PLAZA CENTERS
Annual Report 2007

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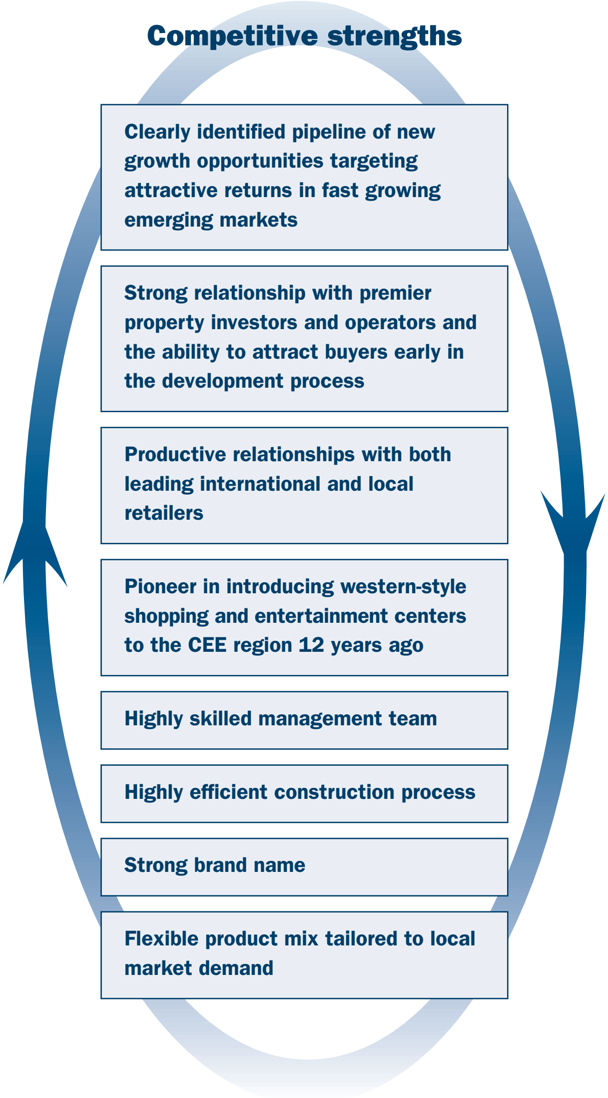


Cover image:
Arena Plaza, Budapest, Hungary

WHO WE ARE

Plaza Centers is a leading emerging markets developer of western-style shopping and entertainment centers

RECORD: ASSETS OPENINGS PROFITS ACQUISITIONS YEAR

Ownership structure

Europe Israel

↓

47.6%
Elbit Imaging
(listed on Nasdaq and TASE)

↓

68.4%
Plaza Centers N.V.

The Plaza Centers Group is a leading emerging markets developer of shopping and entertainment centers, focusing on constructing new centers and, where there is significant redevelopment potential, redeveloping existing centers, in both capital cities and important regional centers. The Group has been present in the Central and Eastern Europe region ("CEE") since 1996 and was the first to develop western-style shopping and entertainment centers in Hungary. The Group has pioneered this concept throughout the CEE whilst building a strong track record of successfully developing, letting and selling shopping and entertainment centers. Starting 2006, the Group has extended its area of operations beyond the CEE into India and is considering development opportunities in other countries, such as Russia and the Ukraine.

The Company is an indirect subsidiary of Elbit Imaging Ltd. ("EI"), an Israeli public company whose shares are traded on both the Tel Aviv Stock Exchange in Israel and the NASDAQ Global Market in the United States. The Company is a member of the Europe Israel Group of companies, which is controlled by its founder, Mr Mordechay Zisser.

The Group has been present in real estate development in emerging markets for over 12 years, initially pursuing shopping and entertainment center development projects in Hungary and subsequently expanding into Poland, the Czech Republic, Romania, Latvia, Greece, Serbia, Bulgaria and India. To date, the Group has developed, let and sold/forward sold 26 shopping and entertainment centers. Twenty-one of these centers were acquired by Klépierre, the second largest shopping center owner/operator in Europe, which owns more than 230 shopping centers in ten countries. Four additional shopping and entertainment centers were sold to the Dawnay Day Group, one of the leading UK institutional property investors which has combined gross assets in excess of US$3 billion. The remaining shopping center was sold in 2007 to active Asset Investment Management ("aAIM"), one of the UK's fastest growing commercial property investment groups. The transaction had a completion value totaling approximately €381 million, representing 20% of all real estate transactions completed in Hungary in 2007.

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

A clear and focused strategy

- Develop modern, western-style shopping and entertainment centers in capital and regional cities primarily in CEE and in India.
- Acquire operating shopping centers that show significant redevelopment potential.
- Pre-sell centers where market conditions are favourable, before or during the construction.
- Where the opportunity exists in CEE, draw upon skills of the Europe Israel Group to participate in residential, hotel, offices and other development schemes.

Objectives

- Target four to five new development projects per year.
- Target returns of at least 40-60% on equity invested.
- Dividend policy – fixed 25% of realized development profits up to €30 million, and 20-25% of the excess thereafter, as decided by the directors. Payable annually.

ARENA PLAZA

In November 2005, Plaza acquired a 122,000m² plot in the eighth district in Budapest, Hungary for the development of 180,000 Gross Built Area of shopping and entertainment center.

Value	€381m
Profit	€220m
Size (GLA)	66,000m²

Demolition works started April 2006; in May 2006 the construction works were commenced and completed in a record time of less than 18 months.

On November 15, 2007, Arena Plaza was opened to the public with 100% occupancy.

The shopping center comprises 66,000m² of gross lettable area and includes the first IMAX cinema auditorium in Budapest and in Hungary, along with other 22 screens.

The main tenants in the shopping center include international hypermarket operator (Tesco) (c. 10,500m²), the German giant Peek & Cloppenburg with their first mega store in Hungary, Zara, Hervis (sporting clothing & equipment), Electro World, Hennes & Mauritz, C&A and others.

Arena Plaza is now one of the largest and most prestigious shopping and entertainment centers in Central and Eastern Europe and the quality, size and design of this project has set new standards for the region as a whole.

On August 7, 2007, Arena Plaza was pre-sold to active Asset Investment Management ("aAIM"), one of the UK's fastest growing commercial property investments groups.

The transaction was closed at a record gross yield of 5.9%, reflecting circa €381 million asset value; this represented 20% of all real estate deals done in Hungary during 2007, and the highest volume single transaction in Hungary for that year.

The sales price reflects a material increase to the value at IPO time in November 2006, which was then €333 million.

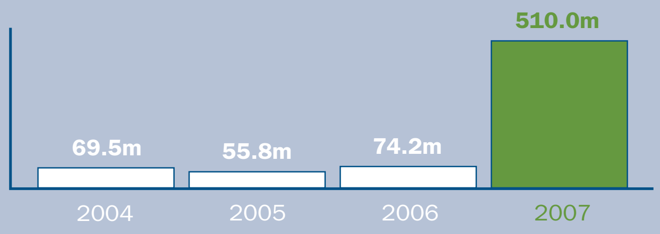
GROUP AT A GLANCE

Financial highlights

Gross revenue €m

+587%

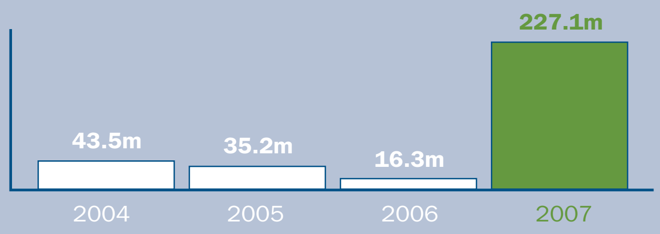
Gross revenues and gains from sale and operations of properties of €510 million (2006: €74.2 million), with no revaluation gains, as per the Group's policy.



Profit before tax €m

+1,291%

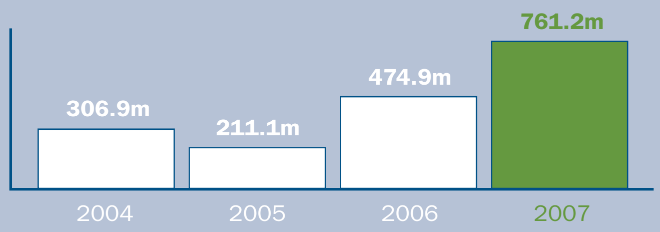
Profit before tax of €227.1 million (2006: €16.3 million) owing to the disposal of assets in Hungary and Poland.



Total assets €m

+60%

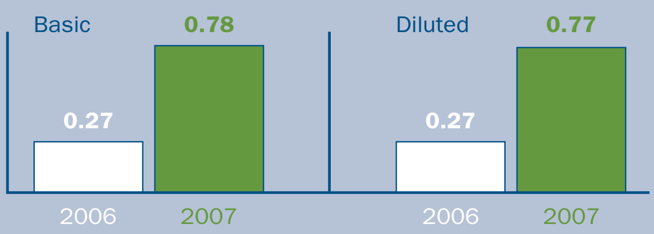
Total assets of €761.2 million (31 December 2006: €474.9 million).



Earnings Per Share €

+189%

Basic and diluted EPS of €0.78 and €0.77 (2006: both €0.27), an increase of approximately 189%.



Financial highlights continued

- Net Asset Value up 31% to €1.06 billion (IPO at October 2006: €809 million; June 30, 2007: €1.02 billion).
- Net Asset Value per share £2.68 (at IPO: £1.90; June 30, 2007: £2.37).
- Estimated value of portfolio on completion of €3.5 billion (June 30, 2007: €2.7 billion).
- Increase to €298 million on balance sheet of real estate trading properties being developed for future sale (December 31, 2006: €160 million).
- Gross proceeds raised of New Israeli Shekels (“NIS”) 305 million (approximately €53.3 million) from an issue of unsecured non-convertible notes to Israeli institutional investors in July 2007.
- Current cash position of circa €400 million; €93 million at the year end (December 31, 2006: €219 million) with working capital of €625 million (December 31, 2006: €324 million).
- First dividend payment of €57 million expected, reflecting £0.14 per share expected to be paid in June 2008, with ex dividend date of May 28, 2008 and record date of May 30, 2008.

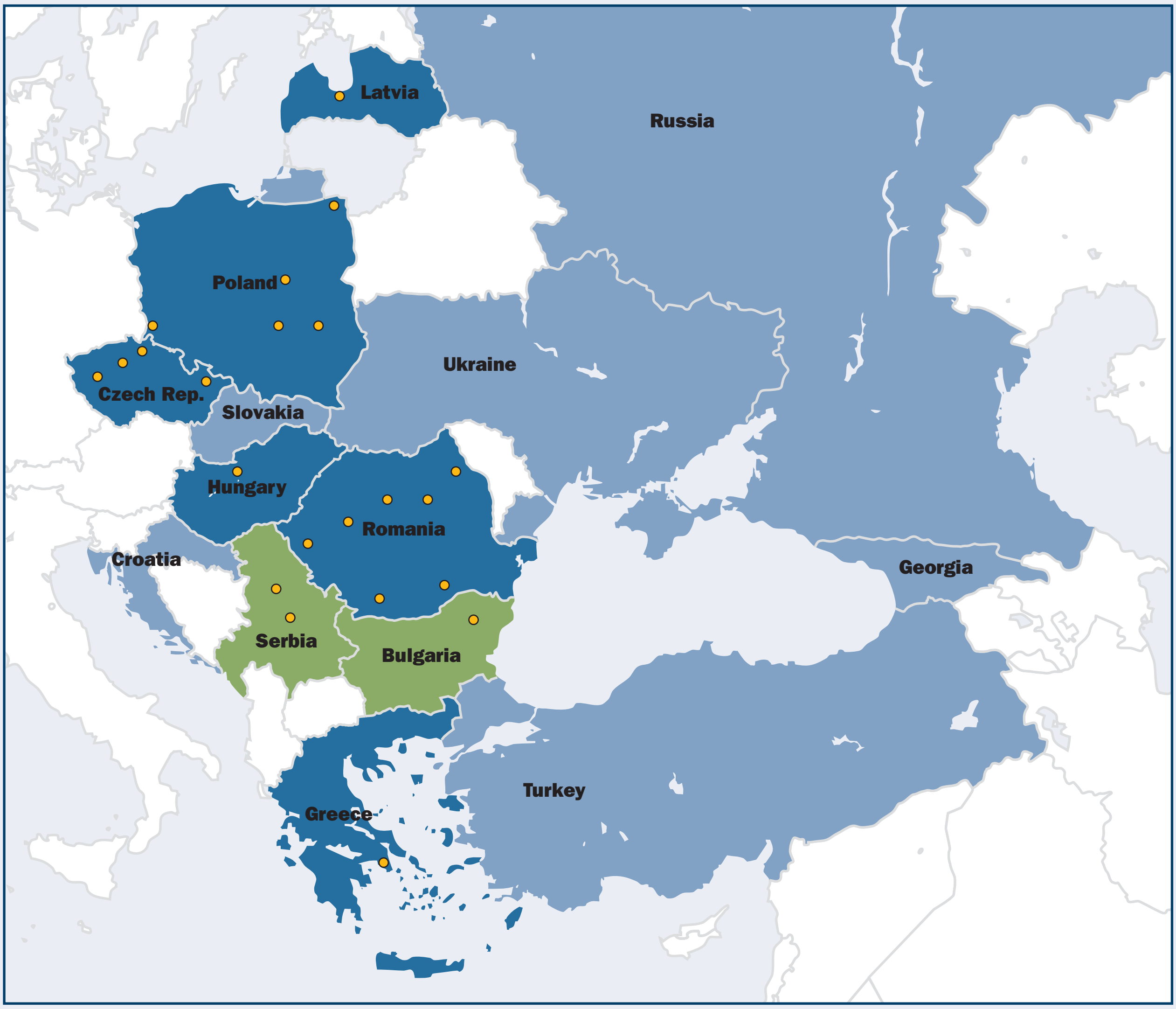
Key highlights since the period end

- Gross proceeds raised of New Israeli Shekels (“NIS”) 713.5 million (approximately €137 million) from the issue of unsecured non-convertible Series B notes (Series B notes) in Israel in February 2008 and their registration for trade on the Tel Aviv Stock Exchange (TASE), along with the registration of Series A notes.
- Acquisition of a new project in Poland in the city of Kielce (GLA 40,000m^2).
- Two further projects acquired in Romania, in Honedoara (GLA 20,000m^2) and in Targu Mures (GLA 30,000m^2). Plaza’s sixth and seventh projects in Romania will both be developed into western-style shopping centers.

Operational highlights

- Since November 2006, Plaza has utilized 100% of the IPO proceeds for its active acquisitions program and the ongoing delivery and completion of its development schemes.
- Sale of Arena Plaza in Budapest, the largest shopping center in Hungary and one of the biggest in Central and Eastern Europe (“CEE”), to aAIM for approximately €381 million. The center was 100% let on opening.
- Successful opening and handover of Sosnowiec Plaza, Lublin Plaza and Rybnik Plaza in Poland. All shopping malls were 100% let on opening, resulting in a higher closing consideration paid to the Company than disclosed in the Company’s Prospectus.
- Plzen Plaza in the Czech Republic opened with 100% occupancy.
- Dual listing on the Warsaw Stock Exchange (“WSE”), to allow higher liquidity and fulfil local investors’ demand; Plaza is the first property company with a dual listing on both the London Main Board and the WSE.
- Acquisition of four developments in Romania: Timisoara (GLA of 41,000m^2 shopping and entertainment with 30,000m^2 of office space), Miercurea Ciuc (GLA of 14,000m^2), Iasi (41,000m^2 of shopping space and 30,000m^2 of office space) and Slatina (GLA of 21,000m^2).
- Joint venture partnership created with BAS Development (“BAS”) to develop seven residential and office projects in three of Romania’s largest cities: Bucharest, Brasov and Ploiesti.
- Additional development project acquired in Poland in the city of Torun for shopping and entertainment center development with GLA of circa 45,000m^2.
- Purchase of land for an additional housing development in the Roztoky suburb of Prague in the Czech Republic.
- Second and third mixed use joint venture development projects acquired in India in the Kharadi district of Pune and in Trivandrum, the capital city of the State of Kerala, with a combined Gross Built Area (“GBA”) of approximately 420,000m^2.
- Presence firmly secured in Serbia winning a tender process run by the government of Serbia for the development of a new shopping, entertainment and business center in Belgrade with a GBA of 90,000m^2, and purchasing two additional plots in Belgrade and Kragujevac with a combined GLA of 65,000m^2.
- First project acquired in Shumen, Bulgaria with a GLA of 18,000m^2.
- A stake of 35% acquired in Uj Udvar shopping center in Budapest, Hungary (GLA of 16,000m^2), for renovation and future sale.

OUR MARKETS



Existing markets
Hungary, Poland, Czech Republic, Romania, India, Latvia, Greece.

New markets to 2007
Serbia, Bulgaria

Future interest
Ukraine, Russia , Georgia, Slovakia, Croatia, Turkey

Project locations

Emerging markets

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

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

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

Development criteria

Selection of target countries

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

Site evaluation

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

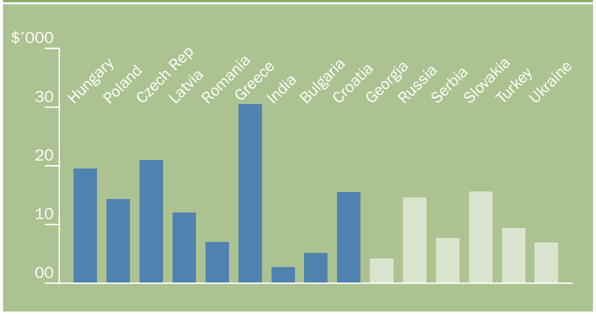
Project development

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

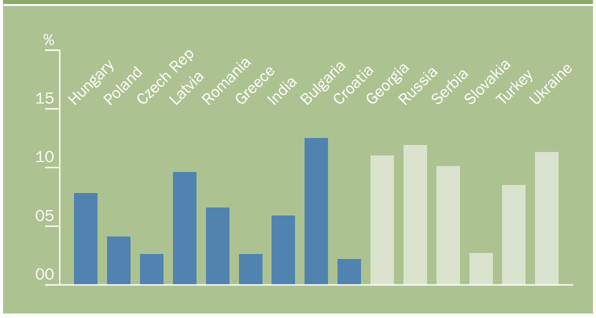
Population (m)

Hungary	9.96	Croatia	4.49
Poland	38.52	Georgia	4.65
Czech Republic	10.23	Russia	141.38
Latvia	2.26	Serbia	10.15
Romania	22.28	Slovakia	5.45
Greece	10.71	Turkey	71.16
India	1129.87	Ukraine	46.30
Bulgaria	7.32		

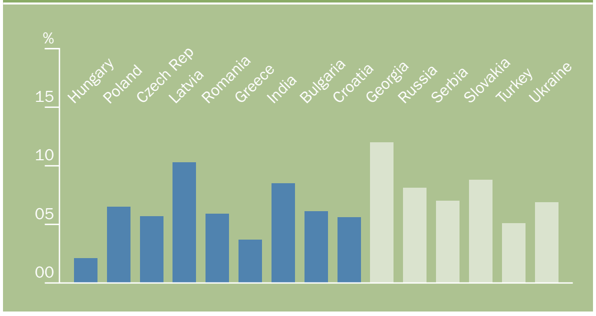
GDP per capita



Inflation rate



GDP growth



CASA RADIO

Located in the heart of Bucharest, Plaza's landmark Casa Radio scheme will comprise more than 600,000m^2 of built area including a shopping and entertainment center of over 120,000m^2, a hotel of circa 320 rooms, an apartment hotel, a convention center, 122,000m^2 of office space, 35,000m^2 of residential areas and over 200,000m^2 of parking space.

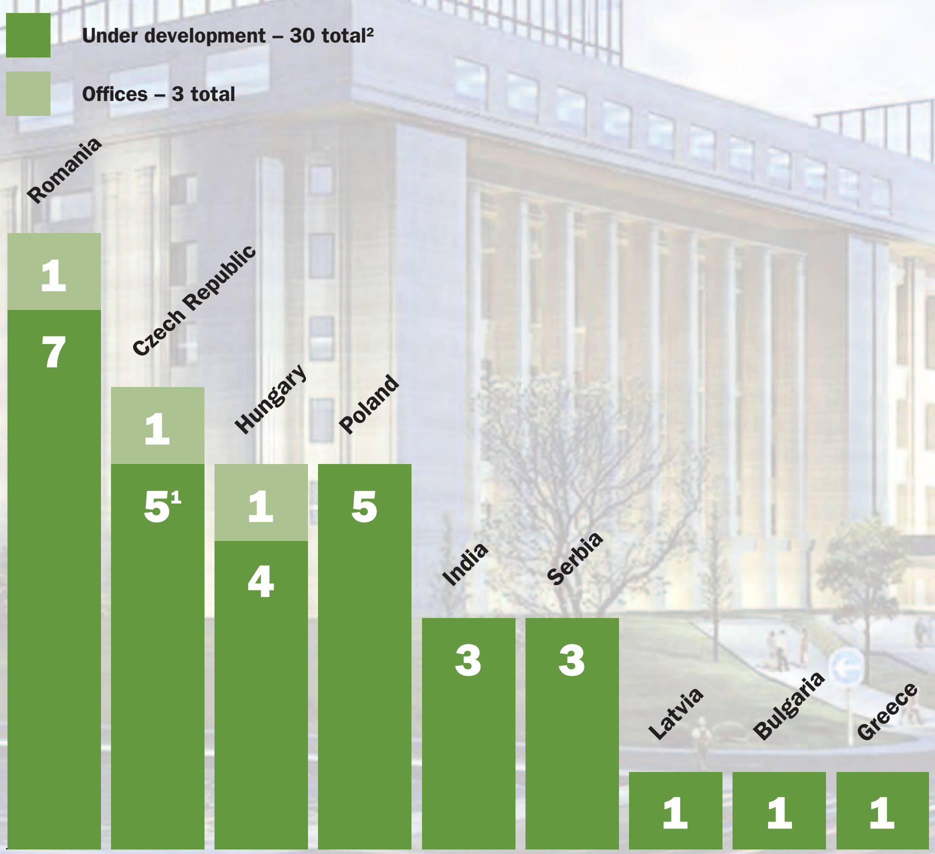
OUR PORTFOLIO AND NAV AT DECEMBER 31, 2007

	Market value on completion (€m)[1]	Market value of the land and project (€m)[1]	Total GLA (m²)	
Shopping and entertainment center developments	1,033	280	439,000	
Duna Plaza extension (development rights only)	50	25	15,000	
Dream Island (value of Plaza's 30% stake)	462	81	347,000	(GBA)
Casa Radio (value of Plaza's 75% stake)	761	191	360,000	(GBA)
Indian mixed use projects (value of Plaza's 50% stake)	144	40	527,000	(GBA)
Mixed use projects	686	127	265,000	
Other projects and developments	399	59	209,000	
Total	**3,535**	**803**	**2,162,000**	

Assets minus liabilities under IFRS	**260**
Group NAV	**1,063**
NAV per share	**2.68 GBP**

(1) Excludes Kielce Plaza, Honedoara Plaza, and Targu Mures Plaza which were not valuated since they were acquired after December 31, 2007.

Assets by location

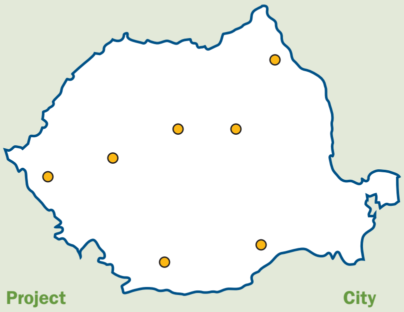


(1) Including Plzen which was completed and is pre-sold to Klépierre, handover is anticipated soon.

(2) Including two sites in Romania and one in Poland which were acquired after year end.

CURRENT DEVELOPMENTS

Romania



While operations started only in November 2006 with the acquisition of the landmark Casa Radio scheme in Bucharest, Plaza is already developing seven sites for shopping and entertainment centers and mixed used schemes and is holding one office building which operates as its head office for the country. With a population of over 22 million and currently limited commercial space, Romania is the most significant CEE country in Plaza's portfolio.

Project	City	Ownership (%)	GLA (m²)	Market value on completion (€m)[1]	Market value of the land and project (€m)[1]	Expected completion
Casa Radio	Bucharest	75	360,000	761.0	191.0	2010/2012
Iasi Plaza	Iasi	100	71,000[4]	239.6	35.2	2010
Timisoara Plaza	Timisoara	100	71,000[3]	227.1	30.1	2010
Slatina Plaza	Slatina	100	21,000	53.3	5.5	2009
Miercurea Ciuc Plaza	Miercurea Ciuc	100	14,000	41.3	4.8	2009
Honedoara	Honedoara	100	20,000	–[2]	–[2]	TBD
Targu Mures Plaza	Targu Mures	100	30,000	–[2]	–[2]	TBD
Palazzo Ducale	Bucharest	100	700	2.6	2.6	Operating

(1) Value as per King Sturge valuation reports as at December 31, 2007.
(2) The project was not valued since it was acquired after December 31, 2007.
(3) Shopping center – 41,000m², office – 30,000m².
(4) Shopping center – 41,000m², office – 30,000m².
(5) GBA.

Casa Radio

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

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

> The development of Casa Radio comprises approximately 360,000m² of GBA (excluding parking), including a 120,000m² GLA shopping mall and leisure center (one of the largest in Europe), residential units, offices, hotel, casino, hypermarket and a convention and conference hall.

Casa Radio

Iasi Plaza

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

> The shopping center comprises approximately 41,000m² of GLA and will include an anchor supermarket, a cinema, fashion retailers, a fantasy park, a food court and restaurants.

> There will be office space with GLA of 30,000m².

> **Project status:** under planning.

Iasi Plaza

Timisoara Plaza

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

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

> The planned mixed use center will have GLA of approximately 41,000m² and will include a supermarket, a cinema complex, fashion retailers, a fantasy park, a cinema, a food court and restaurants.

> There will be office space with GLA of 30,000m².

> The Company is negotiating co-operation with a strategic partner in order to sell residential construction rights attached to the plot (approximately 20,000m² of GBA).

> **Project status:** under planning.

Slatina Plaza

> Plaza plans to build a shopping and entertainment center with approximately 25,000m² of built area plus 450 parking places.

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

> The Slatina site will total approximately 21,000m² of GLA and is located in the north-western part of Slatina.

> **Project status:** under planning.

Slatina Plaza

Miercurea Ciuc Plaza

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

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

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

> **Project status:** planning and permits stage.

Timisoara Plaza

Honedoara Plaza

> The Group purchased 41,000m² plot, near to Honedoara city center.

> The site will be developed into a modern, western-style shopping and entertainment center, with a built area of 28,000m², and 20,000m² of lettable space.

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

> **Project status:** under planning.

Targu Mures Plaza

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

> The modern, western-style centre will have 30,000m² of lettable retail space, comprising more than 120 units.

> The site will also include 2,600m² of office space and 1,000 car parking spaces.

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

> **Project status:** under planning.

Palazzo Ducale

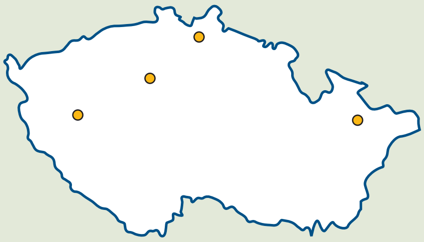
> Plaza Centers has recently acquired a prestigious French style villa converted into an office building. The building is located in the center of Bucharest and was completely renovated in 2005.

> The total constructed area is approximately 700m², built on a plot of around 600m² and consists of three floors, a basement and a garage.

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

CURRENT DEVELOPMENTS

Czech Republic



In December 2007 Plaza completed it's second shopping and entertainment center in the Czech Republic, in the city of Plzen. The center was 100% occupied upon opening, and is pre-sold to the Klépierre group. Plaza is currently busy developing two additional shopping and entertainment centers, one residential project and is operating a logistic center which is designated for a change of usage for construction of residential units.

Project	City	Ownership (%)	GLA (m^2)	Market value on completion (€m)[1]	Market value of the land and project (€m)[1]	Expected completion
Liberec Plaza	Liberec	100	17,000	78.6	51.9	2008
Opava Plaza	Opava	100	14,000	43.8	14.1	2010
Plzen Plaza	Plzen	100	20,000	60.4	60.4	Completed, pre-sold
Prague III	Prague	100	61,600	116.5	25.5	TBD
Roztoky	Prague	100	14,000	23.8	3.9	2009/2010

(1) Value as per King Sturge valuation reports as at December 31, 2007.

Liberec Plaza

- Liberec Plaza is located in the center of Liberec, a city in the north of the Czech Republic, close to the border with Germany and Poland, with a population of 98,000 inhabitants and a catchment area of approximately 350,000 inhabitants.
- The site is situated 20m from the main square.
- The planned shopping and entertainment center will comprise approximately 17,000m² GLA, and will include an anchor supermarket, fashion retailers, a food court and restaurants.
- The center will also include 850m² of residential apartments and 800m² of office space.
- **Project status:** under construction.

Liberec Plaza

Opava Plaza

- Opava Plaza is located in Opava, a city in the north-east of the Czech Republic, close to Ostrava, with a population of 65,000 inhabitants and a catchment area of 150,000 inhabitants.
- The site of 8,700m² is located 50m from the city center.
- The planned shopping and entertainment center will comprise approximately 14,000m² of GLA and will include an anchor supermarket, a cinema complex, fashion retailers, a food court and restaurants.
- The center will also include a leisure and gaming area of approximately 950m².
- **Project status:** under planning.

Opava Plaza

Plzen Plaza

> Plzen Plaza is located a few minutes' walk from the main square in the center of Plzen, a city located in western Bohemia, at the intersection of Premyslova and Jizdecka roads, one of the busiest in Plzen. Plzen is the capital city of the Plzen region. Plzen makes up approximately two-thirds of the GDP of the western Bohemia region.

> Plzen Plaza is easily accessible from all parts of the city and surrounding towns because of its efficient road infrastructure. Plzen Plaza is also well served by adjacent public transport links.

> The project is situated on the intersection of a major road leading from Plzen to Germany with tram, bus and trolleybus lines within 100m.

> The center's primary catchment area made up of the 163,000 inhabitants of Plzen and residents of neighbouring areas.

> Plzen Plaza is a three-floor shopping and entertainment center with a GLA of approximately 20,000m^2, anchored by a supermarket on the ground floor, a ten-screen cinema, and a bowling and entertainment area.

> Under the agreement entered into between the Company and Klépierre on July 29, 2005, Klépierre agreed to acquire Plzen Plaza upon completion. Handover is expected soon.

> **Project status:** completed and fully let, opened on December 5, 2007.

Prague III

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

> The buildings are located on a site of approximately 46,500m^2 with a current total GLA of approximately 44,300m^2 (44,300m^2 for the current warehouse buildings and potentially 61,600m^2 for future apartments).

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

> Due to planning difficulties, it is not possible to develop a shopping and entertainment center. Due to its strategic location and good public transport connections, the Group is currently examining the possibilities of developing a residential complex on the site with a three-phase construction program incorporating 880 apartments and 900 underground car parking spaces.

> **Project status:** currently operational as an office building. Re-zoning for residential is in progress.

Roztoky

> The Group owns 39,000m^2 of land in Roztoky, a town located north-east to Prague on the way to the airport (6,500 inhabitants). The site is located on the west side of the town, on a hill and attached to a park.

