Offer" pursuant to the provisions of Part 8, Chapter 2 of the Companies Law as a result of an acquisition of Ordinary Shares that will cause that person to become a holder of 25% or more of the voting rights at a general meeting of shareholders (a "baal dvukat shlita"), that person shall offer to acquire Ordinary Shares representing at least 10% of the voting rights in the Company in such Special Tender Offer, provided, however, that the minimum required to be acquired pursuant to Section 332 of the Companies Law (currently 5%) shall remain unchanged. To remove doubt, if offerees holding more than 5% of the voting rights in the Company accepted the Special Tender Offer, the Offeror shall be obligated to purchase from such offerees the lower of (i) the number of Ordinary Shares representing the amount of the voting rights in the Company for which the Offeror tendered, or (ii) the number of Ordinary Shares with respect to which offerees have accepted the Special Tender Offer.

Special approval for new fields of business

Notwithstanding Article 32(b) above, a decision by the Company to engage in a new field of business which is material to the Company, in which neither the Company nor any of its subsidiaries is engaged and which new field of business is not complementary to the business of the Company or its subsidiaries, shall require the unanimous approval of all of the members of the Company's board of directors present and lawfully entitled to vote at the relevant meeting.

(4) Elbit Medical

The corporate organs of the Company, as appointed after the closing of the Arrangement, will be assigned the task of examining the issue of realization of the Company's shares in Elbit Medical Technologies Ltd. ("Elbit Medical"), and if it will be practicable to benefit from a significant short term economic profit from the realization (whether by means of distribution or in some other way), then such realization would be considered.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

F. Purported restructuring (cont.)

(5) Additional provisions

Upon the effectiveness of the Arrangement, the Company, its office holders, the Noteholders and the other unsecured financial creditors, the trustees for the Noteholders and shareholders and their respective affiliates and representatives will be released from any and all claims the grounds of which preceded the effectiveness of the Arrangement, including all claims related to the Notes and the management of the Company and all companies under its control, other than claims related to acts or omissions that were criminal, willful or fraudulent (the "Waiver"). Accordingly, the applicable pending legal proceedings against the Company, its office holders or its controlling shareholder will be dismissed (including the purported class action lawsuit mentioned in section E(4) above). Mr. Zisser who serves as the Company's CEO and Executive President and member of the Board, will not be included in the Waiver provided to the Company's other officers and directors (with respect to any and all of its capacities and positions in the Company), without derogating from any right, including his existing rights of indemnification and insurance coverage, except that all legal proceedings pending against him and/or his affiliates will be dismissed. Notwithstanding the aforementioned, in the event a claim will be made against one of the released parties by any person (a "Plaintiff") for any cause of action, including a cause of action included under the Waiver, the defendant ("Defendant") will not be precluded by virtue of the Waiver from filing a counter-claim against the Plaintiff and/or a third-party claim against any other person (including the released parties) (the "Third Party"), without prejudicing the Third Party's right under the Waiver against the Plaintiff. Notwithstanding the aforementioned, the Company will not be allowed to file third-party claims against any of the released parties.

(6) Tax ruling

On July 11, 2013, the Company received a tax ruling from the Israeli Tax Authority ("ITA") as to the tax, if any, that would be applicable to the Company and the unsecured financial creditors as a result of the transactions contemplated under the Company Proposal. The ruling generally provides that, upon the closing of the Arrangement, the Company's unsecured financial creditors will be deemed to have sold their debt (first accrued interest and then outstanding principal) in consideration for the new notes and Shares issued in the Arrangement, which shall be valued at the respective closing prices thereof on the TASE on the first trading day following the closing. The Arrangement will be treated as a tax event for the Company, as well, namely, as financial income or forgiveness of debt in the amount of the difference between the amount of the Unsecured Financial Debt and the value of the new notes and Shares as aforesaid. The resulting gain may be offset against net operating losses, capital losses and impaired investments in subsidiaries.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