> The Company intends to develop there a residential compound which will include: 15 row houses and 64 semi-detached units of 150-200m^2 each.

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

> The construction is intended to be completed in 2009/2010.

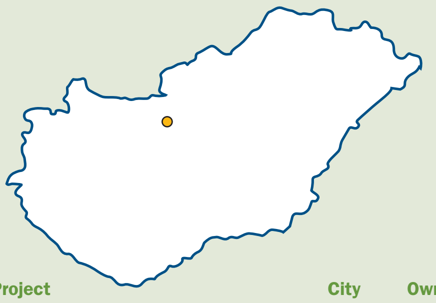
> **Project status:** planning and permits stage.

Plzen Plaza

Roztoky

CURRENT DEVELOPMENTS

Hungary



On November 15, 2007, Plaza completed its seventeenth shopping and entertainment development in Hungary. The Arena Plaza in Budapest, with over 66,000m² of GLA, is the largest shopping and entertainment center in the country. Plaza is currently holding one office building and developing four sites in Hungary, including the Dream Island mega scheme which is intended to be developed as a major resort area including hotels, recreation facilities, a casino and a business and leisure complex.

Project	City	Ownership (%)	GLA (m²)	Market value on completion (€m)[1]	Market value of the land and project (€m)[1]	Expected completion
Dream Island, Obuda	Budapest	30	350,000	462.1	81.2	2012
Arena Plaza Extension	Budapest	100	32,500	71.5	28.0	2010
Duna Plaza Extension	Budapest	Development rights only	15,000	49.6	25.0	2010
Uj Udvar	Budapest	35	16,000	7.8	4.1	2010
David House	Budapest	100	2,000	5.3	5.3	Completed

(1) Value as per King Sturge valuation reports as at December 31, 2007.
(2) GBA.

Dream Island

> Plaza holds a 30% stake in Dream Island, a prestigious development on the Obuda Island in central Budapest, with a land area of 320,000m², which is intended to be developed as a major resort area including hotels, recreation facilities, a casino and a business and leisure complex with a development budget of over €1.2 billion and 350,000m² GBA.

> **Project status:** preliminary design and excavation works are already underway, tendering casino license.

Dream Island

Arena Plaza extension

> Arena Plaza extension is a planned retail and office addition to the Arena Plaza that will comprise GLA of approximately 32,500m².

> Center areas and common areas will extend to approximately 21,000m².

> Office area – 11,500m².

> The development will offer a modern market place for international retail boutiques as well as local vendors and artisans.

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

Arena Plaza

Duna Plaza extension

- Subject to land assembly and building permits, the Group has agreed to construct an extension to the Duna Plaza shopping and entertainment center (acquired by Klépierre in 2004) with GLA of approximately 15,000m^2.
- The Group will be responsible for obtaining building permits, the construction of the extension and its lease-up for which Klépierre will pay an amount equivalent to net rentals at completion capitalized at a pre-agreed yield.
- If Klépierre elects not to commission the extension, notwithstanding that all building permits have been obtained by December 2008, the Group will be entitled to receive €10 million compensation for the unutilized building rights.
- **Project status:** planning is in the preliminary stages and subject to the acquisition of adjacent land and adoption of zoning modifications which allow for the construction of commercial and retail facilities. It is anticipated that construction will commence in 2008, assuming building permits are obtained.

Uj Udvar

- In September 2007, the Company bought a stake in a company holding Uj Udvar shopping center in Budapest. Subsequently, Plaza's interest in the asset is 35%.
- Uj Udvar is located in the center of the third district of Budapest, next to the Kolosy square on the Bécsi street, surrounded by housing estates, office buildings and family houses.
- The asset value according to which the purchase was made was €11 million (100% of the asset).
- The shopping center is currently active and has approximately 16,000m^2 of GLA and approximately 11,600m^2 of parking areas.
- Uj Udvar shopping center shows significant redevelopment potential for refurbishment and subsequent sale.
- **Project status:** operating bought for refurbishment.

David House

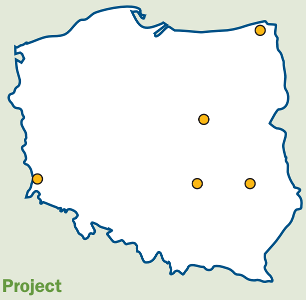
- The Company owns an office building located on Andrássy Boulevard, a prestigious location and one of the most sought-after streets in the center of Budapest with several foreign embassies situated nearby.
- The building facades of all buildings on the Andrássy Boulevard, including David House, are listed in the "World Heritage" list.
- The building was reconstructed/refurbished by the Group during 2000/2001 in co-operation with the local monument preservation authority. Many of the original features have been retained, including the inner courtyard, staircases, stucco, ornate metalwork and fine wood carvings.
- The building is located on a 796m^2 plot and consists of four floors, an atrium and a basement, with a total constructed area of approximately 2,400m^2.
- **Project status:** active office building, mainly serves as Plaza Centers headquarters.

Duna Plaza extension

David House

CURRENT DEVELOPMENTS

Poland



Plaza has already completed seven shopping and entertainment centers in Poland, including three which were completed and fully let in 2007. The Group is currently developing five sites in Poland for the development of shopping and entertainment centers.

Project	City	Ownership (%)	GLA (m^2)	Market value on completion (€m)[1]	Market value of the land and project (€m)[1]	Expected completion
Suwalki Plaza	Suwalki	100	20,000	57.5	11.5	2009
Zgorzelec Plaza[3]	Zgorzelec	100	15,000	41.8	6	2009/2010
Torun Plaza[3]	Torun	100	45,000	132.1	18.7	2011
Kielce Plaza	Kielce	100	40,000	–[2]	–[2]	2011
Lodz Plaza	Lodz	100	130,000	251	21.4	–

(1) Value as per King Sturge valuation reports as at December 31, 2007.
(2) The project was not valued since it was acquired after December 31, 2007.
(3) Torun and Zgorzelec owned by third party, non-plaza centers related companies albeit with preliminary purchase or pre-agreements in place.

Suwalki Plaza

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

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

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

> Suwalki Plaza will be a two-floor (ground and first floor) shopping and entertainment center with approximately GLA of 20,000m^2 (anchored by a supermarket, a department store, a multiscreen cinema as well as a bowling and entertainment area).

> **Project status:** under planning.

Zgorzelec Plaza

> Zgorzelec Plaza is located in Zgorzelec (35,000 inhabitants) in south-west Poland, near the German border.

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

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

> The site is situated less than five minutes walking from the railway station.

> **Project status:** under planning.

Suwalki Plaza

Zgorzelec Plaza

Torun Plaza

Torun Plaza

> Torun Plaza is located in Torun, an almost 800-year old city of 204,000 inhabitants.

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

> Torun Plaza will be a two-floor (ground and first floor) shopping and entertainment center with approximately 45,000m^2 of GLA (anchored by a supermarket, a department store, DIY, a multiscreen cinema as well as a bowling and entertainment area).

> **Project status:** planning and permits stage.

Kielce Plaza

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

> The center will be located on a 30,000m^2 plot alongside a major road and two kilometres from the heart of Kielce.

> Kielce Plaza will have a GBA of 57,000m^2 with 40,000m^2 of GLA, and approximately 1,200 car-parking spaces.

> **Project status:** planning and permits stage.

Lodz Plaza

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

> The site is located in the central university district of Lodz, the second largest city in Poland with 774,000 inhabitants, within 500m of the popular Piotrkowska pedestrian street, at the intersection of two of the main arteries into the city.

> **Project status:** under planning.

CURRENT DEVELOPMENTS

Serbia

With penetration and acquisition of its first development site in July 2007, Plaza is currently developing three sites for mixed use retail led developments. With a population of circa 10 million inhabitants and very limited western-style retail areas, Plaza sees a strong demand for its high class western-style developments.

Project	City	Ownership (%)	GLA (m²)	Market value on completion (€m)¹	Market value of the land and project (€m)¹	Expected completion
Belgrade Plaza	Belgrade	90	90,000²	147.8	33.6	2010/2011
Sport Star Plaza	Belgrade	97.5	40,000	180.3	25.2	2010
Kragujevac Plaza	Kragujevac	95	24,500	99	9.3	2009/2010

(1) Value as per King Sturge valuation reports as at December 31, 2007.
(2) GBA.

Belgrade Plaza

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

> Plaza will partner local Serbian developer for the project. The local partner will be entitled to participate in up to 10% of the project, subject to certain conditions while the project management will be rendered solely by Plaza.

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

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

> **Project status:** under planning.

Belgrade Plaza (current condition, pre-development)

Sport Star Plaza

> The Group has purchased a 30,000m² plot of land in Belgrade, the capital city of Serbia.

> Plaza plans to build on the land a new shopping and entertainment center, with a total gross lettable area of 40,000m².

> The site also has the potential for additional residential and office development as part of the shopping and entertainment center.

> **Project status:** under planning.

Kragujevac Plaza

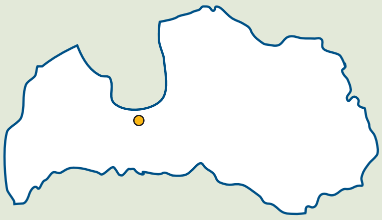
> The Group has purchased a 24,500m² plot of land in Kragujevac (population of 180,000 inhabitants and catchment area of approximately 220,000 inhabitants), the largest city in the Sumadija region and the administrative center of Sumadija district.

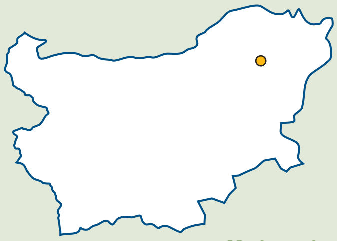
> Plaza plans to build on the land a new shopping and entertainment center, with a total gross lettable area of 24,500m².

> The shopping center will include a cinema, fashion retailer, a food court, restaurants and parking places for approximately 900 cars.

> **Project status:** under planning.

Latvia, Bulgaria, Greece





Project	City	Ownership (%)	GLA (m^2)	Market value on completion (€m)[1]	Market value of the land and project (€m)[1]	Expected completion
Riga Plaza	Riga, Latvia	50	49,000	79[2]	25.3[2]	2009
Shumen Plaza	Shumen, Bulgaria	100	18,000	52.5	12.7	2009
Helios	Athens, Greece	100	35,000	105.9	30.2	–

(1) Value as per King Sturge valuation reports as at December 31, 2007.
(2) Value of Plaza's 50% stake.

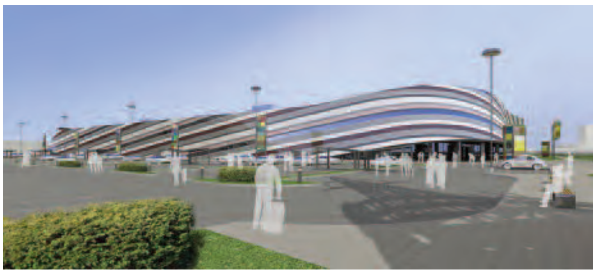
Riga Plaza – Latvia

> In March 2004, the Group entered into a 50-50 JV with an American capital fund with extensive experience in Latvia for this project. The management of the development and construction of Riga Plaza is controlled solely by Plaza Centers.

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

> Riga Plaza will be a three-floor shopping and entertainment center with a GLA of approximately 49,000m^2, anchored by a hypermarket, an eight-screen multiplex cinema and 2,500m^2 bowling and entertainment area.

> **Project status:** under construction.



Riga Plaza

Shumen Plaza

Shumen Plaza – Bulgaria

> The Group has purchased a 17,000m^2 plot of land in Shumen, the largest city in Shumen County which situated in the north-east of Bulgaria, 80km from Varna. The City of Shumen has a population of over 100,000 and is located within a larger catchment area of 205,000 people.

> Plaza plans to build on the land a new shopping and entertainment center, with a total gross lettable area of 18,000m^2 and 20,000m^2 of parking, providing 600 spaces.

> The shopping center will include a cinema, casino, video and games arcade, supermarket and a food court.

> **Project status:** under planning.

Helios Plaza – Greece

> The Group currently owns a plot of land measuring approximately 15,000m^2 located adjacent to the National Highway (Piraeus Avenue) in a highly visible and commercial position at the junction of two major avenues in the heart of Athens. The site is conveniently located in front of the ISAP metro line, which runs from Piraeus to the northern suburbs. The flyover is a major new road link that was completed on time for the 2004 Olympics.

> The site is a flat cleared area irregular in shape with frontage to Piraeus Avenue of 109m and a maximum depth of 120m.

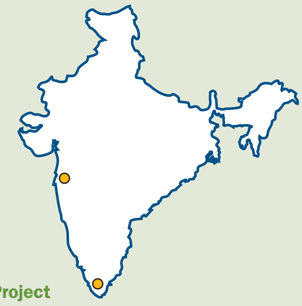
> Following the issue of a ministerial decision which changed the land use along the National Highway, the permitted land uses applicable to this site do not permit the construction of a shopping and entertainment center on this site.

> The Company is, together with its legal counsel and professional advisers, examining alternative development opportunities for this site, including the construction of offices and the sale of the land.

> **Project status:** planning and permits stage.

CURRENT DEVELOPMENTS

India



With a population of over one billion inhabitants, including over 250 million middle class population with increasing purchasing power, Plaza has determined India to be one of its key areas for future expansion.

The Group currently develops three large scale mixed use schemes, which combines shopping and entertainment centers with office/hotel development.

Project	City	Ownership (%)	GLA (m^2)	Market value on completion (€m)[1]	Market value of the land and project (€m)[1]	Expected completion
Koregaon Park[2]	Pune	50	107,500[3]	40	12.5	2010
Kharadi[2]	Pune	50	225,000[4]	60	16.7	2010/2011
Trivandrum[2]	Trivandrum	50	195,000[5]	43.4	10.6	2010/2011

(1) Value as per King Sturge valuation reports as at December 31, 2007 (value of Plaza's 50% stakes).
(2) GBA.
(3) Shopping center – 75,000m^2, Office – 32,000m^2.
(4) Shopping center – 120,000m^2, Office – 81,000m^2. Serviced apartment facility – 24,000m^2.
(5) Shopping center – 67,000m^2, Office – 90,500m^2. Serviced apartment facility – 37,500m^2.

Trivandrum

> The Group has a site in the city of Trivandrum (with direct linkage to the bypass road which is adjacent to the project premises) on which it intends to develop 195,000m^2 GBA of a shopping and entertainment center together with office premises and a serviced apartment facility.

> Trivandrum is a major city in the south of India. The city is the State of Kerala capital and houses many central and state government offices, organizations and IT companies. Apart from being the political center of Kerala, it is also a major academic hub and is home to several educational institutions. It has a population of 3,000,000 inhabitants.

> **Project status:** under planning.

Trivandrum

Kharadi

> Plaza Centers is party to a 50-50 joint venture with a local Indian developer which holds 14 acres of land (56,000m^2) and an option to acquire an additional 22,000m^2, all in the Kharadi area in Pune, southern India.

> The Company intends to develop its plots of land through the construction of a project comprising approximately 225,000m^2 GBA which will include a shopping center with a total area of approximately 120,000m^2, an office complex with an area of approximately 81,000m^2 and a serviced apartment facility with an area of approximately 24,000m^2.

> **Project status:** construction is due to commence in 2008.

Trivandrum (birds eye-view)

Koregaon Park

Koregaon Park

- Plaza Centers acquired from Elbit Imaging 100% stake in a subsidiary that holds 50% in another Indian private limited liability company ("JV"). The remaining 50% interest in the JV is controlled by one of Pune's leading developers.
- The JV owns a plot of land of approximately six acres (24,000m^2) in Koregaon Park, an up-market area of Pune, Maharashtra State, India.
- The JV plans to construct a mixed use scheme with a total GBA of approximately 107,500m^2 that will comprise a shopping center with an estimated area of approximately GBA 75,500m^2 and an office building of approximately 32,000m^2.
- **Project status:** under construction.

CHAIRMAN'S STATEMENT

We are delighted to report excellent progress across all Plaza's operations in the year ended December 31, 2007 and in the period since the Company's year end. During this time, we have not only consolidated our strong position in our established markets, but also secured sites in new locations such as Serbia and Bulgaria, and entering a new continent with our investments in India.

Mordechay Zisser

All the countries share demographic and socio-economic changes which support our business rationale for entering these promising markets.

In many senses, Plaza has achieved some major milestones in the period since January 1, 2007:

> we extended our portfolio of projects to 30;

> we have continued successfully to source exciting new opportunities across all our target markets;

> through the sale and completion of assets – most notably Arena Plaza – we achieved a profit before tax of €227 million;

> through a period of challenging conditions in the financial markets, we have raised substantial support through the bond market in Israel in two over-subscribed offerings;

> the strength of the Company's performance and financial position has enabled us to meet our strategic promise to pay our first dividend to shareholders – subject to their approval – expected in June 2008; and

> in the last quarter of the year, we achieved a dual listing of our shares on the Warsaw Stock Exchange, thereby cementing our presence in Poland.

Results

We ended 2007 with gross revenues of €510 million and a net profit of €227 million, resulting mainly from the sales of Arena Plaza in Budapest, Hungary, the Rybnik, Sosnowiec and Lublin Plazas in Poland and the Duna Plaza offices in Budapest, Hungary. The resulting rise in basic and diluted EPS was 189% to €0.78 and €0.77, respectively.

In this era where many companies present profits which result mainly from accounting revaluations, the Group has maintained its policy of not revaluing its inventory of real estate under construction. The result is that our profits are derived from pure cash gains that constitute real value to shareholders.

During the year, we invested heavily in existing assets under construction as well as continuing to acquire sites to build a substantial future pipeline. Our total investment in real estate inventories under construction ("trading properties") at year end 2007 amounted to €298 million and we expect to present significant revenues out of these inventories in 2009 and onwards.

Plaza has a current cash position of €400 million as at today's date, arising mainly from the gross proceeds of approximately €137 million from the recent bond issue in Israel and the receipt of €265 million from the sale of Arena Plaza, net of investments in current projects and new pipeline projects. It is gratifying that, in the face of tightening conditions in the world's financial markets, the Company continues to be very strongly placed to develop out its existing portfolio of projects and acquire new sites, thereby ensuring its ability to create and deliver value to its shareholders.

NAV

The Company's portfolio as at December 31, 2007 was valued by King Sturge LLP and their summary valuation is shown below.

The Company saw a significant increase in the value of some of its assets, especially with regard to the Arena Plaza in Budapest which was valued at €333 million at IPO and was sold to aAIM for circa €381 million. The three shopping and entertainment centers sold in Poland were also handed over at a price higher than their value estimated at IPO. All shopping malls were 100% let on opening, resulting in a higher closing consideration paid to the Company than disclosed in the Company's Prospectus and a combined total market value for the three properties of €129.1 million (Plaza's share), an increase of €26.6 million compared to the estimated value at the time of the Company's IPO. In addition, nine new assets were acquired and valued post the prior valuation which was done as at June 30, 2007 and by December 31, 2007, which resulted in a substantial increase in the Company's Net Asset Value. The Company's NAV was calculated as follows:

Use	€000
Market value of land and projects by King Sturge LLP[1]	802,530
Assets minus liabilities as at December 31, 2007[2]	260,058
Total	**1,062,588**

(1) Per valuation attached below.
(2) Excluding book value of assets which were valued by King Sturge LLP.

The resulting NAV per share is £2.68 (June 30, 2007: £2.37), a 41% increase compared to the IPO value and a 13% increase compared to June 30, 2007.

Strategic direction

The Company has been active in emerging markets in the CEE since 1996, when it pioneered and opened the first western-style shopping and entertainment center in the CEE in Hungary and began to implement its vision of offering western-style shopping and entertainment facilities to a growing middle class and an increasingly affluent consumer base. The strategy set out in the Company's Admission Document remains unchanged. We aim to:

> develop four to five modern western-style shopping and entertainment centers per year in the capital and regional cities of selected countries, primarily in CEE (focusing on the medium term in Poland, Czech Republic, Romania, Serbia, Bulgaria, Slovakia and Greece) and mixed use developments in Ukraine, Russia and India for the medium and long term;

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

> pre-sell, where prevailing market and economic conditions are favourable, the centers prior to, or after, commencement of construction or redevelopment; and

> where the opportunity exists in CEE and India, extend its developments beyond shopping and entertainment centers by leveraging its strengths and drawing upon the experience and skills of the Company's executive management team and the Europe Israel Group to participate in residential, hotel, offices and other development schemes where such developments form part of integrated large scale business and leisure developments. Examples include Dream Island, with 350,000m² GBA which will be developed as a major hotel, recreation facilities, casino, business and leisure complex and is located on the southern end of Obuda Island in the Danube River in central Budapest.

Unlike the rest of the world, which has several substantial gambling led leisure and entertainment resorts such as Las Vegas and Macau, Europe still lacks these types of destinations, mainly due to bureaucratic issues which prevent permits being granted. Our Dream Island development is in a prime location in the middle of Continental Europe, which over 350 million people can access within two hours flying time. During 2008, we are tendering for the casino permits from the Hungarian state for the development. As soon as those are received, we will proceed with our development in a highly focused manner and will thereby create a leading resort which will have a high impact throughout Continental Europe.

Apart from this, our next priority is the Casa Radio mixed use project which comprises a total of 360,000m² GBA in Bucharest's city center and will include one of the largest and most prestigious shopping centers in the CEE.

We look forward with confidence to building upon our proven and successful business model to expand the Company's activities both within the CEE region and in new territories such as India and thereby driving income and capital growth on behalf of our shareholders.

Key events

Since its admission to the LSE in November 2006, Plaza has invested all of the gross proceeds from its IPO, totalling £166 million, through the acquisition of 19 projects and from capital expenditure on the construction and delivery of our existing schemes.

In October, Plaza shares were listed in Poland, becoming the first property company to achieve a dual listing on the Main Board of the London Stock Exchange and the Warsaw Stock Exchange. This dual listing is aimed at generating increased liquidity in the shares, and to enable the growing investor appetite both in Poland and the wider CEE region, to invest in the Company through a local stock exchange.

In this era where many companies present profits which result mainly from accounting revaluations, the Group has maintained its policy of not revaluing its inventory of real estate under construction. The result is that our profits are derived from pure cash gains that constitute real value to shareholders.

€510m	€227m	€400m
Gross revenues	Net profit	Cash position

CHAIRMAN'S STATEMENT

Earlier in the year, Maalot, the Israeli affiliate of Standard & Poor's Rating Services, approved a rating of "A+/positive", for Plaza to raise new debt up to the amount of US$400 million. This enabled the Company to raise €53.3 million, via the private issuance of unsecured non-convertible notes to institutional investors in Israel. Since the year end, the Company has raised a further €137 million, via a public offering of notes to Israeli investors.

This raising of debt in increasingly uncertain credit markets shows the confidence of investors in our ability to deliver on our goals, and provides us with substantial additional financial flexibility and firepower to continue with our acquisition and development program.

Plaza today, equipped with high cash balances and the ability to raise additional debt, is extremely well positioned in these times of liquidity shortage in the financial markets in Europe. We forecast that the current financial crises will present significant opportunities to acquire real estates assets in attractive terms, and Plaza is well positioned to enjoy such opportunities.

Portfolio progress

The Company is currently engaged in 30 assets and projects under development located across the Central and Eastern European region and in India. The location of the assets under development, as well as office buildings, is summarized as follows:

Location	Number of assets under development	Offices
Romania	7	1
Poland	5	–
Czech Republic	5[1]	1
Hungary	4	1
Serbia	3	–
India	3	–
Greece	1	–
Latvia	1	–
Bulgaria	1	–
Total	**30**	**3**

(1) Including Plzen which was completed and is pre-sold to Klépierre, handover is anticipated soon.

The Company invested a total of €152 million in 13 acquisitions and joint ventures during the year. These consisted of a shopping and entertainment development scheme in Torun in Poland; two joint venture projects in India; an existing shopping center in Budapest, Hungary which shows significant redevelopment potential for refurbishment and subsequent sale; a residential project in Roztoky in the Czech Republic; and the acquisition of four sites in Romania at Timisoara, Miercurea Ciuc, Slatina and Iasi for shopping and retail-led mixed use developments. In addition, Plaza has penetrated into two new countries, Serbia and Bulgaria with four new developments. The Serbian projects include two in Belgrade (totalling GLA of 130,00m^2) and one in Kragujevac (24,500m^2), while the Bulgarian project, comprising GLA of 18,000m^2, is located in Shumen.

In addition, the Company created the Plaza-BAS joint venture with 50.1% stake to construct residential units and office space in Romania, currently the venture holds stakes in seven developments in three major cities in Romania.

Subsequent to the year end, we have acquired additional three plots for shopping and entertainment developments: one in Kielce, Poland and two in Romania – in Honedoara and in Targu Mures.

We are extremely enthusiastic about our entry into the dynamic Indian market with three large-scale retail-led mixed use developments, and we expect to continue to significantly expand our portfolio there over the next coming years. In general, the scale of our developments in India is larger than that in the CEE, due to the country's enormous population. In India, there are approximately 250 million middle class people and it is our belief that this serves as a sound base for many years of Plaza operating profitably in that emerging market.

In addition, in a busy period of disposals, Plaza has undertaken a number of significant transactions. The most important of these was the sale of Arena Plaza in Budapest, the largest shopping center in Hungary and amongst the largest in Central and Eastern Europe, to active Asset Investment Management Plc ("aAIM"). The transaction price amounted to €381 million compared to the estimated value at the time of the Company's London IPO of €333 million.

In addition, we have sold our 50% stake in Lublin Plaza, as well as our stakes in Rybnik Plaza and Sosnowiec Plaza in Poland to Klépierre SA. All three were 100% let on opening in 2007 and had a market value of €129.1 million (Plaza's share) compared to the estimated value of approximately €102.5 million at the time of the Company's IPO.

Since November 2006, Plaza has utilized 100% of the IPO proceeds for its active acquisitions program and the ongoing delivery and completion of its development schemes. During 2007, Plaza invested gross sums as follows:

Use	€000
Finance of current developments	265
Acquisition of pipeline projects in the CEE	130
Expansion of operations in India	30
Total	**425**

Dividend policy

The basis of the Company's stated dividend policy is to reflect the long-term earnings and cash flow potential of the Group, taking into account the Group's capital requirements, while at the same time maintaining an appropriate level of dividend cover.

In Plaza's interim results announcement in September 2007, the directors outlined their intention to make distributions based on the annual net profits of the Group starting with the 2007 financial year.

In light of the Company's strong performance, owing to the highly profitable disposal of assets, the Board of Directors will seek shareholders' approval at the Annual General Meeting on May 27, 2008 for a maiden dividend of €57 million, representing circa £0.14 per share.

If approved, the first dividend is expected to be paid in June 2008, with an ex-dividend date of May 28, 2008 for shareholders on the register at May 30, 2008.

Outlook

Plaza has become a significant force over the past 12 years in our established markets in Central and Eastern Europe, where we were the first company to develop western-style shopping and entertainment centers. We are now reaping the benefit of this experience as we expand into new countries such as India, Serbia, Bulgaria, Slovakia, Ukraine and Russia and are delighted to be reporting excellent profits for the year ended December 31, 2007. Although the Company's exact financial performance will vary, according to our development cycle which is on average between two to four years per project, we are pleased with the current diversity and timescale of our pipeline.

We also continue to drive our acquisitions program, as shown by the three projects acquired since the year end, and have built an exciting pipeline of assets, which we expect to bring to fruition during 2008 and in the following years.

The diversification of our portfolio into India, places Plaza in a strong position to maintain its rapid growth over the past years. Our activity in both the CEE and India establishes Plaza, in my opinion, as having one of the most compelling development portfolios of any European property company.

As a result of our disposals, we are delighted to be in a position to announce our first dividend payment, expected to be £0.14 per share, payable in June. On an ongoing basis, we expect to continue our completion program which we anticipate, in line with our stated goals, which we anticipate will result in strong income and capital growth for our shareholders.

We look forward to the future with considerable excitement and confidence.

Mordechay Zisser
Chairman
April 25, 2008

The diversification of our portfolio into India places Plaza in a strong position to maintain its rapid growth over the past years. Our activity in both the CEE and India establishes Plaza, in my opinion, as having one of the most compelling development portfolios of any European property company.

13.0%

Increase in NAV per share at £2.68

£0.14

Expected first dividend payment per share

CHIEF EXECUTIVE'S REVIEW

Over the past year Plaza has maintained its exemplary track record and delivered strong returns for its shareholders. In line with our strategy for the year, we have opened five shopping and entertainment centers; three in Poland, one in Hungary and one in the Czech Republic, all of which were 100% occupied upon opening.

Ran Shtarkman

We also successfully sold our landmark Arena Plaza scheme in Budapest at a fantastic 5.9% gross yield and totalling circa €381 million, €48 million more than the project's value at our admission, reflecting the highest volume transaction and circa 20% of all real estate transactions done in Hungary in 2007.

For 2007 we are presenting record profits of circa €227 million, resulting mainly from pure cash gains from our exits, with no accounting (IFRS) revaluation gains.

Our understanding of local markets and the requirements and aspirations of potential tenants and visitors is key to our success. Plaza as a brand continues to grow in repute and plays a major role in our ability to source opportunities and work closely with local authorities and communities. Through applying these same principles and our business model consistently, we have been able to achieve considerable international expansion, not least in the months since our IPO in London in November 2006.

2007 and the period since the year end have been highly active for Plaza across all areas of its business. Particular highlights include:

> **Completion of developments:** successful openings of Rybnik, Sosnowiec and Lublin shopping and entertainment centers in Poland, Arena Plaza in Hungary and Plzen Plaza in the Czech Republic, all 100% let upon opening.

> **Exits:** handover of the interests in the above mentioned Polish centers to Klépierre and the sale of Arena Plaza at terms more favorable than those reflected in our Prospectus.

> **Acquisition of pipeline:** 16 new developments acquired (19 since IPO) including first acquisitions in Serbia and Bulgaria.

> **Local presence:** further expansion with commencement of operations in Ukraine and Russia.

> **Investments:** total gross investment in current projects and new pipeline in 2007 of €425 million.

> **Financial strength and flexibility:** high cash balances and an A+/positive rating granted by the Israeli affiliate of Standard & Poor's for the raising of up to $400 million notes at favorable interest rates, followed by an updated rating of Aa3 by the Israeli affiliate of Moody's. Approximately €53 million was raised in July 2007 and an additional €137 million was raised in February 2008. Current cash balances stand at circa €400 million.

> **Stock Exchange listing:** achieving dual listing on the main market of the Warsaw Stock Exchange ("WSE"). Plaza is the first property company to achieve a dual listing on both the London Main Board and the WSE. Plaza's shares were the best performing real estate company on the London main market during 2007, recording an 18% increase and outperforming all real estate indices (EPRA Global, Europe, UK).

To date, Plaza has been involved in the development of 30 schemes in nine countries, of which seven are located in Romania, five in Poland, five in the Czech Republic (including Plzen Plaza which was completed and will be handed over soon to Klépierre), four in Hungary, three in Serbia, three in India, one in Latvia, one in Greece and one in Bulgaria. In addition, Plaza holds three additional office buildings in Budapest, Prague and Bucharest.

The projects are at various stages of the development cycle, from the purchase of land to the planning and completion of construction. In addition, Plaza is negotiating to purchase sites for the development of several additional schemes throughout the CEE region and India.

The Company's current assets and pipeline projects are summarized in the table on page 27:

	Asset/Project	Location	Nature of asset	Planned size m² (GLA)	Plaza share %	Status
1	Arena Plaza extension	Budapest, Hungary	Mixed use shopping and office scheme	32,500 (for rent and sale)	100	Under planning
2	Dream Island (Obuda)	Budapest, Hungary	Major business and leisure resort	350,000 (GBA) (for rent and sale)	30	Initial excavation works commenced Completion scheduled for 2012
3	David House	Budapest, Hungary	Headquarters/Office	2,000	100	Operational
4	Duna Plaza extension	Budapest, Hungary	Shopping and entertainment scheme	15,000	Development rights	Under planning
5	Uj Udvar	Budapest, Hungary	Shopping and entertainment scheme	16,000	35	Under planning
6	Suwalki Plaza	Suwalki, Poland	Shopping and entertainment scheme	20,000	100	Under planning
7	Lodz	Lodz, Poland	Residential, retail and offices	130,000	100	Under planning
8	Zgorzelec Plaza	Zgorzelec, Poland	Shopping and entertainment scheme	15,000	100	Construction will start in 2008; completion scheduled for 2009/2010
9	Torun Plaza	Torun, Poland	Shopping and entertainment scheme	45,000	100	Planning and permits phase
10	Kielce Plaza	Kielce, Poland	Shopping and entertainment scheme	40,000	100	Under planning
11	Plzen Plaza	Plzen, Czech Rep.	Shopping and entertainment scheme	20,000	100	Completed, pre-sold to Klépierre
12-13	Prague 3	Prague, Czech Rep.	Office, for future use for residential	61,600 (residential for sale)	100	Currently operational as an office building, Re-zoning for residential use has been received
14	Opava Plaza	Opava, Czech Rep.	Shopping and entertainment scheme	14,000	100	Construction will start in late 2008; completion scheduled for 2010
15	Liberec Plaza	Liberec, Czech Rep.	Shopping and entertainment scheme	17,000	100	Construction started in 2007; completion scheduled for 2008
16	Roztoky	Prague, Czech Rep.	Residential units	14,000	100	Construction will start in 2008; completion scheduled for 2009/2010
17	Casa Radio	Bucharest, Romania	Mixed use shopping and leisure plus residential/office scheme	360,000 (GBA)	75	Construction commenced in 2007; completion scheduled during 2010-2012
18	Timisoara Plaza	Timisoara, Romania	Shopping entertainment and office scheme	71,000	100	Under planning
19	Miercurea Ciuc Plaza	Miercurea Ciuc, Romania	Shopping and entertainment scheme	14,000	100	Construction started in 2007; completion scheduled for 2009
20	Iasi Plaza	Iasi, Romania	Shopping, entertainment and office scheme	71,000	100	Under planning
21	Slatina	Slatina, Romania	Shopping and entertainment scheme	21,000	100	Under planning
22	Honedoara Plaza	Honedoara, Romania	Shopping and entertainment scheme	20,000	100	Under planning
23	Targu Mures Plaza	Targu Mures, Romania	Shopping and entertainment scheme	30,000	100	Under planning
24	Palazzo Ducale	Bucharest, Romania	Office	700	100	Operational
25	Belgrade Plaza	Belgrade, Serbia	Shopping, office and hotel scheme	90,000 (GBA)	90	Under planning
26	Sport Star Plaza	Belgrade, Serbia	Shopping and entertainment scheme	40,000	97.5	Under planning
27	Kragujevac Plaza	Kragujevac,Serbia	Shopping and entertainment scheme	24,500	95	Under planning
28	Shumen Plaza	Shumen, Bulgaria	Shopping and entertainment scheme	18,000	100	Under planning
29	Riga Plaza	Riga, Latvia	Shopping and entertainment scheme	49,000	50	Construction started in 2007; completion scheduled for 2009
30	Helios Plaza	Athens, Greece	Shopping and entertainment or office scheme	35,000	100	Under planning and permits stage
31	Koregaon Park	Pune, India	Shopping, entertainment and office scheme	107,500 (GBA)	50	Construction started in 2007, expected completion in 2009/2010
32	Kharadi	Pune, India	Shopping, entertainment, office and apart-hotel scheme	225,000 (GBA)	50	Under planning
33	Trivandrum	Kerala, India	Shopping, entertainment, office and apart-hotel scheme	195,000 (GBA)	50	Under planning

CHIEF EXECUTIVE'S REVIEW

Details of these activities by country are as follows.

Hungary
From 1996/2004, Plaza built, managed and eventually sold 16 shopping centers throughout Hungary. During 2007, Plaza continued to develop and completed the Arena Plaza, its landmark shopping center scheme in central Budapest, comprising approximately 66,000m^2 GLA, making it one of the biggest in CEE. The mall was pre-sold to aAIM in August 2007. The mall was opened to the public in November 2007 with 100% occupancy on opening and has been successfully handed over to aAIM.

In addition, Plaza holds a 30% stake in Dream Island, a prestigious development on the Obuda Island in central Budapest, with a land area of 320,000m^2, which is intended to be developed as a major resort area including hotels, recreation facilities, a casino and a business and leisure complex with a development budget of over €1.2 billion and 350,000m^2 GBA. Preliminary design and excavation works are already underway.

Two further projects are in feasibility and planning stages, namely the extension of the Duna Plaza and the Arena Plaza, both of which are located in central Budapest.

In accordance with its strategy to acquire operating shopping centers that show significant redevelopment potential for refurbishment and subsequent sale, in September 2007, the Company bought a 35% stake in the Uj Udvar shopping center in Budapest, Hungary.

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

Poland
Between 2001 and 2005, Plaza built, managed and, in 2005, sold four shopping centers located across Poland. In 2007, the Company completed the construction of three shopping centers in Rybnik (approximately 18,000m^2 GLA), Sosnowiec (approximately 13,000m^2 GLA) and Lublin (50% held, approximately 26,000m^2 GLA). All three were 100% let upon opening and have all been handed over to Klépierre on better terms than those mentioned in our Prospectus.

In addition, Plaza continued the feasibility and planning of its developments scheme in Lodz (designated for residential use) and Suwalki (designated for retail use), as well as an acquisition of an additional plot of land for a planned shopping center in Torun (comprising approximately 45,000m^2 of GLA) and in Zgorzelec (comprising approximately 15,000m^2 of GLA).

Since the year end, Plaza has acquired another development in the city of Kielce (comprising approximately 40,000m^2 of GLA).

Czech Republic
Construction of the Plzen Plaza (approximately 20,000m^2 GLA) commenced in 2006 and was completed in Q4 2007.

Plaza has purchased 39,000m^2 of private land in Roztoky, a town close to Prague, which includes a valid planning permit for 81 family homes. It is intended to commence construction in 2008.

The Company continues to own an income-yielding office building in Prague which is being re-zoned for a scheme of 61,600m^2 of residential units.

Romania
In November 2006, Plaza acquired a 75% interest in a company which has entered into a public-private partnership agreement with the government of Romania to develop the approximately US$1 billion budget Casa Radio (Dambovica) scheme in Bucharest, the largest development plot available in the city center. The Romanian government will remain a 15% partner in the scheme. The development of Casa Radio comprises approximately 360,000m^2 of GBA, including a 120,000m^2 GLA shopping mall and leisure center (one of the largest in Europe), residential units, offices, hotel, casino, hypermarket and convention and a conference hall.

The Group continued its rapid expansion in Romania, with the purchase of four strategically important sites in 2007 and two more in 2008. It has acquired a plot in Timisoara for the development of a mixed use project comprising approximately 41,000m^2 GLA of shopping space and 30,000m^2 GLA of office space; a plot in Iasi for the development of a mixed use project providing approximately 41,000m^2 GLA and 30,000m^2 of office space; a site in Miercurea Ciuc which will be developed into a shopping center with approximately 14,000m^2 of GLA; a site of 20,000m^2 of GLA in Monedoara for the development of a shopping and enterainment center and another site in Slatina for the development of a shopping and entertainment center of GLA 21,000m^2.

In addition, Plaza has a 50.1% stake in the Plaza-BAS joint venture. Currently the joint company holds seven projects in Bucharest, Brasov and Ploiest with a budget of €290.4 million and expected sales value of €410.6 million:

	Fountain Park	Acacia Park	Carino Tower	Green Land	Poiana Brasov	Primavera Tower	Pinetree Glade	Total
Location	Bucharest	Ploiest	Ploieast	Ploieast	Brasov	Brasov	Brasov	–
Plaza-Bas Share %	25	50	50	50	50	50	50	–
Nature	Residential	Residential	Offices	Residential	Residential	Offices	Residential	–
Size (m^2)	18,000	30,000	9,600	24,000	130,000	10,000	35,000	256,600
Budget (MEUR)	17.7	27.4	18.4	20.7	155	17.6	33.6	290.4
Sales value (MEUR)	19.9	34.1	29.1	27.7	236	22	41.8	410.6

Any additional value above book value of the Plaza-BAS venture assets has not been included in the NAV and was not valued by King Sturge. In light of this, we believe they offer a future potential uplift in value for shareholders.

Since the year end, Plaza has acquired its sixth and seventh developments in Honedoara (comprising approximately 20,000m^2 of GLA) and Targu Mures (comprising approximately 30,000m^2 of GLA).

Latvia
Construction works started in March 2007 on the Riga Plaza project comprising approximately 49,000m^2 of GLA in Riga, Latvia (a 50% holding). The scheme is located on the western bank of the river Daugava by the Sala Bridge and Plaza expects this project to be completed during 2009.

Serbia
Serbia is one of the Eastern European nations where Plaza sees strong potential for future investment opportunities.

During 2007, Plaza successfully established its presence in Serbia with the acquisition of three new plots. The first of these was a state-owned plot and building in Belgrade, Serbia, which Plaza secured in a competitive tender. The building was formerly occupied by the federal ministry of internal affairs in the former Yugoslavia, and is located in the center of Belgrade in a neighbourhood of government offices and foreign embassies.

Plaza believes that the Belgrade market offers particular potential, with a catchment area of approximately 2.5 million people. Additionally, as Belgrade has not to date benefited from institutional grade investment in retail or commercial real estate, this development will have particular significance in terms of providing a new commercial and cultural destination for both domestic and international visitors.

Plaza has partnered a local Serbian developer for the project who will be entitled to participate in up to 10% of the project, subject to certain conditions, with project management handled solely by Plaza.

The development will comprise a shopping gallery, offices and hotel totalling circa 90,000m^2 of GBA.

In December 2007, the Company won a second competitive public auction announced by the government of Serbia for the development of a new shopping and entertainment center with a total GLA of approximately 40,000m^2 in Belgrade, Serbia. The site is located on one of the main roads leading into the center of Belgrade. The site also has the potential for additional residential and office development as part of the shopping and entertainment center.

An additional development in Serbia is located in Kragujevac, a city of 180,000 inhabitants. Kragujevac is the administrative center of the Šumadija district and the fourth largest city in Serbia. The planned shopping and entertainment center will comprise approximately 24,500m^2 GLA and will include a cinema complex, fashion retailers, a food court, restaurants and parking places for approximately 900 cars.

Greece
Plaza owns a 15,000m^2 plot of land centrally located in Piraeus Avenue, Athens. Plaza is currently working on securing building permits for the construction of a shopping center, or alternatively an office complex, totalling approximately 35,000m^2 of GLA.

Russia and Ukraine
New country directors have been appointed to these countries to focus on possible investments and to gain deeper understanding of the local market. Negotiations are currently underway to purchase plots in the major cities of these countries.

India
As outlined in its Prospectus, Plaza has identified strong potential in India and, during the reporting period, acquired two development projects in a 50-50 joint venture in the Kharadi district of Pune, totalling approximately 225,000m^2 of GBA and in Trivandrum, the capital city of the State of Kerala, of approximately 195,000m^2 GBA. Both projects are for mixed use development (shopping center, offices, hotel and serviced apartments), with Kharadi featuring 120,000m^2 of shopping space, office space of approximately 81,000m^2 and 24,000m^2 of serviced apartments. The project in Trivandrum will provide shopping space of some 67,000m^2, an office complex of 90,500m^2 and 37,500m^2 of serviced apartments.

Prospects

Despite the global economic slowdown, we continue to see strong demand for our high-quality shopping and entertainment centers, from both tenants and investors. This has ensured that we have successfully been able to progress our business model and drive to expand our international presence.

With current cash balances of circa €400 million, we see exciting opportunities for Plaza to expand its portfolio and to take part in attractive new investments in real estate, broadly unaffected by conditions in the current credit markets.

Our diversification into India also creates the opportunity for Plaza to continue to expand and enjoy high rates of return as demonstrated in the past. A middle class population of over 250 million can support such expansion and returns for many years.

We also continue to examine other future emerging market opportunities, which we consider to offer strong potential consumer demand for Plaza's development projects. We are confident that the Company will achieve its goal to complete at least four to five developments each year and, thereby, deliver strong income and capital growth for our shareholders. We look forward to continued progress in 2008.

Ran Shtarkman
President and CEO
April 25, 2008

FINANCIAL REVIEW

The 2007 financial statements reflect the completion of five shopping and entertainment centers, the realization of four shopping and entertainment centers and one office building, as well as substantial investment in current projects and in new pipeline of additional 13 projects acquired during the year.

Roy Linden

Results

In line with the Group's commercial decision to focus its business more on the development and sale of shopping and entertainment centers, the Group is classifying its current projects under development as trading properties rather than investment properties. Accordingly, revenues from the sale of trading properties are presented at gross amounts. The Group is not revaluating its trading properties and therefore profits from these assets represent actual cash-based profits due to realizations.

Revenues for the year ended December 31, 2007 increased to €510 million (2006: €74 million), mainly due to the sale of Arena Plaza in Budapest, Rybnik Plaza, Sosnowiec Plaza and Lublin Plaza in Poland.

Gains from the sale of investment property decreased to €2.1 million (2006: €13.7 million), mainly due to the policy of the Group to classify properties as trading properties. The gain in 2007 represents the net result from the sale of the Duna Plaza Offices in Budapest, while the 2006 gain was mainly from the Poznan Plaza price adjustment.

The cost of operations is attributable to the cost of projects sold mentioned above (Arena, Rybnik, Sosnowiec and Lublin) which were classified as trading properties (inventories).

Administrative expenses increased to €23 million (2006: €8 million), mainly due to an increase in the Company's volume of activities, including moving into new markets, and to non-cash share-based payments (€7.6 million) (2006: €1.2 million) which were not in place for most of 2006 (most options were granted at the IPO date, in late October 2006). In addition, the options are amortized in the profit and loss statement using the conservative graded vesting method as required by IFRS. Using this method, the majority of the expense (approximately 60%) is recognized during the first year of vesting, i.e. most of the expenses for the options granted at IPO are reflected in the 2007 financials statements.

Additional reasons for the increase of the administrative expenses are the costs for the registration of the Company's shares in the Polish Stock Exchange (circa €800,000) and the costs of the openings of the five shopping and entertainment centers which were opened to the public in 2007 (approximately €2.5 million). These costs are included as administrative expenses under IFRS and are not part of the construction of the relevant asset.

Net finance result was positive in 2007 at €9.3 million (2006: €0.6 million positive) due to higher cash balances and more favourable lending terms achieved.

Tax expenses continue to remain very low at €90,000 (2006: €1.6 million), reflecting less than 1% (2006: 11%) of profits before tax and resulting from the Group's favourable tax structure.

Profit for the year amounted to €227 million in 2007, above market expectations, compared to €14.7 million in 2006 and again reflects the sale of five assets as mentioned above in comparison with the one asset sold in 2006 (Novo Plaza in Prague).

Basic and diluted earnings per share for 2007 were €0.78 and €0.77, respectively (2006: both €0.27). The increase is not proportional to the increase in profits, as the public share offering took place only in late 2006 when the number of outstanding shares was increased significantly.

Balance sheet and cash flow

The balance sheet as at December 31, 2007 showed current assets of €721 million compared to current assets of €414 million at the end of 2006. This rise primarily results from Plaza's realization of five assets and investment in our substantial pipeline of development projects.

The cash position of cash and short-term deposits decreased to €93 million (2006: €219 million), mainly due to acquiring 13 pipeline projects during the period and completion of construction of current projects, net of receipts from the five trading properties and one investment property sold. As of today and following the collection of the Arena sale proceeds and the Notes issuance affected in February 2008, the Company has cash balances of approximately €400 million.

Investment property decreased to €13 million (2006: €26.6 million), due to the sale of Duna Plaza Offices. Currently only the Prague 3 logistic building is classified as an investment property.

Total bank borrowings (long and short term) decreased to €6 million (2006: €57 million) reflecting the repayment of the loans used to construct the five trading properties following their sale.

Long-term debentures reflect bonds issued in July 2007 in Israel, hedged to the euro, and bear an effective interest rate of Euribor+1.69%.

Trade payables and other liabilities increased to €19 million and €52 million, respectively (2006: €16 million and €3 million, respectively), due to the increase in the volume of construction activities.

Related party balances are presented gross (both in the assets and in the liabilities sections of the balance sheet) as the balances are with different Plaza Group subsidiaries and therefore netting was not possible under IFRS. However, the net balance of the Plaza Group with its controlling shareholders is approximately €5.4 million (liability), from which €1.9 million is due to a provision in respect of project management fees charged by the Control Centers group, relating to project supervision services granted in respect of the extensive development of projects within the Group. In addition, the balance also includes re-charge of expenses paid on behalf of Plaza by its parent company, mainly in India. Related party balances which relate to balances of different Plaza Group subsidiaries with the parent company are eliminated in the consolidated financial statements.

In conclusion, Plaza's balance sheet reflects significant strength. Our increasing balance of inventories under construction will result in successful yield in the near future and will generate substantial revenues in the upcoming years. Plaza has proven to be able to generate substantial profits, which arise from actual cash realization of assets and not from revaluations. Our high level of liquid balances, supported by the ability to raise additional notes and bank financing, will enable us to bring the current portfolio into fruition and to expand our portfolio with additional exciting developments in current and future markets and to generate substantial added value to our shareholders.

Roy Linden
Chief Financial Officer
April 25, 2008

Plaza's balance sheet reflects significant strength. Our increasing balance of inventories under construction will result in successful yield in the near future and will generate substantial revenues in the upcoming years. Plaza has proven to be able to generate substantial profits, which arise from actual cash realization of assets and not from revaluations.

€227m

Profit

€721m

Current assets

BOARD OF DIRECTORS

Mordechay Zisser

Edward Paap

Ran Shtarkman

Marius van Eibergen Santhagens

Shimon Yitzhaki

Marco Wichers

Executive directors

Mordechay Zisser, age 52, Chairman
Mordechay Zisser is the founder and Chairman of the Europe Israel Group of companies, of which Plaza Centers is a member. During more than 25 years' active involvement in some of the world's most prestigious real estate developments, he has led successful projects in Israel, Western Europe, Central and Eastern Europe (CEE), South Africa and India.

Ran Shtarkman CPA, MBA, age 40, President and CEO
Ran Shtarkman joined Plaza Centers in 2002, becoming Chief Financial Officer in 2004 and CEO in 2006. He was additionally appointed President in 2007. Previous roles include CFO of SPL Software Ltd, Finance and Administration Manager for Continental Airlines' Israeli operations and Controller of Natour Ltd.

Non-executive directors

Shimon Yitzhaki CPA, age 52
Shimon Yitzhaki, President of Elbit Imaging Ltd since 1999, became a non-executive director of Plaza Centers in 2006 following six years as an executive director – one of several key roles he has held within the Europe Israel Group, which he joined in 1985.

Edward Paap, age 44
Edward Paap is an expert in international tax, having gained a master's degree as a tax lawyer from the University of Leiden. Following seven years as a tax adviser in a medium-sized accountancy practice, he is now Managing Director of an Amsterdam-based Trust Office with many international clients.

Independent non-executive directors

Marius van Eibergen Santhagens, age 56
Marius van Eibergen Santhagens has over 25 years' at the forefront of corporate finance and change management, with a specialist focus on leisure since 2000. Today, he is General Manager and owner of Leisure Investments & Finance B.V., prior to which he was a consultant at Beauchamp Leasing and Metro B.V. and held a number of positions at Generale Bank Nederland B.V..

Marco Wichers, age 48
Marco Wichers is CEO and owner of AMGEA Holding B.V. and CEO of real estate consultancy AMGEA Vastgoed Adviseurs B.V.. Previously he was CEO of two New York-based manufacturing companies – Branco International Inc (1988 – 95) and Cravat Club Inc (1983 – 95), which he also owned.

SENIOR MANAGEMENT

Roy Linden (31) BBA, CPA (USA, Isr), Chief Financial Officer
Roy Linden joined Plaza Centers in November 2006 and acts as the Group's CFO. Prior to joining the Company, he spent nearly four years at KPMG in Hungary, acting as Manager in the real estate desk, specializing in auditing, business advisory, local and international taxation for companies operating throughout the CEE region. He also spent three years at Ernst and Young in Israel, as a senior member of an audit team specialized in High-Tech companies.

Avihu Shur (70) BSc, MSc Technion (Israel Institute of Technology – Haifa), Chief Engineer
Avihu Shur joined the Company in 2004 and was appointed Chief Engineer and Head of Construction. Prior to this, he acted as Chief Engineer of the Herzlia Marina project in Israel, which was developed by an affiliate of the Company (1997/2004). He has held a series of senior engineering positions, including: Chief Engineer of Ofer Brothers Properties Ltd (1992/1997); Head of Building Department, Solel Boneh International (1988/1992); Chief Engineer of Reynolds Construction Company, New York, USA (1986/1988); and Regional Manager for Solel Boneh International in West Africa (Ivory Coast, Togo, Cameroon, Nigeria) (1978/1986).

Uri Shetrit (56) B. Arch & T.P., MAUD, Chief Architect
Uri Shetrit is the Chief Architect of Plaza Centers and is in charge of the whole Group's architectural design and urban planning activities in Europe and Asia. Before becoming the Chief Architect for the Group, he was the Director of urban planning, urban design and architectural administration for the City of Jerusalem, Israel from 2000 to 2005. He is also the Principal of Uri Shetrit Architects Ltd., established in 1993. Prior to this, he collaborated with Moshe Safdie and Associates from 1982, for over 12 years, at which time he held the positions of Associate and Principal, both in Boston and in Jerusalem. Since 2003, he is also the Chairman of the Israel National Council of Engineering and Architecture. He is a graduate of Harvard University's Graduate School of Design (1982, MAUD), and a graduate of the Israel Institute of Technology – Technion (1980, B.Arch.and T.P.).

Uzi Eli (32), Attorney at Law (Isr.), MBA, General Counsel and Compliance Officer
Uzi Eli joined Plaza Centers as General Counsel and Compliance Officer in 2007. For the past five years, he has practiced law in two of the leading commercial legal firms in Israel. His main practice was concentrated in commercial and corporate law, providing ongoing legal services to corporate clients (mainly to Hi-Tech and Bio-Tech companies, and venture capital funds) in all aspects of corporate governance, and representation in various transactions, such as financing and M&A transactions and other wide varieties of licensing and technology transactions.

Luc Ronsmans (57), MBA, Netherlands, Romania and Greece Country Director
Luc Ronsmans joined the Europe Israel Group in 1999. Located in Amsterdam and Bucharest, he acts as Manager for European operations for both the Company and its Group affiliates. Prior to joining the Europe Israel Group, he was active in the banking sector, holding managerial positions with Manufacturers Hanover Bank, Continental Bank (Chicago), AnHyp Bank and Bank Naggelmachers in Belgium.

Tal Ben Yehuda (39) (MSc in Business Management and Accounting), Czech Republic, Slovakia and Baltic states Country Director
Tal Ben Yehuda acts as Country Director for the Czech Republic, Slovakia and baltic states, having joined the Group in 2002. Prior thereto, he held a series of managerial positions with companies active in Europe and Israel.

Eli Mazor (53) (Undergraduate degree in business administration), Regional Marketing Director and Poland Country Director
Eli Mazor, who acted as a Regional Marketing Director in Poland since joining the Group in 2005 was appointed Poland Country Manager and Regional Marketing Director in 2007. Prior thereto, he acted as CEO of a shopping center in Israel.

Yoram Barak (49) B.A, India Country Director
Yoram Barak is the Country Director of the real estate activities in India. Prior to this, he was the CEO of several real estate development and construction companies which developed residential, commercial areas and clinic centers. He enabled the advancement of the companies managed by him through the implementation of advanced systems and equipment and the use of high-quality materials, which enabled delivering superior products in record time. He is a graduate of GE studies of marketing and sales for CEO's, and a graduate of Economics and Business Administration from the Hebrew University in Jerusalem.

Yossi Shalev (58) BA, (Geography), Business Administration diploma, Russian Federation Country Director
Yossi Shalev joined Plaza Centers in 2007. Prior to his current assignment he served for seven years as Deputy CEO (construction and logistics) at "Mishan ltd" – Israel's largest operator of senior's communities and children's educational centers statewide, with more then 1,500 employees and 5,000 tenants. Prior to this position he held a senior governmental position in Israel for 29 years, in charge of logistic and construction operations.

Rostislav Levinzon (43), Master of Engineering, Ukraine Country Director
Rostislav Levinzon joined the Company in 2007 and acts as Country Director for the Ukraine. Prior to joining the Company, he provided advisory and business supporting services to investment, engineering and development companies dealing with property, industry and finance projects in the Ukraine, particularly international financial institutions involved in large-scale projects with governmental enterprises. Prior to that, he served for four years as Deputy General Manager for the Ukrainian conglomerate with its core competence in the airspace industry, with responsibility for the overall management and strategic business development. Prior to this, he worked in Israel as Deputy General Manager for the Israeli branch of a Japanese company, the leading manufacturer of medical Hi-Tech equipment and materials worldwide.

Sagiv Meger (30), Republic of Serbia Country Director
Sagiv Meger joined the Plaza team in late 2007 as the Country Director of Plaza Centers Serbia. Prior to joining Plaza Centers he was the COO of a company based in Angola, Africa, for four years, supporting over 50 various projects, ranging from telecommunications, real estate, agriculture to military intelligence. He gained an extensive range of first hand experience in previous management positions.

DIRECTORS' REPORT

Principal activities and review of business

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

Since then, it has expanded its CEE operations into Poland, Czech Republic, Latvia, Romania, Bulgaria, Greece, and Serbia. It has recently also extended its activities into India, and is open to considering further opportunities in Asia.

The Group has been present in real estate development in emerging markets for over 12 years, initially pursuing shopping and entertainment center development projects in Hungary and subsequently expanding into Poland, the Czech Republic, Greece, Latvia, Romania, Bulgaria, Serbia and, more recently, India. To date, the Group has developed, let and sold/forward sold 26 shopping and entertainment centers and one office building. Twenty one of these centers were acquired by Klépierre, the second largest shopping center owner/operator in Europe, which owns more than 230 shopping centers in ten countries. Four additional shopping and entertainment centers were sold to the Dawnay Day Group, one of the leading UK institutional property investors which, as at December 31, 2007, had combined gross assets in excess of US$4 billion. A shopping center was forward sold to active Asset Investment Management ("aAIM"), one of the UK's fastest growing commercial property investments groups, on August 7, 2007. The transaction, which was finalized in December 2007, had a completion value totaling approximately €381 million; this compares to the estimated value of Arena Plaza of approximately €333 million at the time of the Company's admission to trading on the London Stock Exchange in October 2006. The net cash consideration received by Plaza in January and March 2008 was approximately €265 million.

For a more detailed status of current activities and projects, the Directors refer to the Chairman's statement and the Chief Executive's review on pages 22 to 26 respectively.

Pipeline projects

The Company is active in seeking new sites and development opportunities, and is actively involved in securing the necessary contracts to undertake further projects in countries including Poland, Czech Republic, Slovakia, Serbia, Bulgaria, Romania and India. It is also analyzing further countries that meet its development parameters and investment criteria, including Russia, the Ukraine, and Moldova.

Going concern

The directors' review of the 2008 budget and longer term plans for the Company has satisfied them that, at the time of approving the financial statements, it is appropriate to adopt the "going concern" basis in preparing the financial statements of the Company.

Dividends

As explained in the Company's Admission Document, the directors intend to adopt a dividend policy which will reflect the long-term earnings and cash flow potential of the Group, taking into account the Group's capital requirements, while at the same time maintaining an appropriate level of dividend cover.

Subject to all of these factors, and where it is otherwise appropriate to do so, the directors intend to make distributions out of the annual net profits of the Group starting with the 2007 financial year. Dividends are expected to be paid at the rate of 25% on the first €30 million of such annual net profits, and thereafter at the rate of between 20% and 25%, as determined by the directors, on any additional annual net profits which exceed €30 million. The dividends will be paid following the publication of the financial results on the basis of the aggregate of the annual net profits accumulated during the preceding financial year. The first dividend will be paid in June 2008 following the 2007 results, with ex-dividend date of May 28, 2008 to shareholders of record at May 30, 2008.

Directors' interests

The directors have no interests in the shares of the Company. Details of the directors' share options are given on page 42 of this report.

Directors and appointments

The following persons served as directors as at December 31, 2007:

Mordechay Zisser, Chairman
Ran Shtarkman, President and CEO
Shimon Yitzhaki, non-executive director
Edward Paap, non-executive director
Marius van Eibergen Santhagens, independent non-executive director
Marco Wichers, independent non-executive director

Financial risk management

The Company faces a number of risks in the areas of credit, interest rates, currency and real estate. The Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group requires collateral in the form of a bank guarantee or deposit equal to three months of rent from tenants of shopping centers. In respect of currency risk, and in connection with NIS linked debt securities issued in July 2007 and in February 2008, and as the Company's functional currency is the EUR, the Company is hedging the future expected payments in NIS (principal and interest) to correlate with the EUR, and by that eliminating the main currency risk it faces. Real estate risks are mainly from obtaining permits and also from potential penalties. The Company is taking all required steps and employing professionals in order to minimize real estate risks.

Substantial shareholdings

Except as disclosed under "directors' interests" above, the Company is not aware of any interests amounting to 3% or more in the Company's shares besides that of its parent company.

Employee involvement

The Company's employees are vital to its ongoing success. It is therefore important that all levels of staff are involved in its decision-making processes. To this end, the Company has an open culture and flexible structure, and staff are encouraged formally and informally to become involved in discussions on the Company's future strategy and developments. An employee share option scheme was adopted on October 26, 2006 which enables employees to share directly in the success of the Company.

Annual General Meeting (AGM)

The Annual General Meeting of Shareholders was held at Park Plaza Victoria Hotel Amsterdam, Damrak 1-5, 1012 LG Amsterdam, the Netherlands on June 29, 2007 at noon (CET).

In this AGM, inter alia, the following resolutions were taken by the shareholders: (i) to extend the period to draw up the Company's Dutch statutory accounts and annual report for the financial year ended December 31, 2006; (ii) to re-elect Messrs. Paap and Yitzchaki and to elect Messrs. Zisser, Shtarkman, Van Eibergen Santhagens and Wichers as directors; (iii) to authorize the directors, generally and unconditionally, to exercise all powers of the Company to allot equity securities in the Company up to an aggregate nominal value of €964,742, being approximately 33% of the Company's issued ordinary share capital at the date of the convening notice of the shareholders' meeting, provided that such authority shall expire at the conclusion of the Annual General Meeting to be held in 2008 unless previously renewed, varied or revoked by the Company in general meeting, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired; (iv) to give a special instruction to the directors authorizing them to remove the pre-emption rights set out in article 6 of the Articles, such power to expire at the conclusion of the next Annual General Meeting, and the directors may allot equity securities following an offer or agreement made before the expiry of the authority and provided that the authority is limited to the allotment of equity securities up to a maximum aggregate nominal amount of €146,173 (being equal to approximately 5% of the issued ordinary share capital of the Company as of the date of the convening notice of the shareholders' meeting; and (v) to amend the Company's Articles of Association. The notarial deed amending the Articles of Association was executed on August 3, 2007.