F. Purported restructuring (cont.)

(7) Conditions precedent

The Arrangement (as adjusted) is subject to various conditions, including: (i) the receipt of the approval by the requisite majority of the Company's unsecured financial creditors under Section 350 of the Companies Law (for the results see note 31 I); (ii) the receipt of the approval of the Court under Section 350 of the Companies Law, following a hearing on the fairness of the Arrangement to our unsecured financial creditors; (iii) the receipt of the approval of the Tel Aviv Stock Exchange; (iv) the receipt of a tax ruling issued by the ITA regarding the tax, if any, applicable to the Company and the unsecured financial creditors as a result of the Arrangement (which was issued on July 11, 2013); (v) the receipt of all requisite corporate approvals; (vi) the receipt of any other approvals required by law or material contracts to the extent required to consummate the Arrangement, (vii) reaching an agreement with Bank Hapoalim BM (the "Bank") or receipt of a Court order pursuant to either of which subject to payment of due amounts to the Bank within seven days following the closing of the adjusted Arrangement and for so long as the Company is paying all due amounts pursuant to the payment schedule under the existing agreements between the Company and its subsidiaries and the Bank (all assuming the Bank waives its demands to repay immediately all outstanding amounts owed to the Bank under the aforementioned agreements), the Bank shall not be entitled to demand immediate repayment of the entire amounts owed by the Company and its subsidiaries to the Bank, or the Bank and the Company shall reach any other agreement, which agreement is subject to the approval of the Company's unsecured financial creditors in simple majority, and (viii) the trustees of the new notes will receive any and all documents required which should be delivered under the Arrangement's documents on or before the effectiveness of the Arrangement.

G. Letter of Undertaking with the trustees

The Letter of Undertaking was effective as of March 19, 2013 and will remain in effect until the end of the period of 14 days from the date on which the Company notifies the Trustees of its intention to terminate the Letter of Undertaking for any reason (the "Interim Period"). In addition, the Company may notify the Trustees in writing of the termination of any of the undertakings included in the Letter of Undertaking for any reason following the end of the period of 14 days from the delivery of such notice, or with immediate effect if any of the Notes Series file a motion for the liquidation of the Company.

The Letter of Undertaking provides that, without prejudicing anything in the Letter of Undertaking, the parties intend to mutually investigate the possibility of formulating a plan of arrangement among the Company and the Note Holders as to the Company's outstanding obligations to the Note Holders.

In addition, (i) nothing in the Letter of Undertaking will be deemed to obligate any of the Company, the Trustees, the Note Holders' representatives (the "Representatives") and/or the Controlling Shareholder (as defined below) to enter into any arrangement and/or agreement of any kind, and nothing in the Letter of Undertaking will be deemed to constitute a representation and/or warranty whatsoever as to any consent and/or confirmation by either the Company, the Trustees and/or the Controlling Shareholder, to any arrangement among the Company and the Notes Holders; and (ii) the execution of the Letter of Undertaking will not prejudice any of the parties' or Note Holders' rights.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

G. Letter of Undertaking with the trustees (cont.)

The Company undertook to fully cooperate with the Trustees, the Representatives and anyone acting of their behalf to enable them to conduct a due diligence investigation with respect to the financial condition of the Company for the objective of negotiating an arrangement and/or providing recommendations to the Note Holders as to any arrangement and/or relating to available courses of action to protect the Note Holders' rights pursuant to the respective Notes and the exercise thereof, subject to confidentiality obligations.

The Company further undertook that during the Interim Period it and the entities under its control (excluding Plaza Centers N.V. ("Plaza") (the "Controlled Entities")), will not: (i) either directly or indirectly, make any payments and/or engage in any transactions with the Controlling Shareholder and/or entities under the control of the Controlling Shareholder and/or Mr. Mordechay Zisser's relatives (collectively, "Related Parties") (but excluding D&O insurance and/or indemnification undertakings, to the extent these will be duly provided to all officers of the respective entity under applicable law); (ii) dispose and/or undertake to dispose of any material asset of the Company and/or the Controlled Entities, and will not provide any guarantee and/or security of any kind, to secure the Company's or any third party's debt, without providing the Trustees a 14-day prior written notice accompanied by all relevant information ("Advance Notice"); (iii) carry out any activity and/or enter into any transaction which is not in the Company's and/or the Controlled Entities' (as the case may be) ordinary course of business, unless it provides the Trustees with Advance Notice; (iv) acquire and/or sell and/or pledge any of the Company's securities, unless it provides Advance Notice; (v) deposit any cash or cash equivalent (including any securities) with any financial institution that is a creditor of the Company ("Financial Creditors") and/or any of the Controlled Entities, or with a bank account in any of the banks to whom the Company's and/or any of its Controlled Entities' aggregate debt exceeds an amount of NIS 5,000,000, but excluding any deposits of any proceeds made by the Company's subsidiaries in the framework of such subsidiaries' on-going activity in the ordinary course; (vi) in the case of the Company, announce and/or distribute any dividends and/or other distributions of any kind, to any of its shareholders, (vii) change or amend any term under its existing credit and/of funding facilities with any of its Financial Creditors; and (viii) enter into new investments, including any purchase of new assets and/or additional rights in existing assets (except for certain specific activities agreed-upon under the Letter of Undertaking), unless it provides Advance Notice. In addition, each of the Company and the Controlled Entities agreed during the Interim Period to notify the Trustees and the Representatives of actual or threatened litigation or claims against the Company and/or any of its Controlled Entities that exceeds or would reasonably be expected to exceed NIS 2,500,000.

In addition, during the Interim Period, the Company and its Controlled Entities will not make any payments to their respective creditors nor will any of them undertake any obligations to do so unless the Company provides the Trustees with Advance Notice, except for the following:

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

G. Letter of Undertaking with the trustees (cont.)

The making of payments and undertakings in the ordinary course of business, other than to Related Parties and Financial Creditors, subject to certain thresholds and exclusions;

The advance of working capital to the Company's subsidiaries in India and the United States, subject to a certain threshold; and

Payments to secured creditors that are due and payable in accordance with the terms thereof, provided that the source of the funds used for the repayment of such secured debt was generated from the secured assets.

The Company further undertook that neither the Company nor any of its Controlled Entities will settle any of their respective debt towards other entities included in the Elbit Group, except for the settlement of debts owed to the Company by any such entities included in the Elbit Group or for the settlement of any of Plaza's debts to any third party.

Mr. Mordechay Zisser and the entities owned and/or controlled by him (the "Controlling Shareholder") have agreed that, during the Interim Period, they will not dispose of the securities of the Company and/or the Controlled Entities held, directly or indirectly, by the Controlling Shareholder. In addition, there may not be any change in the Controlling Shareholder's holdings (directly or indirectly) in any of the Company's securities, provided that such undertaking will not apply in case of any conflict between this undertaking and any previous undertaking of the Controlling Shareholder towards Bank Hapoalim B.M., if and to the extent any such other undertaking exists.

H. Submission of a request on behalf of the trustees of series B notes for liquidation

On April 4, 2013, the Trustees of Series B Notes (representing an outstanding balance amount of NIS 16.5 million (pari) (approximately 0.7% of the total unsecured debt of the Company), have submitted with the Tel Aviv District Court a request to liquidate and appoint of a temporary liquidator for the Company. On May 8, 2013, the Trustees have submitted a motion to remove their motion for the appointment of a temporary liquidator for the Company (but not the motion to liquidate the Company)

On July 3, 2013, the Tel Aviv District Court suspended the liquidation request.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

I. Meetings of the Company's unsecured financial creditors for the approval of proposed restructuring of the Company

On July 3, 2013, the Court ordered that meetings of the Company's unsecured financial creditors for the approval of proposed restructuring of the Company's Unsecured Financial Debt (see F above) pursuant to a plan of arrangement under Section 350 of the Israeli Companies Law, 5759-1999 ("Section 350") be convened by July 17, 2013, with the preliminary meetings being held by July 15, 2013.

The vote-counting process was delayed and claims were raised by the trustees of the Company's publicly-traded notes in regards to the manner of counting the votes of the creditors at the Meetings. On July 21, 2013, the Company reported the results of the votes at the Meetings to the Court, and presented its position that the votes were counted in accordance with the Court's ruling and that the Arrangement was approved by creditors holding approximately 82% of Unsecured Financial Debt.

That same day the trustees of the Company's notes presented the Court with other methods of counting which they requested the Court to consider, arguing that such methods better represent certain claims that still remain undecided. The implementation of such alternative methods of calculation may lead to an outcome by which, the Arrangement was not approved by the required majority.

On August 19, 2013 the Tel Aviv District Court rejected the Company's position, and, as a result, the Court ruled that the Company did not receive the votes required for approval of the Arrangement. The Court stated that nothing in its ruling sets forth the Court's position regarding the advisability of the Arrangement, and directed the Company and its creditors to attempt to negotiate a revised Arrangement within a short time period.