Extraordinary General Meetings (EGM)

By a shareholders' resolution adopted in an extraordinary meeting of shareholders held on August 30, 2007, it was inter alia resolved to approve the listing of the Ordinary Shares on the WSE, including, without limitation, filing with the WSE of an application to admit the Ordinary Shares to trading on the regulated market operated by the WSE, to register the Ordinary Shares with the Polish National Depositary for Securities and to conclude the agreement with the Polish National Depositary for Securities related to the settlement of the Ordinary Shares. The Board was designated by the shareholders to take all action required to complete the listing on the WSE. Furthermore, it was resolved to extend the special instruction given by the shareholders on June 29, 2007, to the Board to disapply pre-emption rights, such power to expire at the conclusion of the next annual general meeting, provided that the directors may allot equity securities following an offer or agreement made before the expiry of the authority and provided that the authority is limited to the allotment of equity securities up to a maximum aggregate nominal amount of €292,346 (being equal to approximately 10% of the issued ordinary share capital of the Company as at August 30, 2007.

In addition, at this EGM it was resolved to approve certain amendments to the Company's Incentive Plan.

On January 7, 2008, in an extraordinary meeting of shareholders of the Company, it was inter alia resolved: (i) to approve the proposed issue and offering to the public in Israel of Series B Notes with an aggregate nominal value in NIS, which will be the equivalent of an amount up to US$327,965,911 (in accordance with the exchange rate on the date of issue); (ii) to ratify (bekrachtigen) the issue and offering in Israel of Series A Notes with an aggregate nominal value of NIS 305,136,400 and (iii) to approve the admission to listing on the TASE of the Notes in issue and to be issued.

By a shareholders' resolution adopted in an extraordinary meeting of shareholders held on February 18, 2008, it was inter alia resolved: (i) to consider the Company's Dutch statutory annual accounts (jaarrekening) and the annual report (jaarverslag) for the year ended December 31, 2006; (ii) to adopt (vaststellen) the Company's Dutch statutory annual accounts (jaarrekening) for the year ended December 31, 2006; (iii) to discharge the directors of the Company from their liability for the conduct of business for the year ended December 31, 2006; (iv) to resolve that no dividends be distributed in respect of the year ended December 31, 2006; and (v) to amend the Articles of Association (statuten) of the Company.

CORPORATE GOVERNANCE

The Company was incorporated in the Netherlands on May 17, 1993 as a private limited liability company (besloten vennootschap met beperkte aansprakelijkheid). The Company was converted into a public limited liability company (naamloze vennootschap) on October 12, 2006, with the name "Plaza Centers N.V.". The principal applicable legislation and the legislation under which the Company and the Ordinary Shares in the Company have been created is Book 2 of the Dutch Civil Code (Burgerlijk Wetboek).

Compliance

The Board is committed to high standards of Corporate Governance, in order to maintain the trust of the Company's shareholders and other stakeholders. It complies with the Combined Code and the Dutch Corporate Governance Code, with the exception of a limited number of best practice provisions from the Dutch Corporate Governance Code which it does not consider to be in the interests of the Company and its stakeholders.

These exceptions are listed below.

The Best Practice Provisions not applied by the Company in the year 2007 are:

- Best Practice Provision II.1.3 stipulates inter alia that the Company should have an internal risk management and control system which should in any event employ as instruments of the internal risk management and control system a code of conduct which should be published on the Company's website. Such code of conduct is not available at the date of publication of this document.
- Best Practice Provision II.2.1. stipulates that options to acquire shares should be a conditional remuneration component. The Company grants unconditional options, thereby deviating from this Best Practice Provision. The reason for this is that the Company wishes to have the same system of granting of options as is currently used by the Europe Israel Group.
- Best Practice Provision II.2.2. stipulates that if, notwithstanding Best Practice Provision II.2.1, (see above) a company grants unconditional options to board members, it shall apply performance criteria when doing so and the options should, in any event, not be exercised in the first three years after they have been granted. The Company deviates from this Best Practice Provision in respect of both the requirement for performance criteria and from the requirements for a vesting period of three years. Under the Company's Share Option Scheme (described in paragraph 9 of Part IX), unconditional options may be granted to executive directors and non-executive directors without performance criteria. The Company considers this to be appropriate given the extensive experience of the directors who will be granted options and the fact that they have made special efforts in the growth of the Company prior to the Admission.

  Furthermore, options (including those of Board members) will vest annually in three equal parts, whereby one-third of the options granted vest upon the lapse of one year from the date of grant, another third of the options granted vest the lapse of two years from the date of grant and the last third vest upon the lapse of three years from the date of grant.

  The deviation from this Corporate Governance rule is due to the fact that similar vesting schedules are common in incentive plans adopted by the Europe Israel Group. The Company, as part of the Europe Israel Group, wished to adopt a similar vesting schedule to avoid material changes to the incentives granted to its employees and officers.
- Best Practice Provision II.2.5. stipulates that neither the exercise price nor the other conditions regarding granted options shall be modified during the term of the options, except in so far as is necessary because of structural changes relating to the Company or its shares, in accordance with established market practice. Pursuant to the Share Option Scheme, material conditions regarding the granted options may not be amended except in so far as prompted by structural changes relating to the Ordinary Shares in accordance with established market practice. The Company believes that it is in its best interests and in the interests of its Board members and employees, to keep flexibility in the management and administration of the Share Option Plan, as described herein. In addition, as the Company will be admitted to trading on a regulated market, relatively small amendments to the conditions of options may need to be made.
- Best Practice Provision II.3.2 stipulates that a Board member shall immediately report any conflict of interest or potential conflict of interest that is of material significance to the Company and/or to him, to the Chairman and to the other Board members and shall provide all relevant information, including information concerning his wife, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree. Section 17.3 of the Articles now, inter alia, provides that a Board member shall inform the Board of any possible direct and/or indirect conflicting interest as soon as practically possible after becoming aware of such possible conflict. It is however envisaged that Board members shall comply with the contents of Best Practice Provision II.3.2 in respect of providing the additional information as required under the Dutch Corporate Governance Code. Best Practice Provision II.3.3 stipulates that a director shall not take part in any discussion or decision-making that involves a subject or transaction in relation to which he has a conflict of interest with the Company. Section 17.2 of the Articles stipulates that a member of the Board shall neither be counted in the quorum nor vote upon a resolution approving a transaction with the Company in which he has a material personal interest.

  Thus the Company does not apply Best Practice Provision II.3.3 to the extent it relates to non-material personal interests or material non-personal interests. However, the Company does intend to adopt procedures to ensure that the non independent directors shall not vote on matters in which they have an interest as a result of their ties with the controlling shareholder. Furthermore, Best Practice Provision II.3.4 stipulates, inter alia, that decisions to enter into transactions in which there are conflicts of interest with management Board members that are of material significance to the Company and/or to the relevant Board members require the approval of the non-executive directors. Such provision has not been inserted into the Articles.
- Best Practice provision II.5.6 stipulates that the Audit Committee must not be chaired by the Chairman of the Board

or by a former executive director of the Company. The Company's Audit Committee is chaired by Mr Shimon Yitzhaki, who has been an executive director of the Company and thus the Company deviates from this Best Practice Provision. The Company, however, believes that given Mr Yitzhaki's extensive financial experience, chairmanship of the Audit Committee is appropriate.

- Best Practice Provision III.3.5 stipulates that a non-executive director (in terms of the Dutch Corporate Governance Code a supervisory director (commissaris) may be appointed to the Board for a maximum of three four-year terms. Section 15 of the Articles provides for a retirement schedule whereby directors who have been in office for not less than three consecutive annual general meetings shall retire from office. Pursuant to section 15.6 of the Articles, such a director may be reappointed, which could result in a term of office which is longer than three four-year terms.

- Best Practice Provision III.5.1. provides that the committee rules stipulate that a maximum of one member of each committee need not be independent within the meaning of Best Practice Provision III.2.2. The Company's Nomination Committee is comprised of three members, two of whom, Messrs Yitzhaki and Paap, are considered to be non-independent. The Company believes that the composition of the nomination committee as currently envisaged is in the best interests of the Company, given the skills and experience of the Committee members.

- Best Practice Provision III.5.11 inter alia provides that the remuneration committee shall not be chaired by a non-executive director who is either a former executive director or a member of the management board of another listed company. Since the Remuneration Committee is chaired by Mr Shimon Yitzhaki, who is a former executive director and serves as President of EMI, the Company deviates from this requirement. The Company is convinced that the experience of Mr Yitzhaki in this respect should be considered more important than the fact that Mr Yitzhaki is a Board member of another listed company.

- Best Practice Provision III.7.1. stipulates that non-executive directors should not be granted any shares and/or rights to shares by way of remuneration. Under the Share Option Scheme, prior to Admission, options were granted to Mr Yitzhaki, a non-executive director. Furthermore, the Share Option Scheme does not exclude the possibility of making further grants of options to non-executive directors. In particular, the Company believes that the granting of options to Mr Yitzhaki is appropriate, given his extensive involvement in the Company to date and his special efforts made in respect of the preparation of the Company for Admission. Furthermore, the Company has retained the right to grant options to non-executive directors as it believes that granting such options is appropriate in order to offer future non-executive directors a competitive remuneration package.

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

- Pursuant to Best Practice Provision III.8.4. of the Dutch Corporate Governance Code, the majority of the members of the Board shall be independent non-executives within the meaning of Best Practice Provision III.2.2. The Company currently has two executive directors (who are considered to be non-independents) and four non-executive directors out of whom two non-executive directors are considered to be independent, applying the criteria of Best Practice Provision III.2.2. The non-executive directors who are considered to be non-independent are Messrs Shimon Yitzhaki and Edward Paap. The independent non-executive directors are: Messrs Mark Wichers and Marius Van Eibergen Santhagens. See also page section 5 of Part IX – Additional Information for an overview of the directors' former and current functions. Consequently, two out of the six directors are considered to be independent. The Company believes that the experience of the non-independent directors is of great importance to the Company.

- On July 4, 2007, the WSE Supervisory Board adopted the Corporate Governance rules of the WSE contained in the Code of Best Practice for WSE-Listed Companies (the "WSE Corporate Governance Rules"). The WSE Corporate Governance Rules apply to companies listed on the WSE, irrespective of whether such companies are incorporated in Poland or outside of Poland. The WSE Corporate Governance Rules consist of general recommendations relating to best practice for listed companies (Part I) and best practice provisions relating to management boards, supervisory board members and shareholders (Parts II to IV). The WSE Corporate Governance Rules impose upon the companies listed on the WSE an obligation to disclose in their current reports continuous or incidental non-compliance with best practice provisions (with the exception of the rules set forth in Part I, in respect of which and based on a resolution of the Management Board of the WSE dated December 11, 2007 WSE-listed companies are not required to publish a current report). Moreover, every year each WSE-listed company is required to publish a detailed statement on any non-compliance with the WSE Corporate Governance Rules (including the rules set forth in Part I) by way of a statement submitted with the company's annual report (the "Yearly Compliance Statement"). As regards the Yearly Compliance Statement for 2007, companies should report on any non-compliance with the previously applicable corporate governance rules of the WSE contained in the Code of Best Practice for Public Companies in 2005, adopted by the Management Board and the Supervisory of the WSE on December 15, 2004. Companies listed on the WSE are required to justify non-compliance or partial compliance with any WSE Corporate Governance Rule and to show the ways of eliminating the possible consequences of such non-compliance or the steps such company intends to take to mitigate the risk of non-compliance with such rule in future. The Issuer intends, to the extent practicable, to comply with all principles of the WSE Corporate Governance Rules. However, certain principles will apply to the Company only to the extent permitted by Dutch law. Detailed information regarding non-compliance, as well as additional explanations regarding partial compliance with certain Corporate Governance Rules of the WSE due to incompatibilities with Dutch law, will be included in the aforementioned reports, which will be available on the Company's website and published by way of a current report.

CORPORATE GOVERNANCE

Role of the Board

The Board sets, inter alia, the Company's strategic aims, policy and standards of conduct. It monitors performance against business plan and budget, ensuring that the necessary human and financial resources are in place to meet its objectives and that the Board and all employees act ethically and in the best interests of all stakeholders. It has decision-making authority over a formal schedule of matters such as important business matters, policies and budgets. It delegates authority to various committees that are described herein.

Board practices

Dutch statutory law does not provide for a one-tier governance structure, in which a board is made up of executive and non-executive directors. Instead, it provides for a two-tier structure comprising separate management and supervisory boards. It is, however, well-established practice to have a structure for the management board that resembles a one-tier structure. Under this organization, all members are formally managing directors with the Articles of Association allocating to certain members tasks and obligations similar to those of executive directors, and to others tasks and obligations that are similar to those of non-executive directors.

This is the structure the Company operates, providing that some directors are responsible for day-to-day management and others for supervising day-to-day management of the Company. All statutory provisions relating to members of the Company's Management Board apply in principle to all members of a one-tier board.

All responsibilities are subject to the overall responsibility of the Management Board.

The Board is accountable to the General Meeting of Shareholders.

Composition and operation of the Board

The Company has six directors – two executive directors (Chairman and CEO/President) and four non-executive directors, of whom two are independent.

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

In addition the Board has established an Executive Committee, comprising the four non-independent directors and any relevant senior managers, that meets each month to discuss such matters as contract status, budgets, contingencies and risk management issues.

Audit Committee

Comprising three non-executive directors, the Audit Committee meets at least three times each financial year. The Audit Committee has the general task of evaluating and advising the Board on matters concerning the financial administrative control, the financial reporting and the internal and external auditing. Among other matters, it must consider the integrity of the Company's financial statements, the effectiveness of its internal controls and risk management systems, auditors' reports and the terms of appointment and remuneration of the auditor.

Composition: Mr Yitzchaki, Mr Wichers, Mr Santhagens.
Chairman: Mr Yitzchaki.

Remuneration Committee

The Remuneration Committee, comprising three non-executive directors, meets at least twice each financial year to prepare the Board's decisions on the remuneration of directors and the Company's share incentive plans. (Under Dutch law and the Articles, the principal guidelines for directors' remuneration and approval for directors' options and share incentive schemes must be determined by a General Meeting of Shareholders). The Committee also prepares an Annual Report on the Company's remuneration policy. The remuneration report may be found on pages 40 to 42 of this document.

Composition: Mr Yitzchaki, Mr Wichers, Mr Santhagens.
Chairman: Mr Yitzchaki.

Nomination Committee

Meeting at least twice a year, the Nomination Committee comprises three non-executive directors. Its main roles are to prepare selection criteria and appointment procedures for Board members and to review the Board's structure, size and composition.

Composition: Mr Yitzchaki, Mr Santhagens, Mr Paap.
Chairman: Mr Paap.

Internal control/risk management

The Company fully complies with the internal control provisions of the Combined Code and the Dutch Corporate Governance Code. The Board has established a continuous process for identifying and managing the risks faced by the Company, and confirms that any appropriate actions have been or are being taken to address any weaknesses.

It is the responsibility of the Audit Committee to consider the effectiveness of the Company's internal controls and risk management procedures, and the risks associated with individual development projects are addressed each month by the Executive Committee.

Share dealing code

The Company operates a share dealing code, particularly relating to dealing during close periods, for all Board members and certain employees, as is appropriate for a listed company. The Company takes all reasonable steps to ensure compliance by those parties affected.

The share dealing code meets the requirements of both the Model Code set out in the Listing Rules and the Market Abuse chapter of the Wte 1995.

Controlling Shareholder and conflicts of interest

The Company has a Controlling Shareholder who owns approximately 68.4% of the Enlarged Share Capital and therefore has effective control of the Company. The Board is satisfied that the Company is capable of carrying on its business independently of the Controlling Shareholder, with whom it has a relationship agreement to ensure that all transactions and relationships he has with the Group are conducted at arm's length and on a normal commercial basis.

The Articles of Association of the Company include provisions on conflicts of interest between the Company and holders of control. If a conflict of interest arises between the Controlling Shareholder and the Company, the non-independent directors will take no part in the Board's decisions on the matter.

Shareholders' communication

The Company's management meets with shareholders each year at the Annual General Meeting (AGM) to discuss matters relating to the business.

Details of this year's AGM can be found on page 35.

The Board is committed to maintaining an open, honest and positive dialogue with shareholders.

To ensure that all its communications are factually correct, it is furnished with full information before every meeting on the state and performance of the business. It also has ultimate responsibility for reviewing and approving all information contained in its annual, interim and other reports, ensuring that they present a balanced assessment of the Company's position.

The main channels of communication with shareholders are the Chairman, CEO, CFO and our financial PR advisers, although all directors are open to dialogue with shareholders as appropriate. The Board encourages communication with all shareholders at any time other than during close periods, and is willing to enter dialogue with both institutional and private shareholders.

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

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

Corporate, social and ethical policies

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

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

Environment

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

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

Health and safety

The Company is committed to promoting the health, safety and welfare of its employees, and is supported in achieving its "zero harm" goal through an active health and safety educational programme involving all employees across the organization.

REMUNERATION REPORT

Remuneration Committee

As stated in the Corporate Governance report on pages 36 to 39 of this document, the Remuneration Committee meets at least twice each financial year to prepare, among other matters, the decision of the Board relating to the remuneration of directors and any share incentive plans. It is also responsible for preparing an annual report on the Company's remuneration policies and for giving full consideration in all its deliberations to the principles set out in the Combined Code.

The committee comprises three non-executive directors – it is chaired by Shimon Yitzhaki and the other members are Marius van Eibergen Santhagens and Marco Wichers.

Under Dutch corporate law and the Articles of the Company, a General Meeting of Shareholders must determine the principal guidelines governing the remuneration both of executive and non-executive directors. In addition, such a meeting also has to approve the granting to them of options and share incentive plans.

The Board may only determine the remuneration of directors within such guidelines, and no director or manager may be involved in any decisions relating to his or her own remuneration.

Remuneration policy

Plaza Centers' remuneration policy is designed to attract, motivate and retain the high-calibre individuals who will enable the Company to serve the best interests of shareholders over the long term, through delivering a high level of corporate performance. Remuneration packages are aimed at balancing both short-term and long-term rewards, as well as performance and non-performance related pay.

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

The Remuneration Committee believes that any director's total remuneration should aim to recognize his or her worth on the open market and to this end pays base salaries in line with the market median supplemented by a performance-related element with the capacity to provide more than 50% of total potential remuneration.

The directors' remuneration for the year ended December 31, 2007 is determined below:

2007	Salary and fees €'000	Share incentive plan[1] €'000	Total non-performance related remuneration €'000	Total performance related remuneration €'000
Chairman and executive directors				
Non-performance related remuneration				
Mr Mordechay Zisser	**204**	**2,324**	**2,528**	**–**
Mr Ran Shtarkman	**380**	**4,124**	**4,504**	**2,788**[2]
Total	**584**	**6,448**	**7,032**	**2,788**
Non-executive directors				
Non-performance related remuneration				
Mr Shimon Yitzchaki	**–**	**664**	**664**	**–**
Mr Marius van Eibergen Santhagens	**46**	**–**	**46**	**–**
Mr Edward Paap	**46**	**–**	**46**	**–**
Mr Marco Wichers	**46**	**–**	**46**	**–**
Total	**138**	**664**	**802**	**–**
Total – all directors	**722**	**7,112**	**7,834**	**2,788**

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

(2) Per management agreement, calculated as 0.75% of net pre-tax profits of up to £10 million, and thereafter 1.25% of any net pre-tax profits which exceed £10 million.

Total shareholder return performance 2007

Service arrangements

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

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

Bonuses

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

Share options

The Company adopted its Share Option Scheme on October 26, 2006. At the same time, 26,108,602 non-negotiable options over Ordinary Shares were granted, the terms and conditions of which (except for the exercise price) are regulated by the Share Option Scheme. Options will vest in three equal annual portions and have contractual life of five years following grant.

In the course of 2007, 4,093,572 options were granted. For the exercise and forfeiture of options refer to the table on page 42.

REMUNERATION REPORT

	Number of options	**Number vested as at December 31, 2007**	Exercise price of options £
Mr Mordechay Zisser	3,907,895	**1,302,632**	1.80
Mr Ran Shtarkman	10,150,376	**3,383,459**	1.80
Mr Shimon Yitzchaki	1,116,541	**372,180**	1.80
Mr Marius van Eibergen Santhagens	–	**–**	N/A
Mr Edward Paap	–	**–**	N/A
Mr Marco Wichers	–	**–**	N/A

	Number of options as at December 31 2007
Total pool	**33,834,586**
Granted	**30,202,174**
Exercised	**(303,471)**
Forfeited	**(952,999)**
Left for future grant	**4,585,411**

Amsterdam, April 25, 2008

The Board of Directors

Mordechay Zisser **Ran Shtarkman** **Shimon Yitzchaki**

Marius Willem van Eibergen Santhagens **Marco Habib Wichers** **Edward Paap**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The responsibilities of the directors are determined by applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The directors are responsible for preparing the annual report, remuneration report and financial statements in accordance with applicable law and regulations.

International company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company, and of its profit and loss for that period.

Directors are required to abide by certain guidelines in undertaking these tasks.

They need to select appropriate accounting policies and apply them consistently in their reports. They must state whether they have followed applicable accounting standards, disclosing and explaining any material departures in the financial statements. Any judgments and estimates that they make must be both reasonable and prudent. They must also prepare financial statements on a "going concern" basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

Throughout the financial year, the directors are responsible for keeping proper accounting records which disclose at any time and with reasonable accuracy the financial position of the Company. They are also responsible for ensuring that these statements comply with applicable company law.

In addition, they are responsible for internal control systems that help to identify and address the commercial risks of being in business, and so safeguard the assets of the Company. They are also responsible for taking reasonable steps to enable the detection and prevention of fraud and other irregularities.

The Company's website may be accessed in many countries, which have different legal requirements. The directors are responsible for maintaining the accuracy of Company information on the website, where a failure to update or amend information may cause inappropriate decision-making.

By order of the Board:

Mordechay Zisser
Chairman
April 25, 2008

CONSOLIDATED BALANCE SHEET

For the year ended December 31, 2007

	Note	December 31, 2007 Audited €'000	December 31, 2006 Audited €'000
ASSETS			
Current assets			
Cash and cash equivalents	3	**66,381**	212,683
Restricted bank deposits	4	**25,155**	616
Short-term deposits	5	**1,033**	6,154
Trade accounts receivable, net	6	**262,595**	5,342
Other accounts receivable and prepayments	7	**48,102**	29,222
Related parties	10	**19,525**	–
Trading properties	8	**298,339**	159,961
		721,130	413,978
Non-current assets			
Investment in associate	15	**1,129**	1,148
Derivative	16	**2,228**	–
Long-term balances and deposits	9	**1,987**	2,257
Related parties	10	**–**	22,027
Property, plant and equipment	11	**16,465**	7,550
Investment property	12	**12,970**	26,654
Restricted bank deposits	4	**5,302**	350
Other non-current assets	13	**–**	933
		40,081	60,919
Total assets		**761,211**	474,897
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Interest bearing loans from banks	17	**409**	51,201
Trade payables	18	**19,432**	15,703
Amounts due to related parties	19	**23,103**	17,771
Creditor due to selling of investment property	19	**786**	2,418
Other liabilities	20	**51,950**	3,088
		95,680	90,181
Non-current liabilities			
Interest bearing loans from banks	17	**5,461**	5,875
Long-term debentures at fair value through profit or loss	21	**53,821**	–
Amounts due to related parties	19	**1,871**	8,474
Other long-term liabilities	20	**355**	1,551
Deferred tax liabilities	22	**552**	4,139
		62,060	20,039
Share capital	23	**2,924**	2,923
Translation reserve	23	**(1,727)**	(1,895)
Other reserves	23	**13,498**	1,840
Share premium	23	**248,860**	248,860
Retained earnings		**339,916**	112,949
Total equity		**603,471**	364,677
Total shareholders' equity and liabilities		**761,211**	474,897

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2007

	Note	**December 31, 2007 Audited €'000**	December 31, 2006 Audited €'000
Revenues	26	**507,843**	60,219
Gain on the sale of investment property, net	26	**2,071**	13,715
Changes in fair value of investment property	12	**–**	257
		509,914	74,191
Cost of operations	27	**268,730**	50,034
Gross profit		**241,184**	24,157
Administrative expenses[1]	28	**23,117**	8,173
Operating profit		**218,067**	15,984
Finance income	29	**12,407**	4,000
Finance expenses	29	**(3,060)**	(3,336)
Finance income, net		**9,347**	664
Other income	30	**85**	287
Other expenses	30	**(423)**	(457)
Share in loss of associate	15	**(19)**	(150)
Profit before tax		**227,057**	16,328
Income tax expenses	31	**90**	1,608
Profit for the year		**226,967**	14,720
Basic earnings per share (in euro)	24	**0.78**	0.27
Diluted earnings per share (in euro)	24	**0.77**	0.27

(1) Including non-cash expenses due to the share option plan in the amount of €7.6 million (2006: €1.2 million).

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2007

	Share capital €'000	Share premium €'000	Other capital reserves €'000	Translation reserve[3] €'000	Retained earnings[3] €'000	Total €'000
Balance at December 31, 2005	18	–	(181)	(2,059)	98,229	96,007
Transfer to income statement due to selling of trading property	–	–	–	164	–	164
Share-based payment	–	–	2,021	–	–	2,021
Private issuance of ordinary shares to Elbit Ultrasound B.V.– parent company (in consideration of loan conversion)	1,982	15,282	–	–	–	17,264
Issuance of ordinary shares, net[1]	923	233,578	–	–	–	234,501
Profit for the year	–	–	–	–	14,720	14,720
Balance at December 31, 2006	2,923	248,860	1,840	(1,895)	112,949	364,677
Changes in translation reserve[2]	–	–	–	168	–	168
Share option exercised	1	–	–	–	–	1
Share-based payment	–	–	11,658	–	–	11,658
Profit for the year	–	–	–	–	226,967	226,967
Balance at December 31, 2007	**2,924**	**248,860**	**13,498**	**(1,727)**	**339,916**	**603,471**

(1) Net of costs of issuance of ordinary shares in the amount of €12.7 million.
(2) Mainly in connection with India operation.
(3) Retained earnings consist of €2,995,000 and €5,214 for the year ended December 31, 2007 and 2006, respectively of non-distributable reserves regarding revaluations of investment properties. Furthermore, translation reserve is a non-distributable reserve.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2007

	December 31, 2007 €'000	December 31, 2006 €'000
Cash flows from operating activities		
Profit for the year	226,967	14,720
Adjustments necessary to reflect cash flows used in operating activities:		
Depreciation	907	773
Change in fair value of investment property	–	(257)
Advance payment on accounts of trading properties	(52,358)	–
Finance income, net	(9,347)	(664)
Interest received in cash	6,732	1,857
Interest paid in cash	(368)	(1,703)
Loss on sale of property, plant and equipment	40	18
Company's share in loss of associate	19	150
Gain on sale of investment property	(2,071)	(13,715)
Gain on sale of trading property	(235,499)	(7,008)
Income tax expenses	83	1,009
Increase in trade accounts receivable	(5,807)	(786)
Increase in other accounts receivable	(18,816)	(6,087)
Change in restricted cash for projects to be acquired	(24,540)	(19,401)
Increase in trading properties	(302,996)	(92,201)
Purchase of trading property companies (see appendix A)	(16,244)	1
Increase in trade accounts payable	38,822	14,241
Increase in other liabilities	20,423	3,187
Net proceeds from selling of trading property (see appendix B)	63,718	6,016
Share-based payment	7,644	1,186
Net cash used in operating activities	**(302,691)**	(98,664)
Cash from investing activities		
Purchase fixed assets and other assets	(9,880)	(1,422)
Proceeds from sale of property, plant and equipment	19	167
Investment in associate	–	(115)
Short-term deposits, net	(5,121)	2,393
Long-term deposits decreased	152	1,047
Long-term deposits increased	(5,582)	(2,374)
Net proceeds from disposal of other subsidiaries (see appendix B)	11,526	17,297
Long-term loans granted to partners in jointly controlled company	–	(21)
Net cash from (used in) investing activities	**(8,886)**	16,972
Cash from financing activities		
Proceeds from short-term loans from banks, net	124,747	21,001
Proceeds from issuance of ordinary shares, net	–	234,501
Proceeds from issuance of long-term debentures	53,003	–
Long-term loans repaid to banks	(7,115)	(8,604)
Loans repaid to related parties	(5,735)	–
Loans granted from related parties	386	778
Net cash from financing activities	**165,286**	247,676
Foreign currency translation adjustments	**(11)**	–
Increase (decrease) in cash and cash equivalents during the year	**(146,302)**	165,984
Cash and cash equivalents at the beginning of the year	**212,683**	46,699
Cash and cash equivalents at the end of the year	**66,381**	212,683

CONSOLIDATED CASH FLOW STATEMENT CONTINUED

For the year ended December 31, 2007

	December 31, 2007 €'000	December 31, 2006 €'000
Appendix A – Acquisition of subsidiaries		
Cash and cash equivalents of subsidiaries acquired	**14**	–
Short-term deposits	**(12,021)**	22
Trade receivables and other receivables	**98**	5
Trading property	**53,848**	6,786
Trade payables	**(176)**	–
Related parties	**–**	(6,814)
Other accounts payable	**(25,505)**	–
Less – Cash and cash equivalents of subsidiaries acquired	**(14)**	–
Acquisitions of subsidiaries, net of cash held	**16,244**	(1)
Appendix B – Disposal of subsidiaries		
Cash and cash equivalents of subsidiaries disposed	**28,693**	463
Short-term deposits	**3,130**	–
Trade receivables	**(251,426)**	365
Other receivables	**51,005**	(145)
Trading properties	**257,292**	43,575
Investment properties	**13,684**	–
Long-term balances and deposits	**748**	1,401
Interest bearing loan from banks	**(168,838)**	(31,293)
Trade payables	**(54,700)**	(1,631)
Other accounts payables	**(11,942)**	216
Related parties	**2,251**	–
Deferred taxes and long-term balances	**(4,167)**	(10,013)
Foreign currency translation adjustment	**637**	115
Net identifiable assets and liabilities disposed	**(133,633)**	3,053
Cash from sale of subsidiaries	**103,937**	23,776
Less – Cash and cash equivalents of subsidiaries disposed	**(28,693)**	(463)
	75,244	23,313
Non-cash activities		
Forgiveness of loans in consideration for issuance of ordinary shares (see note 23(b))	**–**	17,264
Suppliers and creditors for trading properties	**34,020**	–
Share based options capitalized to trading properties	**4,806**	835
Income taxes paid	**11**	13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

Note 1 – Principal activities and ownership

Plaza Centers N.V. ("the Company") was incorporated and registered in the Netherlands in May 1993 as a private company by the name of Shaka B.V.. In 1998, the name was changed to Bea Real Estate B.V. ("BeaRE") and in May 1999, to Plaza Centers (Europe) B.V. In September 2006, the Company changed its name to its present name, as part of the IPO reorganization. The Company's registered office is at Keizersgracht 241, Amsterdam, the Netherlands. The Company conducts its activities in the field of establishing, operating and selling of commercial and entertainment centers in Central and Eastern Europe, and, starting in 2006, India. The consolidated financial statements for each of the periods comprise the Company and its subsidiaries (together referred to as "the Group") and the Group's interest in associates and jointly controlled entities.

In line with the Group's commercial decision to focus its business more on development and sale of shopping and entertainment centers, the Group has classified, starting in 2006, its current projects under development as trading properties rather than investment properties.