On September 18, 2013, following negotiations with certain substantial noteholders of the Company, it has further adjusted its proposed plan of arrangement of its unsecured financial debt (see Note F above), and has submitted to Court a motion to approve the adjusted plan of arrangement ("Company's Motion"). At the meetings of the Company's noteholders (Series A-G and Series I) that took place on September 30, 2013, noteholders holding approximately 91% of the aggregate voting power (based on the total outstanding obligations under the notes) participating in such meetings, voted in favor of instructing the trustees which represent noteholders of more than 99% of the total outstanding obligations under the notes, not to object to the Company's Motion. On October 7, 2013 the Tel Aviv District Court ordered that as allegedly the majority of the Noteholders supported the adjusted plan of arrangement as submitted by the Company on September 18, 2013 as mentioned above, there is no reason why not to approve the same at Noteholders meetings that will be convened within 7 days. On October 17, 2013 the adjusted plan of arrangement was approved by creditors representing approximately 97% of unsecured financial debt. The Company submitted to the Court a motion to approve the Arrangement. Until the date of the approval of these financial statements the motion is still pending.

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

J. Write-downs of Trading properties and investment property held for sale

During the nine months ended September 30, 2013, the Company and PC wrote down its trading properties, investment in associated and investment property held for sale in Serbia (NIS 158 million), India (NIS 493 million) and other Eastern Europe countries in the total amount of NIS 900 million. The write down was mainly due to the following factors:

- The Company's and PC's Management reassessment of the probability of future development of certain properties in view of the financial crisis affecting the area in which the Group operates, and the Company's deteriorating liquidity position. This primarily affected lands which were previously not written down below cost as the related completed project was expected to be sold above cost;
- Disposal certain properties of PC subsequent to the reporting period at a selling price below their carrying amount (see M below).

K. Tiberias - With respect to note 12 G, during June 2013, the Company filed for extension with the ILA.

L. Bonds held in treasury

PC's subsidiary had a loan from a commercial bank, secured by the PC's bonds repurchased, with a scheduled loan repayment in the third quarter of 2013. Due to a rating event, PC negotiated with the bank and finally concluded an early repayment of the loan in 2013.

The loan balance, including accrued interest, was approximately NIS 77.5 millions. PC financed the repayment of the loan from selling the bonds, held as collateral against the loan.

M. Disposal of assets

On May 29, 2013 PC completed the sale of its 50% interest in an Investee which mainly holds interests in an office complex project located in Pune, Maharashtra, India. The total transaction value was EUR 33.4 million (NIS 158 million) and, as a result, PC has received gross cash proceeds of approximately EUR 16.7 million (NIS 79 million) in line with its holding. The transaction resulted in a loss of NIS 50 million, mainly due to reclassification of foreign currency translation reserve associated with the investment to the statement of profit and loss.

On July 18, 2013, PC completed the sale of 100% of its interest in a vehicle which holds the interest in the Prague 3 project ("Prague 3"), a logistics and commercial centre in the third district of Prague. Earlier in 2013, PC completed its successful application to change the zoning use of Prague 3 to a residential scheme. The transaction values the asset at approximately EUR 11 million (NIS 52 million). The net cash consideration after deducting related bank financing and other adjustments, amounted to approximately EUR 7.5 million (NIS 35 million).

In July 2013 PC completed the sale of 100% of its interest in a vehicle which holds the interest in another plot of land in Prague. The transaction values the asset at approximately EUR 1.9 million (NIS 9 million). The net cash consideration after deducting a liability to third party amounted to EUR 1.3 million (NIS 6 million). The transaction resulted in a loss of NIS 17 million.

On October 31, 2013 the Consortium of shareholders of Dream Island, in which it holds a 43.5% stake, has completed the sale of its Dream Island project land holding to the Hungarian State for circa EUR 15 million. The Consortium comprises an 87% holding interest of the 50:50 joint venture partnership between PC and a Hungarian commercial Bank, as well as other small holders.

ELBIT IMAGING LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31 - SUBSEQUENT EVENTS (CONT.)

M. Disposal of assets (cont.)

The proceeds of the transaction will be used by the Consortium to repay a proportion of the securitized related bank debt held against the asset. As a result of previous non-cash, market driven write-down, the asset is currently presented in the Company balance sheet at the value of the loan, which is non-recourse, therefore no accounting loss is expected to be incurred.

N. Appointment of a receiver of Europe - Israel's

On July 24, 2013, Europe-Israel MMS Ltd. ("Europe Israel") and Mr. Mordechay Zisser, notified the Company that the Tel Aviv District Court (the "Court") has appointed a receiver (the "Receiver") with regards to the ordinary shares of the Company held by Europe Israel securing Europe Israel's obligations under its loan agreement with Bank Hapoalim B.M. (the "Bank"). Hence, upon the realization of the collateral over the shares by the Receiver, Mr. Zisser shall cease to be the controlling shareholder of the Company. In that respect, the Court has ruled that the Receiver shall not be entitled to sell the shares for a period of 60 days. Europe Israel and Mr. Zisser have also notified the Company that they intend to appeal the Court's judgment.

O. Settlement agreement with the Israeli Tax Authority

With respect to Note 23 B (5) on August 1, 2013, the Company and its subsidiaries have entered into a settlement agreement with the Israeli Tax Authority with regards to corporate income tax assessments received for the years 2004-2009 (the "Settlement"). The Settlement generally provides that the Company and its subsidiaries (i) will pay taxes in the aggregate amount of NIS 8 million (approximately \$2.2) ;(ii) the Company's capital and business losses carry forward for tax purposes as of December 31, 2009 will amount to approximately NIS 306 million (approximately \$85.7); and (iii) the Company will capitalize expenses of NIS 450 million (approximately \$126).

P. Meeting of the Extraordinary General Meeting

On August 19 2013, the meeting of the Extraordinary General Meeting of the Company's shareholders approved the plan of arrangement proposed by the Company. The resolution to approve the proposed arrangement presented by certain representatives of the Company's Series C to Series G and Series 1 noteholders was not approved.

ELBIT IMAGING LTD.**APPENDIX**

Name of company	Abbreviated name	Country of organization	Direct/indirect ownership percentage
BEA Hotels NV	BEA	The Netherlands	100%
Elbit Medical Technologies Ltd.	Elbit Medical	Israel	90%
InSightec Ltd.	InSightec	Israel	48% (1)
Gamida Cell Ltd.	Gamida	Israel	28.8% (1)
Elbit Plaza India Real Estate Holdings Limited	EPI	Cyprus	50% (2)(3)
Elbit Plaza USA, L.P.	Elbit Plaza USA	USA	100% (4)
EPN GP, LLC	EPN Group	USA	100% (5)
EPN EDT Holding II, LLC	EPN Group	USA	100% (5)
Elbit Trade & Retail Ltd.	Elbit Trade	Israel	100%
Elbit Ultrasound (Luxemburg) BV/SA R.L	EUBV	Luxemburg	100%
Plaza Centers N.V.	PC	The Netherlands	62.5%

(1) Held through Elbit Medical.

(2) The Company holds 47.5% of the shares in EPI directly, and an additional 47.5% through PC.

(3) For details as to the grant of 5% of EPI's equity to the Company's former Executive Vice Chairman of the board of directors, see note 27 B.(5)& (6).

(4) The Company holds 50% in Elbit Plaza USA directly, and an additional 50% through PC.

(5) Indirectly held through Elbit Plaza USA.

PART III

ITEM 19. EXHIBITS

1.1	Amended and Restated Memorandum of Association (incorporated by reference to Appendix B to Exhibit 99.1 of our Report on Form 6-K filed on April 2, 2009).
1.2	Amended and Restated Articles of Association (incorporated by reference to Exhibit 1.2 of our Annual Report on Form 20-F filed on April 25, 2012).
2.1	Form of ordinary share certificate (incorporated by reference to Exhibit 2.1 of our Annual Report on Form 20-F filed 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 our Annual Report on Form 20-F filed 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 our Annual Report on Form 20-F filed 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 our Annual Report on Form 20-F filed 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 our Annual Report on Form 20-F filed 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 our Annual Report on Form 20-F filed 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 our Annual Report on Form 20-F filed on May 10, 2010).
4.7	English translation of Management Services Agreement dated May 31, 2006, between Elbit Imaging Ltd. and Europe-Israel (M.M.S.) Ltd. (incorporated by reference to Exhibit 4.7 of our Report on Form 6-K filed 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 our Annual Report on Form 20-F filed 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 our Report on Form 6-K filed 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 (incorporated by reference to Exhibit 4.10 of our Annual Report on Form 20-F filed on April 25, 2012).
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 (incorporated by reference to Exhibit 4.11 of our Annual Report on Form 20-F filed on April 25, 2012).
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 (incorporated by reference to Exhibit 4.12 of our Annual Report on Form 20-F filed on April 25, 2012).
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 Report on Form 6-K filed on April 6, 2012).
8.1	List of subsidiaries (incorporated by reference to Exhibit 8.1 of our Annual Report on Form 20-F filed on May 14, 2013).
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2	Certificate of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1	Consent of Brightman Almagor Zohar & Co.