On October 27, 2006 the Company announced its initial public offering ("IPO") of Ordinary Shares on the Official List of the London Stock Exchange ("LSE"). From October 19, 2007, the Company is also listed in the Warsaw Stock Exchange ("WSE"). For more details on the IPO and the Warsaw listing refer to note 35 of these financial statements.

The Company's immediate parent company is Elbit Ultrasound B.V. ("EUL"), which holds 68.4% of the Company's shares. The ultimate parent company is Elbit Limited ("EI"), which is indirectly controlled by Mr. Mordechay Zisser. For the list of the Company's subsidiaries and affiliates, refer to note 40.

Note 2 – Summary of significant accounting policies

A. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of The Netherlands Civil Code.

B. BASIS OF MEASUREMENT

The consolidated financial statements have been prepared under the historical cost convention, except for the following:

> investment property is measured at fair value;

> liabilities for cash-settled share-based payment arrangements are measured at fair value;

> derivative financial instruments are measured at fair value; and

> financial instruments at fair value through profit or loss are measured at fair value.

C. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

D. FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in euros, which is the Company's functional currency. All financial information presented in euros has been rounded to the nearest thousand, unless otherwise indicated.

E. USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS as adopted by the European Union that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 39.

Note 2 – Summary of significant accounting policies continued

F. BASIS OF CONSOLIDATION

1. Subsidiaries

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

All business combinations are accounted for by applying the purchase method. On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the net identifiable assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the net identifiable assets acquired (i.e. discount on acquisition) is recognized directly in profit and loss in the period of acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group in the consolidated financial statements.

2. Associates

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

The consolidated financial statements include the Group's share of the total recognized gains and losses of associates using the equity method of accounting, from the date that significant influence commences until the date that significant influence ceases. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associate in excess of the group's interest in those associates are reduced until the investment is brought to nil, and then further losses are only recognized if the Group has incurred a legal/constructive obligation to fund such losses.

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

3. Joint ventures

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

The financial statements of joint ventures are included in the consolidated financial statements from the date that joint control commences until the date that joint control ceases.

Where necessary, adjustments are made to the financial statements of joint ventures to bring the accounting policies used into line with those used by the Group in the consolidated financial statements.

4. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Note 2 – Summary of significant accounting policies continued

G. FOREIGN CURRENCY

1. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized directly in equity.

2. Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euros at exchange rates at the reporting date. The income and expenses of foreign operations are translated into euros at exchange rates at the dates of the transactions. Foreign exchange differences arising on retranslation are recognized directly in the foreign currency translation reserve (“FCTR”).

The euro is the functional currency for Group companies (with the exception of Indian companies – in which the functional currency is the Indian Rupee – INR) since it best reflects the business and results of operations of the Group companies. This is based upon the fact that the euro is the currency in which management is determining its budgets, transactions with tenants and suppliers, and its financing activities and assesses its currency exposures.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized directly in equity in the FCTR.

3. Net investment in foreign operations exchange

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

H. FINANCIAL INSTRUMENTS

1. Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Restricted bank deposits

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

Trade receivables

Trade receivables do not carry interest and are recognized initially at fair value, subsequent to which they are stated at amortized cost less impairment losses. The impairment loss is based on a periodic review of all outstanding amounts, which includes an analysis of historical bad debts and customer concentrations. Bad debts are written off when identified as being no longer collectible.

Trade payables

Trade payables are non-interest bearing and are recognized initially at fair value, subsequent to which they are stated at amortized cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2007

Note 2 – Summary of significant accounting policies continued

H. FINANCIAL INSTRUMENTS CONTINUED

Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis unless those costs are capitalized.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include the Group's unsecured non-convertible Notes series A.

Upon initial recognition a financial asset or a financial liability may be designated by the Company as at fair value through profit or loss. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy, or it eliminates or significantly reduces a measurement or recognition inconsistency. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Other

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

2. Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

The fair value of the Cross Currency Interest Rate Swap is based on an external, independent valuation company, having appropriate recognized professional qualifications and recent experience in this field.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit or loss as part of foreign currency gains and losses.

3. De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of financial asset or part of a group of similar financial assets) is de-recognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party to a third party under a "pass through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement. If the exchange or modification is immaterial, it is treated in the term of the original commitment and no gain or loss is recognized from the exchange.

Note 2 – Summary of significant accounting policies continued

H. FINANCIAL INSTRUMENTS CONTINUED

4. Share capital – Ordinary Shares

Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effect. Costs attributable to listing existing shares are expensed as incurred.

I. TRADING PROPERTIES

Properties that are being constructed or developed for future use as trading properties (inventory) are classified as trading properties and stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to complete construction and selling expenses.

All costs directly associated with the purchase of trading properties and all subsequent expenditures for the development of such properties are capitalized. Cost of trading properties is determined on the basis of specific identification of their individual costs.

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs may continue until the assets are substantially ready for their intended use. The capitalization rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general funds, to the average rate.

Operating cycle

The Group is involved in long-term construction projects. Accordingly, the assets and liabilities relating to trading properties (already constructed and still under construction) that are expected to be completed during a period of up to five years from the balance sheet date, are presented as current assets and liabilities.

J. INVESTMENT PROPERTY

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value at the balance sheet date. Generally, an external, independent valuation company, having an appropriate recognized professional qualification and recent experience in the location and category of property being valued, values the portfolio every 12 months. In the absence of an external valuation, the Company's management makes its own estimate. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. A table showing the range of yields applied for each type of property is included below:

Yields	**2007**	2006	2005
Hungary	**N/A[1]**	8.5%	8.5%
Poland	**N/A[1]**	N/A[1]	8.6%-12%
Czech Republic	**8.8%**	8.8%	8.2%

(1) No investment property held in Poland and Hungary in 2007 (Poland – also in 2006).

Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time.

Any gain or loss arising from a change in fair value is recognized in the income statement in the period in which it arises. Rental income from investment property is accounted for as described in accounting policy 2(p).

Note 2 – Summary of significant accounting policies continued

K. PROPERTY, PLANT AND EQUIPMENT

1. Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and accumulated impairment losses (see accounting policy 2(m)). Cost includes expenditure that is directly attributable to the acquisition of the asset.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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

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

	%
Land – owned	0
Commercial centers – building	2-4
Mechanical systems in the buildings	7-10
Aircraft	3.7-5
Other[1]	6-33

(1) Consists mainly of motor vehicles, office furniture and equipment, computers, peripheral equipment, etc.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

L. OTHER NON-CURRENT ASSETS

1. Initiation costs of commercial centers

Expenditure on assessment and research activities, undertaken with the prospect of developing new shopping centers, are recognized in the income statement as an expense as incurred.

Costs which are directly relating to initiation activities (prior to the conclusion of the land acquisition, etc.), are capitalized as they arise, when a property acquisition transaction is foreseen and probable, and are charged to the cost of constructing the real estate project upon execution of the transaction. When there is no longer a probable expectation of completing the transaction, the above-mentioned costs are written off to the income statement.

2. Cost of obtaining long-term lease agreements

Direct incremental costs related to obtaining long-term lease agreements with tenants are capitalized when they arise and charged to the income statement over the weighted average term of the lease period.

3. Other assets

Other assets that are acquired by the Group are stated at cost less accumulated amortization (see below) and impairment losses (see accounting policy 2(m)).

4. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

5. Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of assets from the date they are available for use. The estimated useful lives are as follows:

> Initiation costs of commercial centers – 20-50 years

> Cost of obtaining long-term lease contracts – five-15 years

Note 2 – Summary of significant accounting policies continued

M. IMPAIRMENT

1. Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition).

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

2. Non-financial assets

The carrying amounts of the Group's assets, other than investment property, trading properties and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

3. Calculation of recoverable amount

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. The recoverable amount of the Group's receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

4. Reversal of impairment

An impairment loss in respect of a receivable carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

As at December 31, 2007 and 2006, no impairment reversals have been recorded.

Note 2 – Summary of significant accounting policies continued

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

Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

As at balance sheet date share-based payments which may be settled in cash are options granted to only one person and can be cash settled at the option of the holder. See also note 34 a(3).

O. SHARE CAPITAL
Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

P. REVENUE RECOGNITION
Revenue from the sale of trading properties and investment property is recognized when the risks and rewards of ownership have been transferred to the buyer, provided that the Group has no further substantial acts to complete under the contract.

For sales transactions with continuing involvement by the Group in the form of a guarantee of a return on the buyer's investment for limited period or in a limited amount no revenue is recognized if the guarantee represents a significant risk to the Group or the Group cannot make a reliable estimate of likelihood and/or the future cash flows related to the guarantee.

Rental income from investment property is recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income.

Other revenues, including management fee income, are recognized in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided, and are measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of VAT and other sales related taxes.

No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or continuing management involvement with the assets.

Q. EXPENSES
1. Operating lease payments

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized in the income statement as an integral part of the total lease expense.

2. Net financing costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method and foreign exchange losses.

Finance income comprises interest receivable on funds invested, dividend income, gains on hedging instruments that are recognized in profit or loss and foreign exchange gains.

Financing costs, excluding foreign exchange differences, which do not adjust to interest rate, are capitalized to the cost of qualifying assets.

Interest income and expense are recognized in the income statement as they accrue, using the effective interest method. Dividend income is recognized in the income statement on the date the entity's right to receive payment is established.

Foreign currency gains and losses are reported on a net basis.

Note 2 – Summary of significant accounting policies continued

R. TAXATION

Income tax on the profit or loss for the year comprises current and deferred tax and is stated at nominal value.

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

Deferred tax is the tax expected to be payable or recoverable on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized only to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated at the enacted or substantially enacted tax rates at the balance sheet date that are expected to apply in the period when the liability is settled or the asset is realized.

Current and deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognized within equity.

S. SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments.

The Group conducts its activities in the field of establishing, operating and selling of commercial and entertainment centers mainly in Central and Eastern Europe and, starting in 2006, also in India.

The Group considers that it has only one business segment because its activities are subject to similar characteristics of risks and returns. Furthermore, the Group also considers the Central and Eastern European region as one economic environment and countries therein to have similar characteristics and relatively common features of risks and returns.

When substantive operations are in place in India, the Group will report these as a separate geographical segment.

The majority of the Group's profits are generated at the Company, rather than the subsidiaries as profits arise when subsidiaries, most of which own properties, are sold.

T. EMPLOYEE BENEFITS

1. Bonuses

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

2. Share-based payment transactions

The fair value of options granted to employees to acquire shares of the Company is recognized as an employee expense or capitalized if directly associated for the development of trading property, with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

The fair value of the amount payable to employees in respect of share-based payments, which may be settled in cash, at the option of the holder, is recognized as an expense, with a corresponding increase in liability, over the period in which the employees become unconditionally entitled to payment. The fair value is re-measured at each reporting date and at settlement date. Any changes in the fair value of the capital fund are recognized as an additional cost in personnel expenses in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

Note 2 – Summary of significant accounting policies continued

U. EARNINGS PER SHARE

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

V. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2007, and have not been applied in preparing these consolidated financial statements:

> Revised IFRS 2 Share-based Payment (effective from January 1, 2009)

The revised Standard will clarify the definition of vesting conditions and non-vesting conditions. Based on the revised Standards failure to meet non-vesting conditions will generally result in treatment as a cancellation. The Group has not yet completed its analysis of the impact of the revised Standard.

> Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after July 1, 2009)

The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:

- all items of consideration transferred by the acquirer are recognized and measured at fair value as of the acquisition date, including contingent consideration;
- transaction costs are not included in the acquisition accounting;
- the acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree; and
- acquisitions of additional non-controlling equity interests after the business combination must be accounted for as equity transactions.

As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.

The Group has not yet completed its analysis of the expected impact of the revised Standard on its method of accounting for business combinations following adoption of the revised Standard.

IFRS 8 Operating Segments introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Group’s 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. Currently the Group doesn’t present segment information in respect of its business and geographical segments. Early adoption is permitted and comparative figures are required to be restated.

> Revised IAS 1 Presentation of Financial Statements (effective from January 1, 2009)

The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Group is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.

> Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group’s 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date.

Note 2 – Summary of significant accounting policies continued

V. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED CONTINUED

> Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 1, 2009)

In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest.

The Group has not yet completed its analysis of the impact of the revised Standard.

> IFRIC 11 IFRS 2 – Group and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

> IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group's 2008 financial statements, is not expected to have any effect on the consolidated financial statements.

> IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

> IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements ("MFR") on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group's 2008 financial statements, with retrospective application required. IFRIC 14 is not expected to have any impact on the consolidated financial statements.

Note 3 – Cash and cash equivalents

	Interest rate as of December 31, 2007	December 31, 2007 €'000	December 31, 2006 €'000
Bank deposits – in euros	Mainly 4.89%, and EONIA – 0.02%	61,917	209,292
Bank deposits – in Hungarian forints (HUF)	~5.2%	143	2,782
Bank deposits – in Polish zlotys (PLN)	4% – 4.4%	1,586	416
Bank deposits – in Czech crowns (CZK)	1% – 1.6%	1,174	64
Bank deposits – in Indian rupee (INR)	Mainly 0%	663	–
Bank deposits – in Latvian lats (LVL)	~5.1%	350	–
Bank deposits – in US dollars	~4%	263	129
Bank deposits – in Romanian lei (RON)	~1.8%	165	–
Bank deposits – in other currencies	~1%	120	–
Total		66,381	212,683

(1) As of balance sheet date, cash in banks bears floating interest based on interest rates on overnight bank deposits. EONIA is the overnight euro deposit rate.

(2) The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 33.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2007

Note 4 – Restricted bank deposits

	Interest rate as of December 31, 2007	December 31, 2007 €'000	December 31, 2006 €'000
In euros[1,2,3]	Romania – EONIA-0.55%, Bulgaria – 3.5%, Poland – 3.4%	22,364	–
In US dollars[1]	USD LIBOR – 0.25%	650	–
In Polish zloty[3]	4.55%	2,141	616
Total short term		25,155	616

The Group pledged the bank deposits to secure banking facilities received, or to secure acquisition and construction activities to be performed by the Group.

(1) Including a total of approximately €16.7 million in restricted deposit in euros and €0.65 million in restricted deposit in US dollars to secure acquisition transactions in Romania (mainly Iasi, Timisoara projects).

(2) Including a total of approximately €1 million in restricted deposit in euros to secure acquisition transactions in Bulgaria.

(3) Including a total of approximately €4.7 million in restricted deposit in euros and of approximately €2.1 million in restricted deposit in Polish zloty to secure acquisition transactions in Poland.

	Interest rate as of December 31, 2007	December 31, 2007 €'000	December 31, 2006 €'000
In euros	3M EURIBOR+0.04%[1]	5,302	350
Total long term		5,302	350

(1) €5.3 million in restricted deposit in Euro for securing future payment according to Cross Currency Interest Rate Swap transaction.

(2) The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 33.

Note 5 – Short-term deposits

	Interest rate as of December 31, 2007	December 31, 2007 €'000	December 31, 2006 €'000
Bank deposits – in Indian rupees	8.65% – 180 days deposits	1,033	–
Bank deposits – in euros		–	3,670
Bank deposits – in Hungarian forints		–	101
Bank deposits – in Polish zlotys		–	1,520
Bank deposits – in Czech crowns		–	789
Bank deposits – in US dollars		–	74
		1,033	6,154

(1) The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 33.

Note 6 – Trade accounts receivable, net

	Currency as of December 31, 2007	December 31, 2007 €'000	December 31, 2006 €'000
Linkage as of December 31, 2007			
Receivable aAIM – selling of Arena Plaza[1]	EUR	254,363	–
Receivable Klépierre[2]	EUR	6,419	4,283
Unpaid invoices[3]	Mainly in CZK	1,925	1,152
Less – provision for doubtful debts		(112)	(93)
		262,595	5,342

(1) Collected after balance sheet date, and includes approximately €1.3 million accrued interest (see note 29). The Company maintained Bank Guarantee for total maximum amount of €390 million from aAim for the transfer of the entire equity rights in and to the development companies which developed and constructed the Arena Plaza shopping and entertainment center in Budapest, Hungary. For the selling of Arena Plaza see note 37.

(2) Mainly from the price adjustment expected from the exercise of Novo Plaza.

(3) The balances represent amounts receivable from leases of space in commercial centers and offices less any impairment for doubtful debts.

Note 7 – Other accounts receivable and prepayments

	December 31, 2007 €'000	December 31, 2006 €'000
Advances for plot purchase[1]	**36,340**	19,401
Advance to suppliers[2]	**4,984**	–
Prepaid expenses	**230**	1,314
VAT receivable	**5,848**	7,561
Partners in companies under joint venture	**117**	199
Accrued interest receivable	**199**	–
Companies in the El Group and other related parties	**–**	168
Others	**384**	579
	48,102	29,222

(1) Including mainly advance payments in the amount of €19.8 million for the purchase of plot in Serbia, €13 million purchases of plots in Romania and €2.2 million purchases of plots in Poland. See also note 38 – Plaza Bas project. 2006 – Advance payment for a purchase of plot of land in Bucharest in the amount of €19.4 million (see also note 35).

(2) Including mainly advance payments in amount of €2 million to General Contractor in Czech Republic, €1 million to General Contractor in Latvia, €1.2 million to Contractor in India.

Note 8 – Trading properties

	December 31, 2007 €'000	December 31, 2006 €'000
Balance at January 1	**159,961**	104,717
Additions during the period	**395,670**	98,819
Trading properties disposed (see note 37)	**(257,292)**	(43,575)
Balance at December 31	**298,339**	159,961

As of December 31, 2007, the Company has trading properties in Poland, Czech Republic, Latvia, India, Romania, Serbia, Bulgaria, Hungary and Greece (below find summary table).

The Group is currently in the process of developing 25 shopping and entertainment center projects, which are under various stages of development:

> Suwałki Plaza – a project in the preliminary planning and development stage, to be constructed on an area of land in a prime location in Suwałki, Poland, with a planned Gross Lettable Area ("GLA") of approximately 20,000m²;

> Zgorzelec – a project in the preliminary planning and development stage, to be located in Zgorzelec, Poland, with a planned GLA of approximately 15,000m²;

> Torun – a project in the preliminary planning and development stage, to be located in Torun, Poland, with a planned GLA of approximately 45,000m²;

> Lodz Plaza – the Group owns part of a development site and has a usufruct over the remaining part of the site, located in the center of Łódz, which will be developed as a residential area;

> Plzen Plaza – Plzen Plaza has been pre–sold to the Klépierre Group, a leading French property group. With a gross lettable area of 20,000m², the center was 100% let on opening in December 2007. The closing with Klépierre is expected to take place in the course of 2008.

> Liberec Plaza – being constructed on an area of land in a prime location in Liberec, Czech Republic, with a planned GLA of approximately 17,000m²;

> Opava Plaza – a project in the preliminary planning and development stage, to be constructed on an area of land in a prime location in Opava, Czech Republic, with a planned GLA of approximately 14,000m²;

> Roztoky – the Group has purchased 39,000m² of private land in Roztoky, a town attached to Prague. The Company intends to develop there a residential compound. The project is currently in the beginning of building permit process;

> Riga Plaza – a center with a planned GLA of approximately 49,000m² in Riga, Latvia, in which the Group holds a 50% interest. Construction commenced in the first quarter of 2007;

Note 8 – Trading properties continued

- Koregaon Park – a project in construction stage, constructed on a plot of land of approximately six acres in Koregaon Park, an up–market area of Pune, Maharashtra State, India, where together with its joint venture partner, it plans to construct a mixed use scheme with a total area of approximately 107,000m^2 that will comprise a shopping center with an estimated area of approximately 75,000m^2 and an office building of approximately 32,000m^2;
- Kharadi – a 14 acre plot of land in the Kharadi district of Pune, Maharashtra State, India, on which the Company and its joint venture partner intend to build a project totalling 225,000m^2, which will include a shopping center with the total area of approximately 120,000m^2, an office complex with an area of 81,000m^2, and a serviced apartment facility with an area of approximately 24,000m^2;
- Trivandrum – a project in the preliminary planning and development stage, to be constructed on an area of land in Trivandrum, the capital city of State of Kerala in India, with a planned built area of approximately 195,000m^2 which will include shopping mall and office space together with a serviced apartment facility;
- Casa Radio – a complex with a planned gross built area of approximately 360,000m^2, located in central Bucharest in Romania, and which includes a shopping and entertainment center of approximately 120,000m^2, with a hypermarket of approximately 17,000m^2, a hotel of 32,140m^2 (320 rooms), an apartment hotel of 11,800m^2, a convention center of 7,200m^2, 122,400m^2 of offices and 35,190m^2 of residential areas. The construction is already in progress;
- Timisoara Plaza – a project in the preliminary planning and development stage, to be constructed alongside a major road leading to the city center of Timisoara in West Romania, with a planned GLA of approximately 41,000m^2 for the shopping and entertainment center and 30,000m^2 for offices. Additionally, the site provides the option to develop approximately 20,000m^2 of additional residential space;
- Miercurea Ciuc Plaza – a project in the preliminary planning and development stage, to be constructed on an area of land in the town of Miercurea Ciuc, in Central Romania, with a planned GLA of approximately 14,000m^2;
- Iasi Plaza – a project in the preliminary planning and development stage, to be constructed on an area of land in the town of Lasi, in northeast Romania, with a planned GLA of approximately 41,000m^2 for shopping and entertainment center and 51,000m^2 for offices;
- Slatina Plaza – a project in the preliminary planning and development stage, to be constructed on an area of land in Slatina, in southern Romania, with a planned GLA of approximately 25,000m^2 for shopping and entertainment center;
- Belgrade Plaza – a project in the preliminary planning and development stage, to be constructed on a plot of land in Belgrade, Serbia, with a planned GLA of approximately 90,000m^2 for a retail, entertainment and business center;
- Kragujevac Plaza – a project in the preliminary planning and development stage, to be constructed on a plot of land in Kragujevac, Serbia, with a planned GLA of approximately 24,500m^2 for a shopping and entertainment center;
- Visnjicka Plaza – a project in the preliminary planning and development stage, to be constructed on a plot of land in Belgrade, Serbia, with a planned GLA of approximately 40,000m^2 for a shopping and entertainment center;
- Shumen – a project in the preliminary planning and development stage, to be constructed on an area of land in Shumen, Bulgaria, with a planned GLA of approximately 18,000m^2 for a shopping and entertainment center;
- Arena Plaza Extension – the Company is planning to build a retail and office extension to the Arena Plaza in Budapest, Hungary, that will comprise approximately 21,000m^2 rentable retail area and 11,500m^2 of office area. The expected completion is in 2010.
- Duna Plaza Extension – a project in the preliminary planning and development stage. The Company has entered into an agreement with Klépierre to build an extension to the Duna Plaza shopping and entertainment center owned by Klépierre with a planned GLA of approximately 15,000m^2;
- Uj Udvar – in September 2007, the Company invested through a Hungarian company (Plasi Invest 2007 Kft.) which is held 70% by the Company (a third party holds the remaining 30%), a 50% stake in SBI Hungary Kft., a company which holds the Uj Udvar shopping center ("the Asset") in the third district of Budapest, Hungary. Subsequently, Plaza's interest in the asset is 35%. The aim of the Group is to refurbish and improve the existing shopping center in order to appreciate its value. The asset value according to which the purchase was made was €11 million (100% of the asset). The shopping center is currently active and has approximately 12,000m^2 of GLA and approximately 14,000m^2 of parking areas; and
- Helios Plaza – the Group currently owns a plot of land measuring approximately 14,892m^2. Following the issue of a ministerial decision which changed the land use along the National Highway, the permitted land uses applicable to this site do not permit the construction of a shopping and entertainment center on this site. The Company is, together with its legal counsel and professional advisers, examining alternative development opportunities for this site, including the construction of offices and the sale of the land.

Note 8 – Trading properties continued

The following table summarises general information regarding the projects:

Project	Location	December 31, 2007 Purchase/ transaction date	Share holding Rate %	Nature of rights	General information Status of registration of land	Status of permit	GLA sqm
Suwalki Plaza	Poland	Jun-06	100	Ownership	Completed	Building permit pending	20,000
Zgorzelec Plaza	Poland	Dec-06	100	Leasing for 25 years	Completed	Building permit pending	15,000
Torun Plaza	Poland	Feb-07	100	Perpetual leasehold	Completed	Building permit pending	45,000
Lodz	Poland	Sep-01	100	Ownership/perpetual usufruct	Completed	Building permit valid	130,000[1]
Plzen Plaza	Czech Republic	Jun-03	100	Leasing for 99 years	Completed	Operational permit valid	20,000
Liberec Plaza	Czech Republic	Jun-06	100	Construction lease period with subsequent ownership	N/A	Building permit valid	17,000
Opava Plaza	Czech Republic	Jun-06	100	Construction lease period with subsequent ownership	N/A	Planning permit pending	14,000
Roztoky	Czech Republic	May-07	100	Ownership	N/A	Planning permit valid	14,000[1]
Riga Plaza	Latvia	Feb-04	50	Ownership	Completed	Building permit valid	49,000
Koregaon Park	India	Oct-06	50	Ownership	Completed	Building permit valid	107,000[1]
Kharadi	India	Feb-07	50	Ownership	Completed	Excavation permit valid	225,000[1]
Trivandrum	India	Jun-07	50	Ownership	Completed	Under negotiations	195,000[1]
Casa Radio	Romania	Feb-07	75	Leasing for 49 years		Planning permit pending	360,000[1]
Timisoara Plaza	Romania	Mar-07	100	Ownership	Completed	Planning permit pending	71,000

Project	Location	December 31, 2007 Purchase/ transaction date	Share holding Rate %	Nature of rights	General information Status of registration of land	Status of permit	GLA sqm
Miercurea Ciuc Plaza	Romania	Jul-07	100	Ownership	Completed	Planning permit valid	14,000
Iasi Plaza	Romania	Jul-07	100	Ownership	In process	Planning permit to be submitted	92,000[1]
Slatina Plaza	Romania	Aug-07	100	Ownership	Completed	Planning permit valid	21,000
Belgrade Plaza	Serbia	Aug-07	85	Leasing for 99 years	In process	Under negotiations	90,000
Kragujevac Plaza	Serbia	Oct-07	100	Leasing for 99 years	In process	Building permit valid	24,500
Visnjicka Plaza	Serbia	Dec-07	100	Leasing for 99 years	In process	Under negotiations	40,000
Shumen Plaza	Bulgaria	Nov-07	100	Ownership	In process	Planning permit to be submitted	18,000
Arena Plaza Extension	Hungary	Nov-05	100	Land use rights	N/A	Under negotiations	32,500
Duna Plaza Extension	Hungary	May-07	Building rights	Building rights	N/A	Under negotiations	15,000
Uj Udvar	Hungary	Sep-07	35	Ownership	N/A	Permit under progress	16,000
Helios Plaza	Greece	May-02	100	Ownership	Completed	Building permit expired	35,000

(1) GBA (m^2)

For the major transaction done in the period commencing January 1, 2006 refer to note 35.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2007

Note 9 – Long-term balances and deposits

	Interest rate as of December 31, 2007	**December 31, 2007 €'000**	December 31, 2006 €'000
Long-term loan to associated company (Ercorner)[1]	6.76%	**1,545**	1,470
Charges to associated company	0%	**367**	379
Long-term deposits[2]		**75**	408
		1,987	2,257

(1) The loan to the associated company bears a fixed interest rate of 6.76% per annum as at December 31, 2007, and the previous balance sheet date. The interest is fixed, and was predetermined by both parties to the joint venture. The Company estimates the maturity date to be not earlier than 2012.

(2) Long-term deposits relate either to deposits deposited in connection with bank loan requirements, or deposits of tenants, reflecting amounts paid by tenants in advance, and serving as security deposits.

Note 10 – Other debtors and related parties

	December 31, 2007 €'000	December 31, 2006 €'000
Short-term debtor balances with:		
Loan to EI Ltd.[1]	**19,310**	–
Companies in the EI Group and other related parties	**215**	–
	19,525	–
Long-term debtor balances with:		
Related party – EI Ltd.	**–**	18,226
Partners in companies under joint venture	**–**	3,801
	–	22,027

(1) The Loan to EI Ltd. was reclassified in 2007 to short term due to intention of the Company and EI Ltd. to settle the balances in 2008. The loan bears interest rate of three months EURIBOR + 1.625%.

Note 11 – Property, plant and equipment

	Land and buildings	Plant and equipment	Fixtures and fittings	Airplane	Total
Cost					
Balance at January 1, 2006	3,356	2,647	694	3,921	10,618
Additions	–	139	–	–	139
Disposals	–	(44)	–	–	(44)
Balance at December 31, 2006	3,356	2,742	694	3,921	10,713
Additions	4,429	714	–	4,734	9,877
Disposals	–	(455)	–	–	(455)
Reclassification	–	(478)	478	–	–
Balance at December 31, 2007	7,785	2,523	1,172	8,655	20,135
Accumulated depreciation and impairment losses					
Balance at January 1, 2006	272	1,526	414	196	2,408
Depreciation charge for the year	62	371	–	330	763
Disposals	–	(8)	–	–	(8)
Balance at December 31, 2006	334	1,889	414	526	3,163
Additions	367	332	–	204	903
Disposals	–	(396)	–	–	(396)
Reclassification	–	(491)	491	–	–
Balance at December 31, 2007	701	1,334	905	730	3,670
Carrying amounts					
At December 31, 2006	3,022	853	280	3,395	7,550
At December 31, 2007	7,084	1,189	267	7,925	16,465

Major acquisition of fixed assets throughout the period:

> In September 2007, the Company purchased an airplane for a total consideration of €4.7 million. The airplane is depreciated over a 20 year period.

> In October 2007, the Company purchased an office building in Bucharest Romania for a total consideration €3.6 million. The building is used as the Company's headquarters in Romania.

Note 12 – Investment property

	December 31, 2007 €'000	December 31, 2006 €'000
Balance at January 1	**26,654**	26,354
Acquisitions	**–**	43
Disposals	**(13,684)**	–
Changes in fair value	**–**	257
Balance at December 31	**12,970**	26,654

Investment property at December 31, 2007 includes one office building in Prague (2006 – two office buildings) that is leased to third parties. Generally leases contain an initial period of five to ten years. Subsequent renewals are negotiated with the lessee. The contracts are denominated in, or linked, to the euro. For information about the sale of the Duna Plaza Office building in 2007, reference is made to note 37.

For the Company's policy to determine the fair value of the investment property see note 2(j).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

Note 13 – Other non-current assets

	December 31, 2007 €'000	December 31, 2006 €'000
Project deferred costs	**–**	933
	–	933

Project deferred costs reflects cost the Group incurs prior to the purchase of new plots, such as tender fees, etc. The figure as of December 31, 2006 reflects mainly costs in connection with the Group's future Romanian activities.

Note 14 – Proportionate consolidation

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

	December 31, 2007 €'000	December 31, 2006 €'000
Current assets	**40,230**	26,916
Current liabilities	**3,795**	16,041
Long-term liabilities	**5,510**	11,734

	December 31, 2007 €'000	December 31, 2006 €'000
Income	**37,207**	–
Expenses	**30,734**	399
Gain (loss) after tax	**6,473**	(399)

Regarding list of jointly controlled entities and percentage of ownership and control see note 40.