15.2	Table of advisors relied upon in the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010
15.3	Consent of Colliers International
15.4	Consent of Financial Immunities Ltd.
15.5	Consent of Financial Immunities Ltd.
15.6	Consent of Financial Immunities Ltd.
15.7	Consent of Financial Immunities Dealing Room Ltd.
15.8	Consent of Financial Immunities Dealing Room Ltd.
15.9	Consent of Financial Immunities Dealing Room Ltd.
15.10	Consent of Giza Zinger Even
15.11	Consent of Jones Lang LaSalle Kft
15.12	Consent of Giza Zinger Even
15.13	Consent of Giza Zinger Even
15.14	Consent of Giza Zinger Even
15.15	Consent of Giza Zinger Even
15.16	Consent of Giza Zinger Even
15.17	Consent of Giza Zinger Even
15.18	Consent of De-Kalo Ben-Yehuda
15.19	Consent of Financial Immunities Dealing Room Ltd.

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to hereby sign this annual report on its behalf.

Elbit Imaging Ltd.

By: /s/ Mordechay Zisser
Name: Mordechay Zisser
Title: Chief Executive Officer

Date: November 27, 2013

I, Mordechay Zisser, certify that:

1. I have reviewed this annual report on Form 20-F of Elbit Imaging Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 27, 2013

By: /s/ **Mordechay Zisser**
Name: Mordechay Zisser
Title: Chief Executive Officer

I, Doron Moshe, certify that:

1. I have reviewed this annual report on Form 20-F of Elbit Imaging Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a- 15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 27, 2013

By: /s/ **Doron Moshe**
Name: Doron Moshe
Title: Chief Financial Officer

Section 906 Certification by Principal Executive Officer

In connection with the Annual Report of Elbit Imaging Ltd. (the "Company") on Form 20-F for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mordechay Zisser, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that, to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 27, 2013

By: /s/ Mordechay Zisser
Name: Mordechay Zisser
Title: Chief Executive Officer

Section 906 Certification by Principal Financial Officer

In connection with the Annual Report of Elbit Imaging Ltd. (the "Company") on Form 20-F for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Doron Moshe, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that, to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 27, 2013

/s/ **Doron Moshe**
Doron Moshe
Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-172122 on Form F-3 and on Registration Statements No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820 on Form S-8 filed by Elbit Imaging Ltd. of our report dated November 27, 2013 relating to the consolidated financial statements of Elbit Imaging Ltd. as of December 31, 2012, which report expresses an unqualified opinion and includes explanatory paragraphs relating to: (i) substantial doubt about Elbit Imaging Ltd.'s ability to continue as a going concern; (ii) substantial doubt about Plaza Centers' (a substantial subsidiary, in which Elbit Imaging Ltd. is the holder of 62.5% of its outstanding share capital) ability to continue as a going concern; (iii) claims that have been filed against Group companies for some of which petitions have been applied to certify as class actions suits, and one of which was certified as a class action; and (iv) a restatement to correct the classification of Elbit Imaging Ltd.'s trading property and associated borrowings as non-current assets and non-current liabilities, respectively, appearing in this Annual Report on Form 20-F/A of Elbit Imaging Ltd., as filed with the Securities and Exchange Commission.

/s/ Brightman Almagor Zohar & Co.

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

Tel-Aviv, Israel
November 27, 2013

Advisors relied upon in the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010

Exhibit No.	Name of advisor	Nature of professional advice	Reference to the consolidated financial statements
15.3	Colliers International	Valuation of Radisson Blu Hotel and Centre Ville Apart Hotel in Bucharest, Romania as of December 31, 2010, 2011 and 2012	Note 15 (i)
15.4	Financial Immunities Ltd.	Valuation of Interest Rate Swap Transaction (IRS) of Plaza Centers N.V. ("PC") in respect of Series A Debentures as of December 31, 2011	Notes 2 AF. (1) e. and 20 (II) b
15.5	Financial Immunities Ltd.	Valuation of Interest Rate Swap Transaction (IRS) of PC in respect of Series B Debentures as of December 31, 2010	Notes 2 AF. (1) e. and 9 A. (iv)
15.6	Financial Immunities Ltd.	Valuation of Interest Rate Swap Transaction (IRS) of PC in respect of Polish Debentures as of December 31, 2012 and 2011	Note 20 (II) c
15.7	Financial Immunities Dealing Room Ltd.	Valuation of options granted by PC on March 23, 2010, May 25, 2010, August 23, 2010, November 18, 2010, August 23, 2011, and November 22, 2011 under the framework of ESOP 2008, 2011 re-pricing valuation and March 14, 2012, May 22, 2012, August 21, 2012, November 20, 2012 and ESOP No.1 re-pricing valuation on August 2012 under ESOP no.2	Note 25 B.
15.8	Financial Immunities Dealing Room Ltd.	Valuation of options granted by PC India Holdings Public Company Limited and Elbit Plaza India Real Estate Holding Limited, on March 22, 2011	Note 25 E.
15.9	Financial Immunities Dealing Room Ltd.	Valuation of options granted by PC to the Company's former Vice Chairman of the Board in respect of PC's operations in India as of December 31, 2012, 2011 and December 31, 2010.	Note 27 B (6).
15.10	Giza Zinger Even	Valuations of options granted by the Company during the year ended December 31, 2010 and 2009 under the Company 2006 and 2008 Option Plan and 2011 re-pricing valuation for the year ended December 31 2011	Note 25 A.
15.11	Jones Lang LaSalle Kft	Valuation of certain trading property of PC as of December 31, 2012, 2011.	Notes 2 AF. (1) a and 8 G.
15.12	Giza Zinger Even	Fair value estimation of financial instrument given to the Company and by the Company to Park Plaza London, as of December 31, 2012, 2011 and 2010	Note 9 (IV) b
15.13	Giza Zinger Even	Fair value estimation of financial instrument given to the Company and by the Company to Park Plaza Netherlands, as of December 31, 2012.	Note 9 (IV) b
15.14	Giza Zinger Even	Valuation of certain acquired intangible and tangible assets of EDT Retail Trust, as of June 18, 2010	Note 3.
15.15	Giza Zinger Even	Valuations of options granted by the Company during the year ended December 31, 2011, under the Elbit Medical Option Plan and re-pricing valuation for the year ended December 31, 2012.	Note 25 A
15.16	Giza Zinger Even	Valuations of options granted by Elbit Plaza USA Ltd. during the year ended December 31, 2011, under the Elbit Plaza USA Option Plan	Note 25 D
15.17	Giza Zinger Even	Valuation of InSightec Ltd. as of December 31, 2012	
15.18	De-Kalo Ben-Yehuda	Valuation of Varcode Ltd. as of December 31, 2011 2012	Note 15 (i)
15.19	Financial Immunities Dealing Room Ltd.	Methodology for estimation of discount rate applicable to the Office of Chief Scientist liability granted to InSightec Ltd.	Note 20 (i)

Annex A – integral part of the letter of consent issued by SC Colliers International SRL on November 26, 2013, Bucharest, Romania

CONSENT

We hereby consent to the reference to our valuation of the Radisson Blu Hotel and Centre Ville Apart Hotel in Bucharest, Romania, as of December 31, 2012, 2011 and 2010, appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Colliers International
Colliers International

Bucharest, Romania
November 26, 2013

CONSENT

We hereby consent to the reference to our "Valuation of Interest Rate Swap Transaction (IRS) of Plaza Centers N.V." in respect of Series A Debentures, as of December 31, 2011, appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Ltd.
Financial Immunities Ltd.

Rehovot, Israel
November 26, 2013

CONSENT

We hereby consent to the reference to our “Valuation of Interest Rate Swap Transaction (IRS) of Plaza Centers N.V.” in respect of Series B Debentures, as of December 31, 2011 and 2010, appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Ltd.
Financial Immunities Ltd.

Rehovot, Israel
November 26, 2013

CONSENT

We hereby consent to the reference to our “Valuation of Interest Rate Swap Transaction in Respect of Polish Debentures of Plaza Centers N.V.” as of December 31, 2012 and 2011, appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Ltd.
Financial Immunities Ltd.

Rehovot, Israel
November 26, 2013

CONSENT

We hereby consent to the reference to our valuation report in respect of options granted by Plaza Centers N.V. ("the Company") on, March 23, 2010, May 25, 2010, August 23, 2010, November 18, 2010, August 23, 2011 and November 22, 2011 under the framework of ESOP 2008 , 2011 re-pricing valuation report, which we prepared for the Company, and March 14, 2012, May 22, 2012, August 21, 2012, November 20, 2012 and ESOP No. 1 re-pricing valuation on August 2012 under ESOP No. 2, appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Dealing Room Ltd.
Financial Immunities Dealing Room Ltd.

Ness Ziona, Israel
November 26, 2013

CONSENT

We hereby consent to the reference to our valuation report in respect of options granted by PC India Holdings Public Company Limited and Elbit Plaza India Real Estate Holding Limited on March 22, 2011, which we prepared for Plaza Centers N.V., appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Dealing Room Ltd.
Financial Immunities Dealing Room Ltd.