Note 15 – Investment in associate

The Company owns 50% of the share capital of Ercorner Kft. ("Ercorner"). The additional 50% is held by a large commercial bank. Ercorner, through its 60% owned subsidiary, Alom Sziget 2004 Kft. ("Alom Sziget"), owns a plot of land on the Hajogyari Island located in Budapest. Ercorner is a holding company with no activity of its own, and in addition, decisions in Alom Sziget are required to be taken with a 75% majority, thus Ercorner does not hold control over Alom Sziget. In view of the above, the investment in Alom Sziget is presented according to the equity method. The bank loan which financed the purchase of Alom Sziget, was included in Ercorner books until June 2006, when the bank loan was transferred to Alom Sziget. For the progress in the project refer to note 35. In respect of commitments connected with Ercorner refer to note 34.

	December 31, 2007 €'000	December 31, 2006 €'000
Composition:		
Cost of investment	**740**	740
Cumulative Share of profits	**389**	408
Total	**1,129**	1,148
Other information on Ercorner (100%):		
Assets	**19,496**	19,161
Liabilities	**17,238**	16,865
Net assets	**2,258**	2,296
Revenues	**27**	69
Profit (loss)	**(38)**	(300)

Note 16 – Derivative

On July 9, 2007, subsequent to the issuance of debentures for proceeds of NIS 305.14 million (approximately €53.3 million) (see note 35), the Group entered, consistent with its risk management policies, into a cross currency interest rate swap with a par value of NIS 305.2 million. The Company will pay six month Euribor + 2.19% and receive 5% interest linked to the Israeli CPI with the same amortization schedule as the debentures (see also note 35). At each payment date of the annual instalments of the debentures the Company will receive the principal amount in NIS and will pay the principal amount in euros (subject to the amortization schedule). The derivatives are measured at fair value at each balance sheet date with changes in the fair value charged to profit or loss. For commitments regarding the derivative refer to note 34.

Note 17 – Interest bearing loans from banks

	Maturity date	**December 31, 2007**	December 31, 2006	Interest rate December 31, 2007 (%)
Current maturities of long-term loans				
In PLN		–	3,361	N/A
In euros	2015	**409**	47,840	EURIBOR + 1.75%
Total		**409**	51,201	
Long-term credit				
In euros	2015	**5,461**	5,875	EURIBOR + 1.75%
Total loans from banks		**5,870**	57,076	

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 33. Effective interest rate on the loan as of December 31, 2007 and December 31, 2006 is 6.3% p.a and 5.5% p.a respectively.

Below is the repayment schedule of outstanding bank loans for each period:

	December 31, 2007 €'000	December 31, 2006 €'000
First year – current maturity	**409**	51,201
Second year	**409**	459
Third year	**409**	459
Fourth year	**409**	459
Fifth year	**409**	459
Sixth year and thereafter	**3,825**	4,039
Total long term	**5,461**	5,875
Total	**5,870**	57,076

Note 18 – Trade payables

	Linkage currency	**December 31, 2007 €'000**	December 31, 2006 €'000
Construction related suppliers	EUR	**18,324**	14,494
Open accounts	Mainly in EUR, PLN, CZK	**1,108**	1,209
		19,432	15,703

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

Note 19 – Loans and amounts due to related parties and others

	Currency	**December 31, 2007 €'000**	December 31, 2006 €'000
Short term			
El Group – ultimate parent Company – charges	EUR, USD	**5,309**	7,655
Other related parties[2]		**–**	1,202
Other related parties[3]		**1,985**	–
Vice president of EI		**762**	–
EUL – parent Company[1]	EUR, USD	**15,047**	8,914
		23,103	17,771
Dawnay Day (2006 – also Klépierre Group)	EUR	**786**	2,418
Total		**23,889**	20,189
Long term			
EUL – parent Company[4]	EUR, USD	**1,871**	7,975
Other related parties[3]	EUR	**–**	499
		1,871	8,474

(1) The loans received from Elbit Ultrasound B.V. (the main shareholder) ("EUL"), bear interest at three months USD Libor (or three months EURIBOR) plus a margin between 1.5% and 2.0% (effective interest rate as of December 31, 2007, and December 31, 2006 is 6.5% p.a and 5.7% p.a respectively). Loans are financing trading properties of the Group.

(2) Other related parties in the short term in 2006 include the liability to the Company's Indian partner in the joint venture company in India.

(3) Other related parties in the long term included in 2006 liability to the Control Centers group, a group of companies which provides project management services, controlled by the ultimate parent company controlling shareholder. The balances were reclassified to short term in 2007, as they relate to trading property construction activity.

(4) The loans received from Elbit Ultrasound B.V. (the main shareholder) ("EUL"), bear an interest of three months USD Libor (or three months EURIBOR) plus a margin of between 1.5% and 2.0% (effective interest rate as of December 31, 2007, and December 31, 2006 is 6.5% p.a and 5.7% p.a respectively). Loans are expected to be repaid in the long term, as EUL has declared its intention not to demand earlier repayment.

Note 20 – Other liabilities

	Currency	**December 31, 2007 €'000**	December 31, 2006 €'000
Short term			
Obligation in respect of plot purchase[1]		**38,163**	–
Income in advance – short term[2]	EUR	**1,914**	269
Accrued expenses and commissions[3]	EUR	**6,923**	1,689
Accrued bank interest	EUR	**44**	195
Government institutions and fees	HUF, PLN, CZK	**508**	490
Salaries and related expenses[4]	EUR, HUF, PLN, CZK, USD	**3,123**	336
Partner in joint controlled company		**1,170**	–
Other	HUF, PLN, CZK	**105**	109
Total		**51,950**	3,088

(1) Includes liabilities in respect of plot purchased in Romania (Casa Radio project – €24.2 million (including €17.1 million due to a liability to construct an office building for Bucharest municipality – see also note 35), Iasi – €8.1 million, Timisoara – €3.2 million), Leszno project in Poland – €1.6 million and Bulgaria (Shumen project – €1 million).

(2) 2007 – Includes mainly advances provided by tenants and future tenants, mainly due to Pilzen Plaza opened in Pilzen, the Czech Republic. 2006 – the same.

(3) Includes mainly accrual in respect of selling the Arena Plaza shopping center – €5.7 million.

(4) 2007 – Includes provision for management incentives – €2.8 million.

	Currency	**December 31, 2007**	December 31, 2006
Long term			
Income in advance – long term[1]	EUR	**355**	540
Liability to buyer of shopping center[2]	EUR	**–**	1,011
		355	1,551

(1) Income in advance – mainly from the Prague 3 logistic center.

(2) The liability to Dawnay Day is anticipated to be fully repaid in the course of 2008 and was reclassified to the short term.

Note 21 – Long-term debentures at fair value through profit or loss

On 5 July 2007, the Company agreed with Israeli institutional investors to issue an aggregate principal amount of NIS 305 million (approximately €53.0 million) par value of series one of unsecured non-convertible debentures to institutional investors in Israel. The debentures are rated by Standard & Poor's Maalot Ltd. ("Maalot") – at a local rating of A+/Positive. The debentures are repayable in eight equal annual instalments, on December 31 of each of the years 2010 to 2017, inclusive. The debentures bear an annual interest rate of 4.5%. Interest is payable semi-annually in arrears on December 31 and July 1 of each of the years 2007 to 2017 (the first instalment to be effected on 31 December 2007 and the last instalment to be effected on December 31, 2017). The debentures are linked to the increase in the Israeli Consumer Price Index.

As the Company's functional currency is the euro, the Company has hedged the future expected payments in NIS (principal and interest) to correlate with the euro, using a cross currency interest rate swap (see note 16).

The debentures will be repaid by the Company, inter alia, at the option of the trustee or the holders of the debentures if the Company delays the publication of its financial reports 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.

The debentures were listed for trade on the Institutional Retzef System, which is a trading system for institutional investors in Israel. The Company may also, in its sole discretion, register the debentures for trade on the TASE. So long as the debentures were not registered for trade on the TASE, the Company has undertaken (i) to pay an additional interest at an annual rate of 0.5% (namely 5%) until a prospectus is published for the registration of the debentures for trade on the TASE; (ii) to pay an additional interest rate at an annual rate of 0.25% in the event the rating of the debentures decreases to (BBB+) rating on a local scale by Maalot or an equivalent rating by another Rating Company and (iii) to repay the debentures at the option of the trustee or the holders of the debentures if made a special resolution on their general meeting upon the occurrence of each of the following events: (a) should the rating of the debentures in Israel decrease below the BBB+ investment level rating of Maalot – or other equivalent rating by another rating company; (b) if the Company is required to repay another series of debentures issued by the Company; or (c) if the holdings of EI, the indirect parent of the Company, fall below 25% of the Company's issued and outstanding share capital. Such undertakings would be terminated upon the registration for trade of the debentures on the TASE.

Note 22 – Deferred tax liabilities

RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes recognized are attributable to the following:

	December 31, 2007 €'000	December 31, 2006 €'000
Liabilities		
Deferred tax due to trading property	**–**	1,301
Investment property	**646**	3,030
Property, plant and equipment and other assets	**217**	16
Interest-bearing loans and borrowings	**–**	26
Impaired receivables	**(15)**	(12)
Tax value of losses carry-forwards recognized	**(5,522)**	(7,060)
Deferred tax assets provided	**5,226**	6,838
Net tax (assets)/liabilities	**552**	4,139

Note 22 – Deferred tax liabilities continued

UNRECOGNIZED DEFERRED TAX ASSETS

Deferred tax assets have not been recognized in respect of the following item:

	December 31, 2007 €'000	December 31, 2006 €'000
Tax losses	**5,226**	6,838

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

The decrease in the tax asset not recognized between 2006 and 2007 is attributable to three major items:

1. Utilization of losses in the Netherlands – in 2007 the one fiscal tax unit of the Company and its Dutch subsidiaries is expected to utilize losses in an approximate amount of €6 million (1.6 €million in tax value). The Company is estimating, due to significant finance expenses which are to be incurred from 2008 onwards, that it will continue to incur losses for tax purposes.
2. Selling of subsidiaries with losses carryforward – the Company has sold subsidiaries with losses carryforward of approximately €3 million (€0.6 million in tax value).
3. Non-utilization of losses which expired in 2007 in an approximate amount of €0.6 million (€0.2 million in tax value).

As of December 31, 2007, the expiry date status of tax losses to be carried forward is as follows:

Total tax losses carried forward	2008 €'000	2009 €'000	2010 €'000	2011 €'000	2012 €'000	After 2012 €'000
25,610	1,160	329	1,345	1,126	1,763	19,887

Tax losses are mainly generated by operations in Hungary and the Netherlands.

Note 23 – Equity

	Remarks	December 31, 2007 Number of shares	December 31, 2006 Number of shares
Ordinary shares with a par value of €0.01 each	See (a) below	**1,000,000,000**	1,000,000,000
Issued and fully paid:			
At the beginning of the year		**292,346,087**	1,815,120
Options exercised to shares	See (c) below	**57,700**	–
Issued for forgiveness of loan to parent company	See (b) below	**–**	2,684,880
Issued for forgiveness of loan to parent company	See (b) below	**–**	195,500,000
Issued for cash to the Public	See (b) below	**–**	92,346,087
At the end of the year		**292,403,787**	292,346,087

a. The number of shares authorized as of January 1, 2006 was 40 with a €453.80 par value. In September 2006 the authorized share capital was revised as follows:

(1) 40 shares of €453.8 were subdivided into 1,815,120 shares of €0.01.

(2) The authorized share capital was increased to 1 billion shares of €0.01.

b. In the course of the last quarter of 2006 the following share capital increases occurred:

(1) 2,684,880 shares of €0.01 were issued to Elbit Ultrasound B.V, the parent company of the Company, in October 2006, upon the change of the Company from B.V. status to N.V. status. The capital increase was effected in exchange for the forgiveness of a loan, and the shares were issued at no share premium.

(2) 195,500,000 shares of €0.01 were issued to Elbit Ultrasound B.V in October 2006, in order to create a share capital structure which will allow the Company to initiate the IPO. The capital increase was effected through the contribution of loans, and the shares were issued with a share premium of approximately €15,282,000.

(3) 92,346,087 shares of €0.01 were issued to the public, in October and November 2006 (including "Green Shoe" option exercised), as a result of the IPO which took place in the London Stock Exchange ("LSE") (see also note 35). The share premium recorded on the flotation (net of IPO costs) was €233,578,000.

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

c. In the course of the last quarter of 2007, 303,471 vested options were exercised into 57,700 shares of €0.01.

CAPITAL RESERVE DUE TO SHARE OPTION PLAN

Capital reserve created as a result of the Employee Share Option Plan which was introduced in October 2006 (see also note 25) was recorded and totalled €13,679 as of December 31, 2007 (2006 – €2,021).

TRANSLATION RESERVE

The translation reserve comprises all foreign exchange differences arising from the translation of balance sheet items of the Company's subsidiaries in India. It is a non-distributable reserve.

DIVIDEND POLICY

The payment of dividends is dependent on the financial performance and condition of the Group, the Company's financial position and the capital and anticipated working capital requirements of the Group. The distribution of dividend is based upon the Company's financial statements distributable results and retained earnings of the Company itself.

Subject to mandatory provisions of Dutch laws, the dividend policy will reflect the long-term earnings and cash flow potential of the Group, taking into account the Group's capital requirements, while at the same time maintaining an appropriate level of dividend cover.

Subject to all of these factors, and where it is otherwise appropriate to do so, the directors intend to make distributions out of the annual net profits (after deduction of all directly related costs) derived from transactions for the sale of projects developed by the Group during any financial year, following the approval of the financial statements as of December 31, 2007 and onwards.

Subject to all of these factors, and where it is otherwise appropriate to do so, the directors intend to make distributions out of the annual net profits of the Company starting with the 2007 financial year. Dividends are expected to be paid at the rate of 25% on the first €30 million of such annual net profits, and thereafter at the rate of between 20% and 25%, as determined by the directors, on any additional annual net profits which exceed €30 million. The dividends are expected to be paid on the first half of 2008 following the publication of the financial results on the basis of the aggregate of the annual net profits accumulated during the preceding financial year and the approval of the general meeting of the Company, expected in May 2008.

Note 24 – Earnings per share

The calculation of basic earnings per share at December 31, 2007 was based on the profit attributable to ordinary shareholders of €226,967 thousand (2006: €14,720 thousand) and a weighted average number of ordinary shares outstanding of 292,355 thousand (2006: 53,632 thousand).

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

In thousands of shares with a €0.01 par value

	December 31, 2007 '000 shares	December 31, 2006 '000 shares
Issued ordinary shares at January 1	**292,346**	1,815
Effect of shares issued on October 5, 2006	**–**	633
Effect of shares issued on October 24, 2006	**–**	36,422
Effect of shares issued on November 1, 2006	**–**	14,090
Effect of shares issued on November 24, 2006	**–**	672
Share-based payment – exercise of options	**9**	–
Weighted average number of ordinary shares at 31 December	**292,355**	53,632

The calculation of diluted earnings per share at December 31, 2007 was based on profit attributable to ordinary shareholders of €226,967 thousand and a weighted average number of Ordinary Shares outstanding after adjustment for the effects of all dilutive potential Ordinary Shares of €1,129 thousand, calculated as follows:

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES (DILUTED)

In thousands of shares with a €0.01 par value

	December 31, 2007 '000 shares	December 31, 2006 '000 shares
Weighted average number of Ordinary Shares (basic)	292,355	53,632
Effect of share options on issue	1,129	–
Weighted average number of Ordinary Shares (diluted) at 31 December	293,484	53,632

In 2006 diluted earning per share was the same as basic earnings per share since the options had no dilutive effect.

Note 25 – Employee share option plan

The Employee Share Option Plan was adopted by the Company on October 26, 2006. On the same date, 26,108,602 non-negotiable options ("Options") over Ordinary Shares have been granted, the terms and conditions of which (except for the exercise price) will be regulated by the Share Option Scheme. No Options vested at that date. Options will vest annually in three equal parts. One-third of Options granted to an Eligible Grantee (see below) will vest one year after the date of grant, another third of granted Options will vest two years after the date of grant and the last third will vest three years after the date of grant. Options expire, unless otherwise determined by the Board, on the fifth anniversary of the date of grant. The total amount of options in the Share Option Plan is 33,834,586 options.

Note 25 – Employee share option plan continued

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date/employees entitled	Number of options	Vesting conditions	Contractual life of options
Option grant to key management at October 27, 2006[1]	18,824,812	Three years of service starting October 27, 2006	Five years
Option grant to employees at October 27, 2006	7,283,790	Three years of service starting October 27, 2006	Five years
Option grant to employees at March 21, 2007	511,143	Three years of service starting March 21, 2007	Five years
Option grant to employees at May 29, 2007	1,455,429	Three years of service starting May 29, 2007	Five years
Option grant to employees at August 30, 2007	1,125,000	Three years of service starting August 30, 2007	Five years
Option grant to key management at November 25, 2007	200,000	Three years of service starting November 25, 2007	Five years
Option grant to employees at November 25, 2007	802,000	Three years of service starting November 25, 2007	Five years
Total share options granted	30,202,174		

(1) Including 5,424,436 options subject to the approval of the Annual General Meeting of Shareholders of EI. The approval was received in November 1, 2007.

	Weighted average exercise price 2007 £	**Number of options 2007**	Weighted average exercise price 2006 £	Number of options 2006
Outstanding at the beginning of the period	**1.80**	**26,108,602**	–	–
Forfeited during the period – back to pool	**1.81**	**(952,999)**	–	–
Exercised during the period	**1.80**	**(303,471)**	–	–
Granted during the period	**1.88**	**4,093,572**	1.8	26,108,602
Outstanding at the end of the period		**28,945,704**		26,108,602
Exercisable at the end of the period		**8,195,777**		–

The options outstanding at December 31, 2007 have an exercise price in the range of GBP 1.79 to GBP 1.94 (app. €2.44 – €2.65) and a weighted average contractual life of 3.84 years.

The weighted average share price at the date of exercise for share options exercised in 2007 was GBP 2.225 (2006: no option shares exercised).

According to the exercise mechanism of options, on exercise date, the Company shall allocate the Exercised Shares as calculated in accordance with the following formula:

$$\frac{(A \times B) - (A \times C)}{D}$$

A = The number of Options which a grantee wishes to exercise that is specified in the Exercise Notice

B = The opening price in £ of the Ordinary Shares on the London Stock Exchange on the Exercise Day, provided that if the opening price exceeds 180% of the Exercise Price (without adjustments for the distribution of cash dividend) the opening price shall be set as 180% of the Exercise Price

C = Exercise Price in £ per Option

D = The opening price in £ of the Company's Share on the Stock Exchange on the Exercise Day

Accordingly, the maximum number of Exercised Shares, if the outstanding share options are fully exercised, shall be 12,864,757 Ordinary Shares.

Note 25 – Employee share option plan continued

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial lattice model. The contractual life of the option (five years) is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model. In the binomial model, exercise patterns are reflected in the suboptimal exercise multiple. The assumed suboptimal exercise multiple is GBP 1.8 for management and Employees due to the cap of 180% of the Exercise Price (without adjustments for the distribution of cash dividend).

	Key management personnel 2007 €	Key management personnel 2006 €	**Employees 2007 €**	Employees 2006 €
FAIR VALUE OF SHARE OPTIONS AND ASSUMPTIONS				
Fair value at measurement date (in €)	5,722,158[1]	13,855,062	2,735,563	4,705,328
Weighted average exercise price	2.46[2]	2.68	2.57	2.68
Expected volatility	25-30%	25-30%	30%-35%[3]	25-30%
Weighted average share price	2.94	2.75	2.59	2.75
Suboptimal exercise multiple	1.8	1.8	1.8	1.8
Expected dividends	–	–	–	–
Risk-free interest rate (based on the yield rates of the non-indexed linked UK treasury bonds)	4.89%-5.01%	4.58%-4.94%	4.62%-5.55%	4.58%-4.94%

(1) Including €5,541,493 which represents the grant date fair value of 5,424,436 share options approved by the Annual General Meeting of EI, on November 1, 2007 (In 2006 – estimated grant date fair value – €3,994,487).

(2) The same as in 2006 (£1.8).

(3) Volatility increased at the last quarter of the year.

The Company has been publicly traded for a short period of time and therefore has a lack of historical data. The public companies in the Company's industry are for the most part, more mature than the Company. In order to avoid bias and given the aforementioned circumstances, the expected volatility is based on companies in comparable stages as well as companies in the industry and considering historic share price volatility of the Plaza Centers (2006: without considering the Company's share price volatility, due to lack of data).

During 2007, the total employee costs due to the share options granted was €11,658,000 (2006: €2,021,000).

Note 26 – Revenues

	For the year ended December 31, 2007 €'000	For the year ended December 31, 2006 €'000
Revenue from selling trading properties[1]	**495,565**	51,276
Rental income from tenants[2]	**2,153**	3,766
Management fees	**1,395**	284
Operation of entertainment centers[4]	**6,608**	3,980
Other	**2,122**	913
Total	**507,843**	60,219

(1) Revenue from selling trading properties consists of asset value of commercial centers, as determined between the Company and the buyer of the property. In 2007 the revenue includes the agreed asset value of the following shopping centers: Arena Plaza Hungary – 365,541, Rybnik and Sosnowiec Plaza in Poland – 89,323, Lublin Plaza in Poland – 38,994, and Novo shopping center in Prague, the Czech Republic (additional proceeds) – 1,707. In 2006 – includes mainly €50.3 million revenues from selling Novo shopping center in Prague. For more details on the selling of the shopping centers refer to note 37.

(2) Rental income relates either to revenues from investment properties the Company held, or from the trading properties the Company held in the interim period between the finishing of the construction and the selling of the said trading property.

(3) Management fees relate mainly to fees charged to tenants of shopping centers due to ongoing operation of the shopping center.

(4) Revenue from operation of entertainment centers is attributable to subsidiaries operating in commercial centers (in 2007 – nine and in 2006 – five).

	For the year ended December 31, 2007 €'000	For the year ended December 31, 2006 €'000
Gain on sale of investment property	**2,071**	13,715
	2,071	13,715

In 2007, the gain recorded was mainly from the sale of Duna Plaza offices investment property (see also note 37). In 2006 – contains additional proceeds from the selling of the stage A of Klépierre transaction (see also note 37).

Note 27 – Cost of operations

	For the year ended December 31, 2007 €'000	For the year ended December 31, 2006 €'000
Direct expenses:		
Cost of sold trading properties	**258,510**	44,804
Salaries and related expenses	**1,216**	736
Initiation costs	**786**	244
Municipality taxes	**24**	8
Property taxes	**206**	195
Property operations and maintenance	**5,909**	2,968
	266,651	48,955
Other operating expenses	**1,538**	915
	268,189	49,870
Depreciation and amortization	**541**	164
	268,730	50,034

Costs of sold trading properties include the cost of purchasing and building the trading properties which were sold in 2007, consisting mainly of cost of selling of the following trading properties: Arena Plaza Hungary – 161,818, Rybnik and Sosnowiec Plaza in Poland – 66,270, Lublin Plaza in Poland – 29,908, others – 514. 2006 – Includes mainly cost of asset from selling the Asset in Prague (Novo shopping center – see also note 34) – €43.9 million.

Note 28 – Administrative expenses

	For the year ended December 31, 2007 €'000	For the year ended December 31, 2006 €'000
SELLING AND MARKETING EXPENSES		
Advertising and marketing[1]	2,649	889
Salaries and relating expenses	761	757
Doubtful debts	18	4
Amortization of deferred charges	5	1
	3,433	1,651
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and related expenses[2]	12,167	2,661
Depreciation and amortization	366	260
Management fees	500	706
Professional services[3]	4,206	1,611
Traveling and accommodation	1,071	591
Offices	508	281
Others	866	412
	19,684	6,522
Total	23,117	8,173

SELLING AND MARKETING EXPENSES

(1) As a result of opening five new shopping and entertainment centers in 2007 (comparing one opened in 2006), these costs significantly increased.

GENERAL AND ADMINISTRATIVE EXPENSES

(2) Including non-cash expenses due to the share option plan in the amount of €7.6 million (2006 – €1.2 million) see also note 25 for more details on share-based payments.

(3) Main increase is attributable to the high volume of activities of the Company due to its listing on the London Stock Exchange, and expanding the Company's activity into new countries. Also attributable to expenses in respect of registration of the Company's shares for trade in Warsaw – approximately €0.8 million.

Note 29 – Finance income (expenses)

	For the year ended December 31, 2007 €'000	For the year ended December 31, 2006 €'000
Interest income on bank deposits	**6,468**	2,000
Loans to related parties	**1,084**	595
Changes in fair value of derivative	**2,228**	–
Foreign exchange gains – related parties	**1,101**	1,405
Other interest income – mainly from receivables arising from sale of shopping centers	**1,526**	–
Total finance income	**12,407**	4,000
Interest expenses on bank loans and debentures	**(6,216)**	(3,542)
Interest on loans from related parties	**(642)**	(1,133)
Changes in fair value of debentures	**(818)**	–
Foreign exchange losses	**(105)**	–
Other finance expenses	**(972)**	(508)
	(8,753)	(5,183)
Less – finance expenses capitalized to trading properties under development	**5,693**	1,847
Total finance expenses	**(3,060)**	(3,336)
Total net finance income	**9,347**	664

Note 30 – Other income and other expenses

	For the year ended December 31, 2007 €'000	For the year ended December 31, 2006 €'000
OTHER INCOME		
Gain from selling of property, plant and equipment	**34**	–
Gain from writing off of old suppliers	**51**	252
Other income	**–**	35
Total other income	**85**	287
OTHER EXPENSES		
Writing-off of old debit balances	**(238)**	–
Loss from selling of property, plant and equipment	**(74)**	–
Demolition costs	**–**	(100)
Other expenses	**(111)**	(357)
Total other expenses	**(423)**	(457)
Total	**(338)**	(170)

Note 31 – Income taxes

	For the year ended December 31, 2007 €'000	For the year ended December 31, 2006 €'000
Current tax	**106**	170
Deferred tax	**(16)**	1,009
Prior year's taxes	**–**	429
Total	**90**	1,608

Reconciliation of statutory to effective tax rate:

	For the year ended December 31, 2007 €'000	For the year ended December 31, 2006 €'000
Dutch statutory income tax rate	25.5%	29.6%
Profit before taxes	**227,057**	16,328
Tax at the Dutch statutory income tax rate	57,810	4,834
Utilization of prior-year losses for which deferred taxes had not been created in the past (see note 22)	(1,593)	(576)
Changes in tax burden as a result of differences in statutory tax rates of subsidiaries	317	545
Deferred taxes not provided for losses and other temporary differences, net	1,447	1,052
Temporary differences arising from different measurement rules applied for the financial statements and those applied for income tax purposes (including exchange rate differences)	164	430
Changes in future tax rate enacted at the balance sheet date	37	353
Non-taxable income[1]	(58,093)	(5,466)
Prior years taxes	–	429
Other differences, net	1	7
Income tax expenses	90	1,608

(1) Non-taxable profit is attributable to the participation exemption that the Company has in the Netherlands, see also the Netherlands section below.

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

THE NETHERLANDS

a. Companies resident in the Netherlands are subject to corporate income tax at the general rate of 29.6% for the fiscal year of 2006. Commencing 2007 the general corporate income tax rate has been reduced to 25.5%. Under the amended rules effective from January 1, 2007, tax losses may be carried forward and set-off against income of the immediately preceding tax year and the nine subsequent tax years. Transitional rules apply for tax losses on account of tax years up through 2002 which may be carried forward and set-off against income up through 2011.

b. Under the participation exemption rules, income including dividends and capital gains derived by Dutch companies in respect of qualifying investments in the nominal paid-up share capital of resident or non-resident investee companies, are exempt from Dutch corporate income tax provided the conditions as set under these rules have been satisfied. The participation exemption rules and more particularly the statutory conditions thereunder have been amended with effect of January 1, 2007. Such amended conditions require, among others, a minimum percentage ownership interest in the investee company and require the investee company to satisfy either of, or both the newly introduced "assets" test and the amended "subject to tax" test.

c. Dividend distributions from a Dutch company to a Dutch corporate shareholder holding at least 25% of the shares of the Dutch company are subject to withholding tax at a rate of 5%, provided certain compliance-related formalities have been satisfied. In other situations, dividend distributions to shareholders are subject to withholding tax at a rate of 15%.

Note 31 – Income taxes continued

ROMANIA
Corporate income tax rate for resident companies and non-resident entities with a permanent establishment in Romania is 16% (including capital gains). Dividends paid to resident and non-resident corporations are subject to a final withholding tax of 16%, unless lower double taxation treaty rates apply. Losses may be offset against taxable income for a period of five years from the incurrence year-end.

HUNGARY
The corporate income tax rate imposed on the income of the subsidiaries incorporated in Hungary is 16%. Commencing 2007, capital gains are exempted from corporate income tax provided that certain criteria are fulfilled. A special solidarity tax is levied on companies as from September 1, 2006, being 4% of the modified accounting profit as determined by law. Dividends, interest, royalty paid out to companies are not subject to withholding tax. Losses in the first three years of operation can be carried forward without limitation. Losses incurred until 2004 can be carried forward for the period of five years, subject to certain limitations. Losses incurred in 2005 and thereafter, may be carried forward indefinitely, subject to certain limitations.

POLAND
The corporate tax applicable to income of Polish subsidiaries (including capital gains) is 19%. Dividends paid out of these profits are subject to an additional (final) tax rate of 19%, subject to the relevant double taxation treaty. Distribution of dividend of Polish subsidiary to Dutch parent company, holding at least 15% (commencing 2009 – 10%) of shares for a period of at least two years, is exempt from withholding tax. Losses may be offset against taxable income over a four-year period, subject to a maximum annual utilization of up to 50% of the accumulated loss from each particular tax year.

SERBIA
Corporate income tax ("CIT") rate applicable to income of Serbian subsidiaries is 10%. Losses stated in the tax balance (i.e. losses adjusted according to the CIT Law rules) may be carried forward for the period of ten years and offset against taxable income from the tax balance. Withholding tax at the rate of 20% is due on the payment by resident companies to non-resident companies of dividends and shares in the profit of a legal entity, and on royalties, interest, capital gains and proceeds from leasing real estate. Withholding tax may be reduced if such possibility is provided by the respective double taxation avoidance treaty.

INDIA
The corporate income tax applicable to the income of Indian subsidiaries is 33.99%. Minimum alternate tax (MAT) of 11.33% is applying to the book profits (i.e. profits shown in the financial statements), if the company's corporate tax liability is less than 10% of it's book profits. The paid amount will be credited if the company has taxable profits in the following five years. Capital gains on sale of fixed assets and real estate assets are taxed at the rate of 22.66% provided that they were held at least 36 months immediately preceding the date of the transfer or 33.99% if they were held for not more than 36 months. Dividends paid out of the profits are subject to Dividend Distribution Tax at the rate of 16.99%. There is no withholding tax on dividends distributed by the Indian company. Losses can be offset against taxable income for a period of eight years from the incurrence year end.

BULGARIA
Corporate income tax rate for resident companies and non-resident entities with a permanent establishment in Bulgaria is 10% (including capital gains). Dividends paid to resident individuals and non-resident corporations and individuals are subject to a final withholding tax of 5%, unless lower double taxation treaty rates apply. Such final tax is not levied on dividends payable to EU-member entity, provided that certain criteria are met. Losses may be offset against taxable income for a period of five years from the incurrence year end.

CYPRUS
The taxation of companies incorporated in Cyprus is based on tax residence and all companies are taxed at the rate of 10%. A special levy of 10% is imposed on interest received and deemed interest income in certain cases. 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. Payments of dividend to shareholders that are physical persons resident in Cyprus are subject to a 15% withholding tax. 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.