Ness Ziona, Israel
November 26, 2013

CONSENT

We hereby consent to the reference to our studies relating to the valuation report of options granted by Plaza Centers N.V. ("the Company") to Elbit Imaging Ltd.'s Vice Chairman of the Board in respect of the Company's operations in India as of December 31, 2012, December 31, 2011 and December 31, 2010, appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd., as required by the U.S. Securities and Exchange Commission.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Dealing Room Ltd.
Financial Immunities Dealing Room Ltd.

Ness Ziona, Israel
November 26, 2013

CONSENT

We hereby consent to the reference to each of our studies listed below, appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.:

- Valuation report in respect of options granted in July 18, 2010 under the framework of ESOP 2006 and 2008, dated October 2010;
- Valuation report in respect of options granted in August 30, 2009 under the framework of ESOP 2006 and 2008, dated November 2009;
- Valuation report in respect of options granted in May 27, 2009 under the framework of ESOP 2006 and 2008, dated June 2009;
- Valuation report in respect of options re-priced in May 20, 2009 under the framework of ESOP 2006 and 2008, dated June 2009; and
- 2011 re-pricing valuation for the year ended December 31, 2011.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Even Ltd
Giza Zinger Even

Tel Aviv, Israel
November 26, 2013

CONSENT

We hereby consent to the reference to our valuation, of certain trading property of Plaza Centers N.V. as of December 31, 2012 and December 31, 2011, of certain trading property of Plaza Centers N.V., appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ **Jaroslav Kopac**
Jaroslav Kopac
National Director
Head of Valuation Hungary

Jones Lang LaSalle Kft

Budapest, Hungary
November 26, 2013

CONSENT

We hereby consent to the reference to our "Fair value estimation of financial instrument given to Elbit Imaging Ltd. and by Elbit Imaging Ltd. to Park Plaza London" as of December 31, 2012, December 31, 2011 and December 31, 2010, appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Even Ltd
Giza Zinger Even

Tel Aviv, Israel
November 26, 2013

CONSENT

We hereby consent to the reference to our "Fair value estimation of financial instrument given to Elbit Imaging Ltd. and by Elbit Imaging Ltd. to Park Plaza Netherlands" as of December 31, 2012, appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Even Ltd
Giza Zinger Even

Tel Aviv, Israel
November 26, 2013

CONSENT

We hereby consent to the reference to our "Valuation of certain acquired intangible and tangible assets of EDT Retail Trust" as of June 18, 2010, appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Ltd
Giza Zinger Even

Tel Aviv, Israel
November 26, 2013

CONSENT

We hereby consent to the reference to our "Valuation of options granted by Elbit Imaging Ltd. during the year ended December 31, 2011, under the Elbit Medical Option Plan and re-pricing valuation for the year ended December 31, 2012", appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Even Ltd
Giza Zinger Even

Tel Aviv, Israel
November 26, 2013

CONSENT

We hereby consent to the reference to our "Valuation of options granted by Elbit Plaza USA Ltd. during the year ended December 31, 2011, under the Elbit Plaza USA Option Plan", appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Even Ltd
Giza Zinger Even

Tel Aviv, Israel
November 26, 2013

CONSENT

We hereby consent to the reference to our "Valuation of InSightec Ltd." as of December 31, 2012, appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Giza Zinger Even Ltd
Giza Zinger Even

Tel Aviv, Israel
November 26, 2013

CONSENT

We hereby consent to the reference to our "Valuation of Varcode Ltd." as of December 31, 2012 and December 31, 2011, appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ De-Kalo Ben-Yehuda
De-Kalo Ben-Yehuda

Tel Aviv, Israel
November 26, 2013

CONSENT

We hereby consent to the reference to our "Methodology for estimation of discount rate applicable to Office of Chief Scientist liability granted to InSightec Ltd.", appearing in this Annual Report on Form 20-F of Elbit Imaging Ltd. and to the incorporation by reference of this Annual Report in the Registration Statement on Form F-3 (Registration No. 333-172122) and in the Registration Statements on Form S-8 (Registration No. 333-117509, No. 333-130852, No. 333-136684 and No. 333-152820) filed by Elbit Imaging Ltd.

This consent is not to be construed as an admission that we are an expert or that we are a person whose consent is required to be filed under the provisions of the Securities Act of 1933, as amended.

/s/ Financial Immunities Dealing Room Ltd.
Financial Immunities Dealing Room Ltd.

Ness Ziona, Israel
November 26, 2013