CZECH REPUBLIC
Corporate income tax rate imposed on the income of the subsidiaries incorporated in the Czech Republic (including capital gains) in 2007 is 24% which will gradually decrease from 21% in 2008 to 19% in 2010. Tax losses can be carried forward up to seven years to offset future taxable income. Dividends paid out of net income are subject to a withholding tax of 15%, subject to the relevant double taxation treaty. The Czech Republic exempts domestic dividends paid to EU parent companies that hold a participation of 20% or more for at least two years.

Note 31 – Income taxes continued

LATVIA

The corporate income tax rate imposed on the income of the subsidiaries incorporated in Latvia (including capital gains) is currently 15% (2006 – 15%). Tax losses can be carried forward and be off-set against taxable income of the five years following the accounting year in which they incurred. Dividends paid out of net income to non-resident are subject to a withholding tax of 10%, subject to the relevant double taxation treaty or 0% tax could be applied if the recipient is resident in another EU country or resident in a country included in the European Economic Region.

GREECE

The corporate income tax rate imposed on the income of the subsidiary incorporated in Greece (including capital gains) is currently 25% (2006: 29%). Tax losses can be carried forward and offset against taxable income of the five years following the accounting year in which they incurred.

Note 32 – Operating leases

The Company is a lessee of a number of plots of land and paid a total rent of €0.05 million in the year ended December 31, 2007 (€0.1 million for year ended December 31, 2006) under operating leases mainly in Poland, Romania and in the Czech Republic. The leases typically run for a period of 49 to 99 years. The leases in Poland which are held under perpetual usufruct are governed by the law of Management over Real Estate. Lease payments regarding perpetual use of land can be changed according to a new valuation of the plot. None of the leases include contingent rentals.

Non-cancellable operating lease rentals are payable as follows:

	For the year ended December 31, 2007 €'000	For the year ended December 31, 2006 €'000
Less than one year	**52**	109
Between one and five years	**600**	895
More than five years	**3,516**	4,618
	4,168	5,622

Note 33 – Financial instruments

FINANCIAL RISK MANAGEMENT

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

The Board of Directors has 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 Company, and confirms that any appropriate actions have been or are being taken to address any weaknesses.

It is the responsibility of the Audit Committee to consider the effectiveness of the Company's internal controls and risk management procedures.

The Board has established the Investment Committee, which is responsible for developing and monitoring the Group's financial risk management policies.

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

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

A. CREDIT RISK

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

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

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk. Approximately 70% of the Group's revenue in 2007 is attributable to one sales transaction with a single customer. However, this customer has furnished the Company a full bank guarantee. No other concentration risks exist.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures.

In a few cases the Group is paying advances to governmental institutions in connection of purchase of plots of land based on due diligence procedures. The Group secure such payments by firm contractual commitments and in some cases by receiving guarantee from the seller of the land. The management generally does not expect any governmental institutions to fail to meet its obligations.

Cash and deposits

The Group limits its exposure to credit risk by investing only in deposits and only with counterparties that have a credit rating of at least A from Moody's and A from Fitch. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Note 33 – Financial instruments continued

B. LIQUIDITY RISK

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

The Group use frequent budget meetings with senior management in order to assist management in monitoring cash flow requirements for a period of 60 days.

C. MARKET RISK

Currency risk

Currency risk is the risk that the Company will incur significant fluctuations in its reports as a result of utilizing currencies other than its functional currency.

The Group is exposed to currency risk mainly on purchases (plots of land purchases in India) and borrowings (debentures issues in Israel) that are denominated in a currency other than the respective functional currency of the Group, which is the euro. The currencies in which these transactions primarily are denominated are INR and NIS, respectively.

Regarding the hedging of the currency risk of the debentures see also note 16.

Interest rate risk

Regarding the hedging of the interest rate risk of the debentures see also note 16.

D. CAPITAL MANAGEMENT

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

The Board's target is for employees of the Group to hold up to 5% of the Company's Ordinary Shares. At present employees hold of Ordinary Shares, but with future potential of about 4% assuming that all outstanding employee share options vest and are exercised.

There were no changes in the Group's approach to capital management during the year.

CREDIT RISK

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

	Note	2007 €'000	2006 €'000
CARRYING AMOUNT			
Cash and cash equivalents	3	**66,381**	212,683
Restricted bank deposits	4	**25,155**	616
Short-term deposits	5	**1,033**	6,154
Trade accounts receivables, net	6	**262,595**	5,342
Other accounts receivable and prepayments	7	**6,778**	9,821
Related parties	10	**19,525**	–
Derivative	16	**2,228**	–
Long-term balances and deposits	9	**1,987**	2,257
Related parties	10	**–**	22,027
Restricted bank deposits	4	**5,302**	350
		390,984	259,250

Note 33 – Financial instruments continued

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was as follows:

	2007 €'000	2006 €'000
CARRYING AMOUNT		
Debtor due to selling of shopping centers[1]	**260,782**	4,283
Retails customers (tenants)	**1,813**	1,059
	262,595	5,342

(1) Bank guarantee on the vast majority of the amount of the debt was provided by the debtor due to selling of shopping centers – refer to note 37 (financial risk management).

IMPAIRMENT LOSSES

The ageing of trade receivables at the reporting date was:

	Gross 2007 €'000	Impairment 2007 €'000	Gross 2006 €'000	Impairment 2006 €'000
Not past due	**257,227**	**–**	–	–
Past due 0-180 days	**1,197**	**112**	5,342	93
Past due 180-365 days	**–**	**–**	–	–
More than one year	**4,283**	**–**	–	–
	262,707	**112**	5,342	93

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2007 €'000	2006 €'000
Balance at January 1	**93**	91
Impairment loss recognized	**18**	2
Balance at December 31	**111**	93

The increase in impairment loss is mainly attributable to the Company's new subsidiary in Hungary.

The Company believes no impairment allowance is necessary in respect of the amount of €4.3 million based on the good track record the Company has with Klépierre. The Company expects to settle this balance in the course of 2008.

LIQUIDITY RISK

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

DECEMBER 31, 2007

	Carrying amount €'000	Contractual cash flows €'000	Six months or less €'000	Six to 12 months €'000	One to two years €'000	Two to five years €'000	More than five years €'000
Non-derivative financial liabilities							
Interest bearing loans from banks	5,870	(7,970)	(421)	(411)	(801)	(2,227)	(4,110)
Long-term debentures at fair value through profit or loss	53,821	(71,443)	(1,244)	(1,244)	(2,487)	(27,257)	(39,211)
Trade and other payables	72,523	(72,523)	(72,168)	–	(355)	–	–
Related parties	24,974	(24,974)	(23,103)	–	(1,871)	–	–
	157,188	(176,910)	(96,936)	(1,655)	(5,514)	(29,484)	(43,321)

Note 33 – Financial instruments continued

LIQUIDITY RISK CONTINUED

DECEMBER 31, 2006

	Carrying amount €'000	Contractual cash flows €'000	Six months or less €'000	Six to 12 months €'000	One to two years €'000	Two to five years €'000	More than five years €'000
Non-derivative financial liabilities							
Interest bearing loans from banks	57,076	(79,671)	(10,802)	(1,282)	(4,267)	(12,625)	(50,695)
Trade and other payables	22,760	(22,760)	(21,209)	–	(1,551)	–	–
Related parties	26,245	(26,245)	(17,771)	–	(8,474)	–	–
	106,081	(128,676)	(49,782)	(1,282)	(14,292)	(12,625)	(50,695)

CURRENCY RISK

EXPOSURE TO CURRENCY RISK

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

	EUR	NIS	USD	HUF	PLN	CZK	RON	INR	LVL	Other	EUR	USD	HUF	PLN	CZK	RON	INR
	December 31, 2007 EUR										December 31, 2006						
Current assets																	
Cash and cash equivalents	61,917	–	263	143	1,586	1,174	165	663	350	120	209,292	129	2,782	416	64	–	–
Restricted bank deposits	22,364	–	650	–	2,141	–	–	–	–	–	–	–	–	616	–	–	–
Short-term deposits	–	–	–	–	–	–	–	1,033	–	–	3,670	74	101	1,520	789	–	–
Trade accounts receivable, net	260,793	–	–	290	333	1,094	85	–	–	–	4,283	–	339	533	187	–	–
Other accounts receivable and prepayments	482	–	102	176	1,062	3,029	1,264	58	549	56	1,686	–	3,128	4,532	475	–	–
Related parties	19,525	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
	365,081	–	1,015	609	5,122	5,297	1,514	1,754	899	176	218,931	203	6,350	7,617	1,515	–	–
Non-current assets																	
Derivative	(53,021)	55,249	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Long-term balances and deposits	1,987	–	–	–	–	–	–	–	–	–	2,257	–	–	–	–	–	–
Related parties	–	–	–	–	–	–	–	–	–	–	22,027	–	–	–	–	–	–
Restricted bank deposits	5,302	–	–	–	–	–	–	–	–	–	350	–	–	–	–	–	–
	(45,732)	55,249	–	–	–	–	–	–	–	–	24,634	–	–	–	–	–	–
Total	319,349	55,249	1,015	609	5,122	5,297	1,514	1,754	899	176	243,565	203	6,350	7,617	1,515	–	–

	EUR	NIS	USD	HUF	PLN	CZK	RON	INR	LVL	Other	EUR	USD	HUF	PLN	CZK	RON	INR
	December 31, 2007 EUR										December 31, 2006						
Current assets																	
Interest bearing loans from banks	409	–	–	–	–	–	–	–	–	–	47,840	–	–	3,361	–	–	–
Trade payables	14,592	–	–	198	273	315	2,990	75	966	23	5,500	–	185	8,409	1,609	–	1,202
Amounts due to related parties	11,418	–	11,685	–	–	–	–	–	–	–	11,027	6,744	–	–	–	–	–
Creditor due to selling of investment property	786	–	–	–	–	–	–	–	–	–	–	2,418	–	–	–	–	–
Other liabilities	47,041	–	–	187	628	2,136	45	1,737	127	49	1,496	–	674	508	358	52	–
	74,246	–	11,685	385	901	2,451	3,035	1,812	1,093	72	65,863	9,162	859	12,278	1,967	52	1,202
Non-current liabilities																	
Interest bearing loans from banks	5,461	–	–	–	–	–	–	–	–	–	5,875	–	–	–	–	–	–
Long-term debentures	–	53,821	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Amounts due to related parties	883	–	988	–	–	–	–	–	–	–	4,976	3,498	–	–	–	–	–
Other long-term liabilities	–	–	–	72	–	283	–	–	–	–	1,011	–	–	313	227	–	–
	6,344	53,821	988	72	–	283	–	–	–	–	11,862	3,498	–	313	227	–	–
Total	80,590	53,821	12,673	457	901	2,734	3,035	1,812	1,093	72	77,725	12,660	859	12,591	2,194	52	1,202
Net exposure	238,759	1,428	(11,658)	152	4,221	2,563	(1,521)	(58)	(194)	104	165,840	(12,457)	5,491	(4,974)	(679)	(52)	(1,202)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2007

Note 33 – Financial instruments continued

CURRENCY RISK CONTINUED
The following significant exchange rates have been applied during the year:

			Reporting date	
	Average rate		Spot rate	
EUR	**2007**	2006	**2007**	2006
USD 1	**0.730**	0.797	**0.679**	0.758
PLN 1	**0.265**	0.257	**0.279**	0.261
HUF 100	**0.398**	0.379	**0.395**	0.396
RON 1	**0.300**	0.284	**0.277**	0.296
CZK 10	**0.361**	0.353	**0.376**	0.364
INR 10	**0.177**	0.175	**0.172**	0.172
NIS 1	**0.178**	0.179	**0.177**	0.181

SENSITIVITY ANALYSIS
A 5% strengthening of the euro against the foreign currencies at December 31, 2007 would have increased profit by the amounts €0.25 million. This analysis assumes that all other variables, in particular interest rates, remain constant (2006 – increased profit by the amounts €0.7 million).

A 5% weakening of the euro against the above currencies at December 31, 2007 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

INTEREST RATE RISK
PROFILE
The reporting date of the interest rate profile of the Group's interest-bearing financial instruments was:

CARRYING AMOUNT

	2007 €'000	2006 €'000
Fixed rate instruments		
Financial assets	**5,898**	3,216
Financial liabilities	**–**	–
	5,898	3,216
Variable rate instruments		
Financial assets	**370,076**	218,844
Financial liabilities	**(70,083)**	(73,958)
	299,993	144,886

The Company does not hold significant financial instruments with fixed rate, in order to avoid devaluation of assets of increase in value of liabilities, as a result of changes in market conditions.

FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS
The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS
A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

Note 33 – Financial instruments continued

DECEMBER 31, 2007 – DERIVATIVES AND DEBENTURES

Sensitivity analysis – changes in exchange rates EUR-NIS

	Fair value change €	Fair value €	Fair value change €
	5.6592	5%	-5%
Derivative	2,228,268	(2,630,895)	2,907,832
Debenture	53,820,879	2,562,899	(2,832,678)
Total net		(67,996)	75,154

Sensitivity analysis – Changes in Israeli CPI

	Fair value change €	Fair value change €	Fair value €
	101.9	-2%	2%
Derivative	2,228,268	(1,104,976)	1,104,976
Debenture	53,820,879	1,076,417	(1,076,417)
Total net		(28,559)	28,559

Sensitivity analysis – Changes in interest on debenture

	Fair value change 100 bp decrease €	Fair value €	Fair value change 100 bp decrease €
Derivative	2,228,268	3,006,956	(2,794,242)
Debenture	53,820,879	(2,875,003)	2,674,671
Total net		131,953	(119,571)

DECEMBER 31, 2007 – VARIABLE INTEREST LOANS (EXCLUDING DEBENTURES)

December 31, 2007	Profit or loss 100 bp increase	100 bp decrease
Variable rate instruments	(174)	174
	(174)	174

DECEMBER 31, 2006 – VARIABLE INTEREST LOANS (EXCLUDING DEBENTURES)

December 31, 2006	Profit or loss 100 bp increase	100 bp decrease
Variable rate instruments	(368)	368
	(368)	368

FAIR VALUES

Fair values versus carrying amounts

The carrying amounts of financial assets and liabilities shown in the balance sheet are a reasonable approximation of the fair value of such financial assets and liabilities.

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an adequate credit spread, and were as follows:

	2007	2006
Derivatives – outflow[1]	**6.33%-6.6%**	N/A
Derivatives – inflow[1]	**4.1%-4.25%**	N/A
Loans and borrowings	**6.30%**	5.35%-5.7%

(1) Including a margin of 1.825%

Regarding externally imposed capital requirements refer to note 34(d)

Note 34 – Contingent liabilities and commitments

A. COMMITMENTS TO RELATED PARTIES

1. On October 27, 2006, the Company entered into an agreement with Control Centers Ltd. ("Control Centers"), a company controlled by the ultimate shareholder of EI under which Control Centers will provide coordination, planning, execution and supervision services in respect of the Group's projects (the "Agreement"). This Agreement is concluded within the framework substantially the same as a similar agreement concluded between EI and Control Centers, which was approved by the shareholders of EI on May 31, 2006 under the applicable provisions of Israeli law. The Company will receive from Control Centers (either directly or through its subsidiaries or affiliates, other than the Company and its subsidiaries) coordination, planning, execution and supervision services (the "Services") over Real Estate Projects (as defined below) of the Group and/or its affiliates in consideration for a fee equal to 5% of the actual execution costs of each project, plus value added tax. "Real Estate Projects" shall mean any real estate project intended for one or more of the following:

Shopping and entertainment centers, or any other shopping center, permanent, temporary or seasonal residential projects, offices, business enterprises, warehouses, congressional centers, lecture or convention centers, hotels, guest houses, apartment hotels, leisure apartments, leisure, entertainment, sports or health centers and/or any other real estate projects decided upon for its development, construction or renovation by the Company, by itself or in participation with third parties.

Coordination, planning and execution services include the receipt of approvals and permits relating to construction and coordination, negotiations with consultants and planners, coordination with licensing authorities and supervision of the planning process. Supervision services include locating and negotiating with suitable contractors, supervising their work and coordinating the operating activities of the real estate project prior to its completion.

The actual execution costs are the aggregate costs incurred in connection with the Real Estate Project excluding the cost of the purchase of the land, financing costs and the consideration for Control Centers under the Agreement. Such a fee will be paid in installments upon the meeting of specified targets (receipt of planning approval or other approval similar in its nature, receipt of a building permit and completion of the Real Estate Project).

The calculation of the actual execution costs and the final payment to Control Centers will be approved by an external accountant and the Audit Committee of the Company and of EI. In addition, the Company will reimburse Control Centers 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 intended use of a Real Estate Project is changed for any reason prior to the completion of the project, the payment to Control Centers will be calculated as a percentage of the budget for the Real Estate Project and provided that such percentage shall not exceed the percentage determined for the next target had it continued as planned. The calculation of the payments to Control Centers will be subject to the approval of an external accountant and the approval of the Audit Committee and the Board of the Company and of EI. Following the change of purpose of a Real Estate Project, the Company may, at its sole discretion, continue the engagement with Control Centers with respect to such Real Estate Project and in such event the Real Estate Project shall be considered as a new Real Estate Project and the provisions of the Agreement shall apply to it as if it were a new Real Estate Project. If the development of the Real Estate Project is terminated for any reason (including the sale of the Real Estate Project), the parties will negotiate in good faith to agree the fees to be paid to Control Centers based on the budget as of the termination date, provided that Control Centers' percentage shall not exceed the percentage determined for the next target of the project had it had continued as planned. The calculation of the payments to Control Centers will be subject to the approval of an external accountant and the approval of the Audit Committee and the Board of the Company and of EI.

At December 31, 2007, the financial statements include a provision for engineering supervision services supplied by a related party in the Control Centers Group in the amount of €3.9 million related to seven projects under development in Poland, Czech Republic, Latvia and Greece (see also item 1 above).

2. The Company and/or its subsidiaries and/or affiliates may also purchase from Control Centers through Jet Link Ltd. up to 275 flight hours (including EI and its subsidiaries) per calendar year in consideration for payments to Jet Link Ltd. in accordance with its price list, reduced by a 5% discount. The Agreement entered into on October 27, 2006, will remain in effect for a five-year term.

3. On October 27, 2006, the Company entered into an agreement with the Executive Vice-Chairman of EI ("VP") who has responsibility for the Company's operations in India, under which the VP will be entitled to receive options ("the Options") to acquire up to 5% of the holding company through which the Company will carry on its operations in India. However, where considered appropriate and by agreement, the VP will be entitled to take up a 5% interest in specific projects, in which case necessary adjustments will be made at the holding company level. The Company and the VP will agree on the terms of the Option for each acquisition, 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 VP exercises all of his Options (5%) at the holding company level, his right to take up interests on a project by project basis will lapse. The Options will be subject to vesting over a three-year period, with an initial vesting of 2% on award of the Options following commencement of the relevant project with an additional 1% on the following dates: March 31, 2007, March 31, 2008 and March 31, 2009. If the VP elects to take up Options in a specific project which commences after any of the vesting dates specified above, an immediate vesting will be allowed in respect of Options which would have vested as of the above dates. The Options may be exercised at any time, at a price equal to the Company's net equity investment made in the projects as at the Option exercise date plus interest at the rate of LIBOR plus 2% per annum from the date of the investment until the Options exercise date ("Exercise price").

Note 34 – Contingent liabilities and commitments continued

A. COMMITMENTS TO RELATED PARTIES CONTINUED

The VP has cash-in right to require the Company to purchase shares held by him following the exercise of the Options, at a price to be determined by an independent valuator. In addition, the VP has the right to pay the exercise price on a partial exercise of Options by way of the surrender to the Company of Options valued at the exercise price of the exercised Options. The agreement includes tag-along rights and a right of first refusal.

The share Option arrangement will apply to all projects sourced to the Company from EI. The Options' arrangement was subject to the approval of EI's shareholders meeting. Such approval was granted by the EI shareholders meeting on January 17, 2008. Any change in the conditions of the Option agreements will be subjected to approval of the Company's general shareholders meeting. As of December 31, 2007, the liability recorded in these financial statements in respect of this agreement is €0.8 million.

4. On October 27, 2006, the Company and the Chairman of the Board entered into a service agreement, pursuant to which the Chairman will be entitled to a monthly salary of US$25,000 (€17,000) which includes pension, retirement and similar benefits for his services as the Company's Chairman. The Agreement was approved at the Annual General Meeting of EI on November 1, 2007.

5. In October 2006, the Company and EI entered into a transitional services agreement, pursuant to which EI will provide the Company with legal and accounting services. The services are to be provided by EI for a period of 24 months, unless terminated earlier by the Company, at a cost to be agreed between the parties from time to time.

6. In October 2006, the Company and EI entered into an agreement, pursuant to which with effect from January 1, 2006 the Company will pay commissions to EI in respect of all and any outstanding corporate and first demand guarantees which have been issued by EI in favour of the Company up to 0.5% of the amount or value of the guarantee, per annum.

7. On October 13, 2006, EI entered into an agreement with the Company, under which EI is obliged to offer to the Company potential real estate development sites sourced by it in India. These sites will be suitable for shopping and entertainment centers development projects as well as mixed use projects (comprising offices, residential units, congress centers and leisure facilities). The projects may also involve the acquisition and renovation of existing shopping and entertainment centers. In "Integrated Shopping Center Projects", the shopping and entertainment center may not be the key element of the project. Under the agreement, EI is obliged to offer the Company the exclusive right to develop all of the shopping center projects which EI acquires during the 15-year term of the agreement. The Company must, within 30 days of receiving EI's offer, indicate to EI whether it wishes to accept or decline the offer. In respect of sites acquired by the Company, it has agreed to pay EI the cost of the site paid by EI as well as direct costs, subject to a cap of 5% of the cost of the site.

8. On November 1, 2007, the Annual General Meeting of EI approved the grant by the Company of a deed of indemnity to the Executive Chairman of the Board of Directors of the Company – the maximum indemnification amount to be granted by the Company to the Chairman shall not exceed 25% of the shareholders' equity of the Company based on the shareholders' equity set forth in the Company's last consolidated financial statements prior to such payment.

9. On November 1, 2007, the Annual General Meeting of EI approved the grant by the Company of a deed of indemnity to all the Company's directors.

B. COMMITMENTS TO OTHERS

1. Tesco

A subsidiary incorporated in Prague, Czech Rep. ("Novo"), which was sold in June 2006 (see note 37) is a party to an agreement with a third party ("the lessee"), for the lease of commercial areas in a center constructed on property owned by Novo, for a period of 30 years, with an option to extend the lease period for an additional 30 years, in consideration for €6.9 million. Through June 30, 2006, the entire amount of €6.9 million was paid. According to the lease agreement, the lessee has the right to terminate the lease subject to the fulfillment of certain conditions as stipulated in the agreement. Novo was sold to Klépierre on June 30, 2006, however the Company remains liable to Klépierre in case the lessee terminates his contract in certain conditions. The Company's management believes that this commitment will not result in any material amount being paid by the Company.

2. Lublin Stage B Project (see note 37)

The Company has granted in respect of Lublin Stage B Project (construction of the hotel and office area above the shopping Center) a commitment to Klépierre (back to back with Klépierre commitment to Lublin Municipality according to which Stage B Project shall commence by no later than September 30, 2009 and conclude by the end of 2011 ("Stage B Project"). Should the Company fail to comply with the timetable of the second stage a penalty shall be imposed thereon in the amount of PLN 2.5 million (€0.7 million). The municipality also reserves the right in this case to buy back the shopping center at cost base.

In addition, the Company will indemnify Klépierre for any damage in relation to the construction of Stage B Project and will cause Stage B project to assume full liability for the full and timely performance of all the obligations (other than payment of usufruct fee) of the Joint Venture ("JV") agreement for the ownership (indirectly) of a Company registered in Lublin, Poland in favour of the municipality of Lublin including for damages for the failure of Project B Company to construct the Stage B Project in accordance with the usufruct agreement. The Company and the joint venture partner are jointly and severally guarantee to the Vendor's obligations under the transaction agreement.

Note 34 – Contingent liabilities and commitments continued

C. CONTINGENT LIABILITIES

On April 5, 2006, Cukierman Real Estate Ltd. filed a summary procedure claim with the District Court of Tel-Aviv against EI and the Company. Within the framework of this claim, the District Court has been requested to order the Defendants to pay the Plaintiff the amount of approximately €2 million as an intermediary brokerage fee arising out of the sale by the Company to Klépierre S.A. of its shopping centers in Poland and Czech Republic in terms of the Agreement dated July 29, 2005. This Statement of Claim has not yet been formally served upon the Company at its registered address in Amsterdam, as required by the Israeli Civil Procedure Rules. An application for leave to defend has not yet been filed. On May 8, 2006, EI filed a motion to strike out the claim in line or alternatively to strike out the title “summary procedure”. This request was denied by the court, following which the Company submitted a statement of defense on January 25, 2007. Following the cessation of mediation procedure, the parties conducted documents discovery proceedings. A preliminary hearing will be held on April 27, 2008. The Company believes, based, inter alia, on legal opinions, that there is a fairly good chance that the entire legal action against the Company, or the majority thereof, will be denied.

The Company is involved from time to time in litigation arising in the ordinary course of its business. Although the final outcome of each of these cases cannot be estimated at this time, the Company’s management believes, based on legal advice, that the resolution of such litigation will not have a material adverse effect on the Company’s financial position.

D. SECURITIES, GUARANTEES AND LIENS UNDER BANK FINANCE AGREEMENTS

1. In order to secure loans granted for construction or refinance of the centers, the Company has granted banks with regard to certain subsidiaries: first ranking liens on all their assets, including rights in land and the projects for which the loans were taken; liens on all of their rights, including by way of assignment of rights, pursuant to the agreements to which they are party, including general contractor contracts, long term tenants’ leases and subordination of all shareholders loans to the financing bank; liens on all of the rights deriving from each material contract the borrowing company is a party, etc. Alom Sziget has a bank loan of €23 million, the Company has committed to repay 30% of the outstanding loan amount in case Alom Sziget fails to do so.

Payments to the shareholders, including dividend distribution, are subject to financial covenants and usually require the financing bank’s prior approval.

Several Project Companies have undertaken 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 have undertaken not to allow, without the prior consent of the financing bank: (i) any changes in and to the holding structure of the Project Companies nor to allow for any change in their incorporation documents; (ii) execution of any significant activities, including issuance of shares, related party transactions and significant transactions not in the ordinary course of business; (iii) certain changes to the scope of the project; (iv) the assumption of certain liabilities by the Project Company in favour of third parties; (v) receipt of loans by the Project Company and/or the provision of any guarantee to third parties.

In addition, the investee companies are obliged to maintain minimum share capital of the borrowing companies in accordance with the financing agreements or the injection of further finance, in any case of variance from the budgets of the business plans; restrictions on the ratio of shareholder loans to bank loans and on the amount of the outstanding bank loans in relation to the cost of the project. In certain projects, the Company, together with other shareholders, undertook to make up amounts that are required in the event that current operations of the commercial center result in a deficit. The subsidiaries undertook to comply with certain financial ratios and minimum cash balances (“covenants”). Covenants include: Complying with ratios between timely rental income and timely loan repayments and other similar ratios, accumulating funds to pay back last part of loans, occupancy percentage, and minimum rental fees, creating refurbishment funds, and reporting requirements. The Company’s management is in the opinion that all group companies are in compliance with such covenants.

2. Commitment in respect of derivative transaction

The Company agreed with the bank on an approved risk limit of €8 million regarding cross currency interest rate swap. The approved risk limit is the maximum risk exposure (as a result of the Cross currency interest rate swap) in which the bank will not require the Company to secure additional funds. As of balance sheet date, the Company has pledged a security deposit in the amount of €5.3 million.

In the event that the exposure exceeds the approved risk limit, the Company undertakes to act immediately and without delay, and on its own initiative, to reduce the exposure to an amount not in excess of the approved risk limit, by means of early termination of transactions for the account; the Bank may, but shall not be obliged, at any time and at any price and without having to give any prior notice to the Company, to act immediately and without delay in order to adjust the exposure to the approved risk limit and/or to act in accordance with its rights as provided in the agreement.

The derivative is measured at fair value and accordingly the Company has recorded a gain of €2.2 million from the cross currency interest rate swap in the financial statements of 2007.

3. In respect of securities provided by the Company for investment in structures after balance sheet date see note 38.

Note 35 – Significant acquisitions and events (since January 1, 2006)

FLOTATION OF PLAZA CENTERS N.V ON THE LONDON STOCK EXCHANGE

On October 27, 2006 the Company announced the pricing of its initial public offering of Ordinary Shares (the "IPO" or the "Offer") on the Official List of the London Stock Exchange ("LSE"). The offer price was set at 180 pence per Ordinary Share (the "Offer Price"). Based upon the Offer Price, the market capitalization of the Company at the commencement of conditional dealings was £514.3 million (approximately €760 million). Conditional dealings commenced on the LSE under the ticker symbol PLAZ. The Offer consisted of 85.71 million new Ordinary Shares (excluding 10% over allotment option for underwriters which was exercised on November 24, 2006, in respect of 6.6 million Ordinary Shares). Following the Offer, the free float of the Company was approximately 30%. The admission of the Company's Ordinary Shares to the Official List of the United Kingdom Listing Authorities and to trading on the main market for listed securities of the LSE ("Admission") became effective and unconditional dealings commenced on November 1, 2006. Including the exercise of the over allotment ("Green Shoe") option, the total proceeds from the IPO received by November 24, 2006 were £166.2 (approximately €247.2 million) from issuing 92.3 million Ordinary Shares.

CASA RADIO PROJECT – BUCHAREST, ROMANIA

On October 11, 2006, the Company entered into an agreement, according to which it will acquire 75% interest in a company ("Project SPV") which, under a public-private partnership agreement with the government of Romania, is to develop the Casa Radio site in central Bucharest. As of December 31, 2006, the consummation of the transaction was subject to the fulfillment of certain conditions, including obtaining the approval of the government of Romania to an amendment to the public-private partnership agreement. The cost of the acquisition of the interest in Project SPV amounts to approximately USD 40 million (€30 million). As of the balance sheet date, an amount of USD 1 million (€0.7 million) was deposited by the Company into an escrow account which will be released to the seller following the fulfillment of the conditions included in the agreement.

The other investors include the government of Romania, which will assure that the development 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 Project SPV, and the seller which will retain a 10% interest in the Project SPV.

In November 2006, the public-private partnership agreement was approved by the government of Romania subject to ratification by the Romanian Parliament which as of the date of the approval of these financial statements has been obtained. The transaction approval and the nomination of directors in Project SPV by the Company were adopted by the general shareholders meeting of Project SPV in February 2007. Until that date the Company could not exercise control over the Project SPV operations and accordingly, the financial statements of Project SPV were not consolidated in the Company financial statement as of December 31, 2006 and the escrow account was presented in the consolidated balance sheet as prepayments within other accounts receivable in current assets.

The Project, which will have an estimated built area of approximately 360,000m^2, will include a shopping and entertainment center, a five star apartment hotel and residential units and offices. The purchasers (including the Company) have undertaken to cause Project SPV to construct an office building measuring approximately 13,000m^2 for the government of Romania at its own cost. Project SPV intends to finance the construction of the project through bank loans. Additional finance for the project (if needed) will be borne by the Company and the seller pro-rata to their shareholding. The total provision recorded in respect of the office building construction was €17.1 million. The Company also provisioned an amount of US$5 million (€3.4 million) as settlement for a mediator in respect of the Casa Radio project.

KOREGAON PARK PROJECT – PUNE, INDIA

On December 1, 2006, the Company acquired a 100% shareholding from EI of a company which holds a 50% interest in an Indian private limited liability company, which owns a plot of land in Pune, India ("JV2"). The remaining 50% interest in JV2 is controlled by another property developer. In accordance with the agreement, the Company paid EI its original investment of INR 310 million (approximately €5.4 million) in the project plus preliminary development costs which are not to exceed 5% of the investment. This freehold development site is currently held by 24 separate companies in equal undivided shares (one of which is JV2). Twelve of these companies ("Group B Companies") have sold the development rights relating to their respective portions of the land to an affiliate of the partner. The remaining 11 companies ("Group A Companies") and JV2 retain the development rights relating to their respective portions.

Under the Agreement, the Company is to subscribe for shares and convertible securities representing 50% of JV2, upon fulfillment of certain conditions precedent being satisfied ("First Closing") which are principally that the JV2 will acquire 100% of all the Group A and Group B Companies and conclude a development rights assignment agreement with the affiliate of the partner, whereby the development rights to the Group B Companies' land will be irrevocably assigned to the JV2. The cash consideration payable by the JV2 is INR 440 million (€7.7 million), payable in instalments whereby an amount of INR 310 million was paid at first closing and INR 130 million (€2.3 million) at second closing (being the date within ten days after the issue of the necessary building permits on the site).

Note 35 – Significant acquisitions and events (since January 1, 2006) continued

KHARADI PROJECT – PUNE, INDIA

In February 2007, the Company indirectly entered into an agreement to acquire through a 100% subsidiary a 50% stake in P-one infoport private Ltd, ("JV1") an Indian limited liability company, which owns the freehold of approximately fourteen acres of land situated in the Kharadi district of Pune, Maharashtra State, India. The remaining 50% stake in JV1 is held by a property developer in Pune. The consideration paid totalled €17 million, invested in the form of equity. The actual transfer of ownership occurred in April 2007.

JV1 intends to develop its plot of land through the construction of a project totalling approximately 2.4ft^2 (225,000m^2) gross built area which will include:

> a shopping center with a total area of approximately 1.3 million ft^2 (approximately 120,000m^2);

> an office complex measuring approximately 870,000ft^2 (approximately 81,000m^2); and

> a serviced apartment facility of approximately 260,000ft^2 (approximately 24,000m^2).

TRIVANDRUM PROJECT PURCHASE – INDIA

On June 19, 2007 the Company (through P-One, its 50% indirectly held subsidiary) entered into a joint venture with a leading Indian property developer, to acquire a plot of land with an area of approximately 10.78 acres (approximately 43,600m^2), situated in Trivandrum, the capital city of the State of Kerala, India. The total cost of the land amounted to 1,060 million rupees (approximately €20 million). The Company and its partner intend to use the plot to develop a project totalling approximately 2.1 million ft^2 (195,000m^2), which is currently intended to comprise:

> a shopping and entertainment center with a total area of approximately 720,000ft^2 (approximately 67,000m^2);

> an office complex with a total area approximately 970,000ft^2 (approximately 90,500m^2); and

> a hotel and apartment hotel with a total area of approximately 400,000ft^2 (approximately 37,500m^2).

ERCORNER

In May 2006, the Budapest General Assembly approved an amendment to the local town-planning scheme, which approves the construction plans for the Obuda island. As part of this approval, Alom Sziget has undertaken to ensure the traffic connections to, from and within the island and to develop landscape works. The additional investment required in respect of the aforementioned projects is estimated at approximately €55 million.

In September 2006, Alom Sziget received from the municipality of Budapest final formal approval for the zoning plan of the project. Upon receiving this approval and in accordance with the law in Hungary, Alom Sziget is allowed to apply for the receipt of a building permit.

ISSUANCE OF DEBT SECURITIES

For the issuance of debt securities refer to note 21.

BELGRADE PROJECT – SERBIA

In August 2007, the Company won a competitive tender from the government of Serbia for the development of a new shopping, entertainment and business center on a total built-up area of approximately 100,000m^2 (with over 2000 parking spaces) in the center of Belgrade, Serbia.

The Company will partner local Serbian developers for the project. The local partner will be entitled to participate in up to 10% of the project, subject to certain conditions while the project management will be rendered solely by the Company.

WARSAW STOCK EXCHANGE LISTING – POLAND

On October 19, 2007, Company Ordinary Shares were listed for trade in the Warsaw Stock Exchange under the abbreviated name "PLAZACNTR" and symbol "PLZ".

Note 36 – Related party transactions

RELATED PARTY TRANSACTIONS

The main shareholder of the Company, holding 68.4% of all issued and paid share capital of the Company as of balance sheet date, is Elbit Ultrasound B.V. ("EUL"), incorporated in the Netherlands and the ultimate controlling party is Elbit Imaging ("EI"). EI's indirect controlling shareholder is Mr. Mordechay Zisser. The rest of the Company's shares are held by the public, starting October 27, 2006.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The Company has six directors. The annual remuneration of the directors in 2007 amounted to €3.6 million (2006: €0.1 million) and the annual share-based compensation expenses amounted to €7 million (2006: €1.2 million). There are no other benefits granted to directors.

Information about related party balances as of December 31, 2006 and 2007 is disclosed in notes 10 and 19.

TRADING TRANSACTIONS

During the year, Group entities had the following trading transactions with related parties that are not members of the Group:

	For the year ended December 31, 2007 €'000	For the year ended December 31, 2006 €'000
Income		
Interest on shareholders loan to EI	**1,084**	670
Costs and expenses		
Charges – EI[1]	**3,355**	832
Chairman of Board and CEO India[2]	**961**	–
Interest on shareholders loan from EUL	**642**	1,133
Selling of shell companies to EUL	**–**	196
Aviation services – Jet Link[3]	**741**	643
Project management provision and charges – Control Centers group[3]	**11,846**	6,182

(1) Charges to EI increased mainly due to reimbursement of EI charges in connection with the purchase of projects in India by the Company (€1.6 million). For the agreement in respect of reimbursement of cost refer to note 34.

(2) For the option plan for the Company's CEO in India refer to note 34. Chairman of the Board of the Company, who is also the controlling shareholder of the ultimate parent company is receiving an annual salary of US$300,000.

(3) Jet Link and Control Centers are companies under the control of the controlling shareholder of the ultimate parent company.

Note 37 – Disposal of subsidiaries (investment property and trading property)

ARENA PLAZA – BUDAPEST HUNGARY

On July 10, 2007, the Company has executed a binding agreement for the sale of its entire interest (100%) in a company which holds the rights in and to the Arena Plaza shopping and entertainment center in Budapest ("Arena") to UK based active Asset Investment Management ("aAIM").

In August 2007, aAIM furnished the Company with a bank guarantee at the amount of €390 million as a security for the fulfillment of its undertaking to execute the payment of the purchase price at closing.

On December 18, 2007, the Company and aAIM executed an addendum to the transaction agreement according to which aAIM represented that all condition precedent for the consummation of the transaction has been fulfilled by the Company and/or waived by aAIM. Accordingly, the parities have executed amicable closing of the transaction which is effective as from November 30, 2007 ("Closing Effective Date"). The parties further agreed, that aAIM would be entitled to receive all rental income of the Arena as and from the Closing Effective Date. The Company undertook to complete the agreed-upon construction works for the completion of the Arena at an agreed amount which was deducted from the purchase price and was deposited into an escrow account.

The value of the Arena at the effective closing date was determined at €381 million which was calculated based on gross rentals prevailing at the effective closing date, capitalized at agreed yields. Purchase price adjustment will be conducted in respect of additional leases during the two consecutive earn-out periods, which end three months and 12 months respectively following the effective closing date. Notwithstanding the above, the value of the Arena is capped to the amount of €400 million.

Note 37 – Disposal of subsidiaries (investment property and trading property) continued

ARENA PLAZA – BUDAPEST HUNGARY CONTINUED

The cash consideration, which was paid to the Company on January 21, 2008, amounted to €254.8 million and was determined according to the value of the Arena together with monetary assets and other debit balances, and excluded bank and other monetary liabilities pertaining thereto.

Within the framework of the agreement, the Company undertook to indemnify aAIM against any losses, damages and the like resulting from breach of representations and warranties by the Company, taxes and other events. Parts of the indemnifications are limited in time and parts are indefinite. The total indemnification by the Company will not exceed the purchase price in certain events and 25% of the purchase price in other events subject to the conditions agreed upon in the agreement.

As a result of this transaction, the Company recorded in these financial statements revenues from sale of trading property in the amount of €366 million and recognized a gain of €203.7 million.

KLÉPIERRE TRANSACTION – STAGE A

On July 29, 2005, a transaction was consummated between the Company and Klépierre for the sale by the Company of the entire equity and voting rights (100%) of the companies owning four operational shopping centers in Poland ("Polish Sold Centers"), for a consideration of €73.8 million (out of which €10.9 million was paid to EUL to settle an existing advance), based on the Polish Sold Centers' value amounting to €204 million. The value was calculated on the basis of the gross rentals of the Polish Sold Centers as at the closing, capitalized at certain agreed yields, together with monetary and other balances, after deduction of bank and other monetary liabilities pertaining thereto ("the first stage").

An adjustment of the purchase price was conducted on the basis of the gross rentals as of December 31, 2005 (in respect of one shopping center – as of a date up to July 2006), capitalized at the agreed yields.

As part of the transaction, Klépierre has also acquired the entire outstanding share capital of the Polish subsidiary (PCM Poland) of the Company which operates and manages the acquired operational shopping centers.

The gain from the sale of investment property in 2006, recorded in the consolidated income statement (€13.7 million) is comprised mainly of the following:

> Part of the proceeds of the 2005 agreements in the amount of €5.4 million was subject to obtaining utilities licenses in respect of the sold centers and was deferred. Within the framework of a settlement agreement signed between the Company and Klépierre on November 16, 2006, it was agreed that the Company shall be unconditionally and irrecoverably released from its obligations to obtain such utilities licenses and that Klépierre will assume full and sole responsibility for the obtaining of these utilities permits. As a result, an additional gain of €5.4 million was recorded.

In November 2006, the Company and Klépierre concluded a final purchase price adjustment in respect of the sold centers in accordance with the provisions set forth in the sale agreement and accordingly the Company recorded an additional gain of €8.2 million which is mainly due to Poznan shopping center on account of the price adjustment, based on the updated gross rentals. One of the commercial centers which was sold to Klépierre within the framework of Stage A transaction is subject to a long-term lease agreement with the municipality of Warsaw ("Municipality") through 2021. The municipality has the right to buy back the commercial center at the end of the lease term in terms specified in the lease agreement. Within the framework of the transaction, it was agreed that an amount of €10.0 million will be reduced from the total proceeds payable by Klépierre ("Deferred Proceed") due to the aforementioned lease agreement. The Company will be entitled to receive the Deferred Proceed (plus interest) if it will extend the lease term over 34 years under the same terms and conditions within a term of ten years from the date of the agreement (July 2015), or proportional part thereof if it will extend the lease term over ten years. In addition, if the Company will acquire an ownership of the land through July 2015, Klépierre will pay to the Company the Deferred Proceed plus an additional €2.0 million and interest. The Company did not recognize the Deferred Proceed as gain in its financial statements.

KLÉPIERRE TRANSACTION – STAGE B

On July 29, 2005, the Company and Klépierre signed a preliminary share purchase agreement for the future acquisition by Klépierre of the entire equity and voting rights (100%) in two companies presently developing two shopping centers in Poland, as well as a further two companies developing shopping centers in the Czech Republic (one of these – Bes Tes S.R.O – was sold in June 2006 – see below) and an option an to acquire the entire equity and voting rights held by the Company (50%) of the third company (Movement Poland) developing a shopping center in Poland, upon the fulfillment of certain conditions ("the second stage").

Upon the completion and delivery of each of these centers, in accordance with certain pre-agreed parameters as determined in the preliminary agreement, and upon the fulfillment of certain pre-conditions, Klépierre will pay to the Company the purchase price of each specific center owning company which will be calculated based on gross rentals prevailing at a date close to delivery, capitalized at agreed yields. A final adjustment of the purchase price for each of these development centers will be conducted not later than

Note 37 – Disposal of subsidiaries (investment property and trading property) continued

KLÉPIERRE TRANSACTION – STAGE B CONTINUED

12 months following delivery, on the basis of actual gross rentals prevailing on the respective adjustment dates, capitalized at the agreed yields. In addition, a net asset value adjustment will be carried out on the basis of audited financial statements as at the delivery date.

On June 30, 2006, the Company sold (as part of the stage B transaction with Klépierre – see above) its wholly-owned subsidiary in the Czech Republic, Entertainment Plaza, which holds 99% of Bes Tes s.r.o, a Company which owns a shopping center in Prague. The gross asset value of the commercial center (following a purchase price adjustment concluded between the Company and Klépierre in November 2006) was €43.9 million and the net cash consideration amounted to €50.3 million. For commitments in respect of Bes Tes s.r.o, refer to note 34. As a result of this transaction, the Company recorded in 2006 a gain of approximately €4.5 million. In addition during 2007 the Company recognized an additional €1.7 million as part of its price adjustment negotiation with Klépierre.

KLÉPIERRE TRANSACTION – STAGE B IMPROVEMENT OF YIELD

Klépierre had agreed to reduce the capitalization rates in respect of three commercial centers included in the Stage B transaction (Rybnik Plaza, Sosnowiec Plaza and Plzen Plaza) subject to certain conditions which as of the balance sheet date have been fulfilled.

On May 8, 2007 the Company has formally completed the hand over of the Rybnik Plaza and the Sosnowiec Plaza commercial centers to Klépierre in accordance with the terms of the Stage B agreement. The value of the sold centers amounted to €89.3 million and the cash consideration paid to PC amounted to €48.2 million. As a result, the Group recorded in these financial statements a gain of €23.1 million.

HANDING OVER OF 50% STAKE IN LUBLIN PLAZA PROJECT – POLAND

The Company was a party to Joint Venture ("JV") agreement for the ownership (indirectly) of a company registered in Lublin, Poland ("MPSA"). MPSA holds a 99-year perpetual usufruct lease of a land, being the subject matter of the project located in Lublin, Poland, which was leased from the local municipality.

In April 2007, the Company and the 50% JV Partner have executed an agreement according to which the parties agreed: (i) to cause a spin-off of MPSA's obligation in terms of the Stage B Projects, to a subsidiary of the JV Partner ("Project B Company"), in consideration of €3.5 million. Such spin-off has been executed by means of a tenancy agreement within the framework of which MPSA undertook to consent and fully co-operate so as to allow Project B Company the development of the Stage B Projects. MPSA and Project B Company had also executed a preliminary agreement for the future transfer, to the latter, of all rights in the Stage B Projects upon completion of the same; and (ii) to grant PC an option to subscribe to 50% interest in Project B Company, in consideration for the amount equivalent to 50% of the share capital and shareholders loans invested by the JV Partner in Project B Company as at the date of consummation of the transaction. On September 30, 2007, the Company has notified the JV partner of its intention to exercise the option, however, as of the balance sheet date the transaction has not been consummated; and (iii) to sell their respective holdings in MPSA to Klépierre, in accordance with the Stage B agreement with Klépierre (see paragraph above).

The parties have agreed that within the framework of the transaction with Klépierre, the Company and the JV Partner will be entitled to receive all the equity loans invested by each of them in MPSA prior to distribution of the remaining proceed between the parties.

In July 2007, the Company and the JV Partner, through their jointly controlled company ("Vendor"), executed an agreement with Klépierre for the sale of their respective interest in MPSA to Klépierre in accordance with the terms of the Stage B agreement.

The value of the 50% of the asset as at closing amounted to €39 million and the cash consideration paid to the Company amounted to €27.3 million. As a result, the Group recorded in these financial statements a gain of €9.3 million.

The transaction with Klépierre specifically excluded Stage B Project and Stage B Company. The Vendor covenants that MPSA shall not bear any liability in respect of the construction of Stage B Project. For commitment in respect of Stage B Project refer to note 34.

The JV Partner guarantees to the Company's obligation under the transaction agreement related to Stage B Company and/or Stage B Project including any liabilities to indemnify Klépierre for non-performance of Stage B Company's obligations under the usufruct agreement with the municipality of Lublin.

SELLING OF DUNA OFFICES

The Company sold in May 2007 the Duna Plaza offices in Budapest, Hungary, to Klépierre for a consideration of €14.2 million. The Company recorded a gain of approximately €2.5 million from this transaction.

Note 38 – Subsequent events

KIELCE PLAZA, KIELCE, POLAND

The Company has won a competitive tender and acquired a site for the development of a major new shopping and entertainment center in Kielce, Poland. On completion, the scheme will have a Gross Built Area of 57,000m^2 with 40,000m^2 of GLA, and approximately 1,200 car parking spaces.

RESULTS OF A PUBLIC OFFERING OF NOTES IN ISRAEL

On February 13, 2008, the Company announced that it has completed an offering to the public in Israel of unsecured non-convertible Series B Notes ("Series B Notes") in the aggregate principal amount of NIS 713.5 million (€137 million) and their listing in the Tel Aviv Stock Exchange ("TASE"). The Series B Notes carry a coupon of 5.4% and they are linked (principal and interest) to increases in the Israeli Price Index. The offering and listing followed the publication by Plaza of a prospectus dated February 3, 2008 and a complementary notice dated February 11, 2008 (collectively, the "Prospectus").

At the same time, the Company has listed for trade on the TASE approximately NIS 305 million (€53.0 million) unsecured non-convertible Series A Notes issued by PC to investors in Israel in a private placement in July 2007 ("Series A Notes"). The Series A Notes carried a coupon of 5%, which was reduced to 4.5% from February 4, 2008 (the day following the publication of the aforementioned Prospectus).

The Series A Notes and the Series B Notes were rated Aa3 by Midroog Ltd., on a local scale, and the Series A Notes were rated A+/Positive by Standard & Poor's Maalot Ltd., on a local scale.

PLAZA BAS, ROMANIA

On January 31, 2008, the Company has entered into a joint venture partnership with BAS Development ("BAS"), to develop residential and office projects in Romania. BAS is a private company which is active in the Romanian property market, and which operates primarily in partnership with Aura Investments Limited, an Israeli investment and management company listed on the TASE. A new company, Plaza-Bas B.V., was established ("Plaza Bas"), and acquired the shares currently held by BAS in seven residential and office development projects. Plaza Bas is 50.1% owned by the Company and the remaining 49.9% owned by BAS. The Company has the power to appoint 60% of the Board members in Plaza Bas.

The seven projects are located in Bucharest, Brasov and Ploiesti.

HONEDOARA PLAZA, ROMANIA

In February 2008, the Company acquired a site in Honedoara, Romania. The 41,000m^2 site, will be developed into a modern, western style shopping and entertainment center, with a built area of 28,000m^2, and 20,000m^2 of lettable space.

TARGU MURES, ROMANIA

In March 2008 the Company acquired a 31,000m^2 site in Targu Mures, Romania, to develop a significant shopping and entertainment center.

The shopping center will have 32,000m^2 of lettable retail space, comprising more than 120 units. The site will also include 2,600m^2 of office space and 1,000 car parking spaces.

FINANCIAL STRUCTURE A

On February 28, 2008, the Group entered into a financial transaction with an issuing bank, according to which the Group invested an amount of €37.96 million for a period of 15 years in a note which bears interest of 11.5% per annum, payable to the extent that the margin between the 30 years Euro CMS (Constant Maturity Swap) and the ten years Euro CMS (measured on a daily basis) is higher than the accrual barrier which was set at 0.05% for days in which the margin is lower than the barrier no interest is paid. The principal amount is €38 million and the interest is payable quarterly commencing May 28, 2008. The financing bank has a call option to redeem the note at par in whole on February 28, 2009 and on each quarter thereafter by giving at least five business days prior notice. The principal is 100% protected at maturity.

At February 28, 2008, the margin between the 30 years Euro CMS and the ten years Euro CMS was 0.31%.

The Group has entered into a €26.96 million credit facility agreement with the same issuing bank for the purpose of investing in the aforementioned note. The credit facility bears an interest rate of three months Euribor + 0.4% per annum and the principal is payable at maturity of the note, while the interest is paid on the same days as the note's interest dates. The security for the loan is the note issued to the Group.

Note 38 – Subsequent events continued

FINANCIAL STRUCTURE B

On February 26, 2008, the Group entered into a financial transaction with an issuing bank, according to which the Group invested an amount of €13 million in a note which pays a variable interest linked to the ten year euro CMS rate subject to a minimum interest of 6.25% p.a and a maximum interest of 12.50% p.a. The principle is 100% protected at maturity. The interest is payable annually, commencing at February 19, 2009 and up to and including February 19, 2018 (maturity date).

At February 26, 2008, the margin between the ten year euro CMS rate was 4.473%.

The Group has entered into a €10 million credit facility agreement with the same issuing bank for the purpose of investing in the aforementioned note. The credit facility bears an annual interest rate of 12 months Euribor + 0.4% per annum and the principal is payable at maturity of the note, while the interest is paid on the same days as the note's interest dates. The security for the loan is the note issued to the Group.

Note 39 – Critical accounting judgments and key sources of estimation uncertainty

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

A. VALUATION OF INVESTMENT PROPERTY

The financial statements include investment properties at values that are subject to considerable estimation uncertainty. The risk that an investment property will not be appropriately valued exists, since factors not known to the valuer or to the Company might affect the value of the asset.

B. INCOME TAXES

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

C. POTENTIAL PENALTIES, GUARANTEES ISSUED

Penalties are part of the on-going construction activities, and result from obligations the Group takes on towards third parties, such as banks and municipalities. The Company's management is required to provide estimations about risks evolving from potential guarantees given by the Company or penalties that the Company might have to pay.

D. EXPIRED BUILDING PERMITS

The process of construction is long, and subject to authorization from local authorities. It may occur (such as in the Helios Project, see note 8) that building permits will expire and will cause additional preparations and costs to the Company, and can cause construction to be delayed or abandoned.

Note 39 – Critical accounting judgments and key sources of estimation uncertainty continued

E. VALUATION OF DEBENTURES

The valuation is done by relying on third party professional services. The calculation is sensitive to changes in market conditions and is based on assumptions that are reasonable but can not be virtually guaranteed. By listing of the debentures for trading in the Tel Aviv Stock Exchange, the Company can now better evaluate the debentures, as market value exists.

F. VALUATION OF DERIVATIVES

The valuation is done by relying on third party professional services. The calculation is sensitive to changes in market conditions and is based on assumptions that are reasonable but can not be virtually guaranteed. The Company is using the same valuator as the one mentioned in section e above, and by that improving the link between the derivative and the financial instrument to which the derivative was created.

G. REVENUE RECOGNITION

The Group recognizes a gain from selling trading properties or investment properties based on elaborated and complicated contracts, which in some cases requires estimates and judgment of whether additional gain (or provision to reduce gain) is due and should be recorded.

H. VALUATION OF SHARE-BASED PAYMENTS ARRANGEMENTS

The share-based payments valuation is relying on assumptions and estimations of key parameters such as volatility, which are changing, as market conditions change. The risk is that the estimated costs related to share-based payments might not be correct eventually and correction due to previous years would need to be performed in a certain current year.

Note 40 – List of subsidiaries and affiliates of the Company

During the period starting January 1, 2006, the Company has owned the following companies (all subsidiaries were 100% owned by the Group at each balance sheet date presented unless otherwise indicated):

Hungary	Activity	Remarks
DIRECTLY WHOLLY OWNED		
Kerepesi 2 Hypermarket Ingatlanfejlesztő Kft.	Shopping center	Sold to aAim in 2007
Kerepesi 3 Áruház Ingatlanfejlesztő Kft.	Shopping center	Sold to aAim in 2007
Kerepesi 4 Szálloda Ingatlanfejlesztő Kft.	Holder of land usage rights	
Kerepesi 5 Irodaépület Ingatlanfejlesztő Kft.	Holder of land usage rights	
HOM Ingatlanfejlesztési és Vezetési Kft. ("HOM")	Management company	
Plaza House Ingatlanfejlesztési Kft.	Office building	
Tatabánya Plaza Ingatlanfejlesztési Kft.	Inactive	
Zalaegerszeg 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	Own plot of land	Sold to Dawnay Day in 2006
Szolnok 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	Inactive	Sold in August 2006 to parent company
Szombathely 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	Inactive	
Szeged 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	Inactive	
Eger Ingatlanfejlesztési Kft.	Inactive	Sold in August 2006 to parent company
INDIRECTLY WHOLLY OWNED (OR JOINTLY CONTROLLED)		
Ercorner Kft.	Holding company	Jointly controlled (50%/50%) with MKB Bank and holding company of Álom Sziget 2004 Kft. The Island project – see note 15
Alom Sziget 2004 Ingatlanfejlesztő Kft	A convention, casino, hotel and entertainment center	Held 60% by Ercorner
Plasi Invest 2007 Ingatlanforgalmazo kft	Holding company	Held 70% by Plaza Centers
SBI Hungary Ingatlanforgalmazo es Epito kft.	Shopping center	Jointly controlled (50%/50%) by Plasi Investment Kft. and SBI Real Estate Development B.V.

Note 40 – List of subsidiaries and affiliates of the Company continued

Poland	Activity	Remarks
DIRECTLY WHOLLY OWNED		
EDP Sp.zo.o	Intended to operate congress hall	Jointly controlled (50%/50%) with Classic Or B.V.
Bielsko-Biala PlazaSp.zo.o	Inactive	
Bytom Plaza Sp.z.o.o	Inactive	
Bydgoszcz Plaza Sp.zo.o	Inactive	
Rzeszów Plaza Sp.z.o.o.	Inactive	
Chorzow Plaza Sp.zo.o	Inactive	
Zgorzelec Plaza Sp.z.o.o.	Shopping center under construction	Zgorzelec project
Gdansk Centrum Plaza Sp.zo.o	Inactive	
Lublin Or Sp.zo.o	Stage B	Sold to Classic Or BV in 2007
Gliwice Plaza Sp.z.o.o.	Inactive	
Gorzów Wielkopolski Plaza Sp.z.o.o.	Inactive	
Grudziadz Plaza Sp.zo.o	Inactive	
Jelenia Gora Plaza Sp.zo.o	Inactive	
Katowice Plaza Sp.zo.o	Inactive	
Suwałki Plaza Sp.zo.o	Shopping center under construction	
Koszalin Plaza Sp.zo.o	Inactive	
Legnica Plaza Sp.zo.o	Inactive	
Lodz Centrum Plaza Sp.zo.o	Own plot of land	
Plaza Centers (Poland) Sp.z.o.o.	Management company	
Plaza Centers (Poland) South Sp.z.o.o.	Shopping center	Won the tender in Kielce Kielce project
Olsztyn Plaza Sp.zo.o	Inactive	
Opole Plaza Sp.zo.o	Inactive	
Plock Plaza Sp.zo.o	Inactive	
Radom Plaza Sp.zo.o	Inactive	
Rybnik Plaza Sp.zo.o	Shopping center	Sold to Klépierre 2007
Hokus Pokus Rozrywka Sp. zo. o.	Inactive	Hold 50%
Sosnowiec Plaza Sp.z.o.o.	Shopping center	Pre-sold to Klépierre 2007
Szczecín Plaza Sp.zo.o	Inactive	
Tarnow Plaza Sp.zo.o	Inactive	
Wroclaw Plaza Sp.zo.o	Shopping center – planning stage	Won the tender in Torun in 2007
Tychy Plaza Sp.zo.o	Inactive	
Wloclawek Plaza Sp.zo.o	Inactive	
Zabrze Plaza Sp.zo.o	Inactive	
Zielona Gora Plaza Sp.zo.o	Inactive	

Note 40 – List of subsidiaries and affiliates of the Company continued

Poland	Activity	Remarks
INDIRECTLY OWNED (OR JOINTLY CONTROLLED)		
Fantasy Park Investments Sp.zo.o.	Inactive	Wholly owned by Fantasy park Enterprises B.V.
Fantasy Park Sp.zo.o	Inactive	Wholly owned by Fantasy park Enterprises B.V.
Movement Poland S.A.	Shopping center	
Wholly owned by Centers Classic B.V., and is the Company's joint venture in Poland (50%/50%) – sold to Klépierre in 2007		

Czech Republic	Activity	Remarks
DIRECTLY OWNED		
Praha Plaza S.R.O.	Logistic center	
B1 Plaza S.R.O.	Shopping center	Opava Project
Plaza Centers Czech Republic S.R.O.	Management company	
Pilzen Plaza S.R.O.	Shopping center	Pre-sold to Klépierre in 2005
P4 Plaza S.R.O.	Shopping center	Liberec project
NG Plaza S.R.O.	Inactive	
BTY SN Plaza S.R.O.	Inactive	
Hradec Plaza S.R.O.	Inactive	
Plaza Housing S.R.O.	Real estate	Roztoky Project
Plaza Station S.R.O.	Inactive	
Entertainment Plaza S.R.O.	Holding company of Bes Tes S.R.O.	Sold to Klépierre in 2006
INDIRECTLY OWNED		
Bes Tes S.R.O.	Shopping center	Sold to Klépierre in 2006
Fantasy Park Czech Republic S.R.O.	Entertainment center	Wholly owned by Fantasy Park Enterprises B.V.

Greece	Activity	Remarks
Helios Plaza S.A.	Shopping center	

Latvia	Activity	Remarks
SIA Diksna	Shopping center	Jointly controlled with an American-based partner. Riga Plaza Project

Cyprus – Ukraine	Activity	Remarks
PC Ukraine Holdings Limited	Holding company	
Nourolet Enterprises Limited	Inactive	
Tanoli Enterprises Limited	Inactive	

Note 40 – List of subsidiaries and affiliates of the Company continued

Romania	Activity	Remarks
Bucuresti Plaza Center SRL	Inactive	Sold to parent company in December 2006
S.C. Central Plaza SRL	Inactive	
S.C. Green Plaza SRL	Shopping center	Iasi Project
S.C. Elite Plaza SRL	Shopping center	Timisoara Project
S.C. Dambovita Center SRL	Real estate	Casa Radio Project
S.C. Plaza Centers Management Romania SRL	Management company	
S.C. North Gate Plaza SRL	Inactive	Miercurea Ciuc Project
S.C. South Gate Plaza SRL	Shopping center	Slatina Project
S.C. West Gate Plaza SRL	Inactive	
S.C. Eastern Gate Plaza SRL	Inactive	
S.C. North West Plaza SRL	Inactive	Honedoara Project
S.C. North Eastern Plaza SRL	Inactive	
S.C. South West Plaza SRL	Inactive	
S.C. South Eastern Plaza SRL	Inactive	
S.C. White Plaza SRL	Inactive	
S.C. Golden Plaza SRL	Inactive	
S.C. Blue Plaza SRL	Inactive	
S.C. Red Plaza SRL	Inactive	
S.C. Palazzo Ducale SRL	Office building and Company's Romanian headquarters	
S.C. Mountain Gate SRL	Inactive	

The Netherlands	Activity	Remarks
DIRECTLY OWNED		
Plaza Centers Management B.V.	Inactive	
Plaza Centers (Ventures) B.V.	Holding company	Holds 100% of Totally Holiday d.o.o.
Holds 100% of Plaza Centers PPM d.o.o.		
Obuda B.V.	Inactive	
Plaza-BAS B.V.	Holding company	
Plaza Centers (Estates) B.V.	Holding company	Holds 100% of Prime d.o.o.
Plaza Centers (Logistics) B.V.	Inactive	
Plaza Centers (Holdings) B.V.	Holding company	
Plaza Centers (Enterprises) B.V.	Finance company	
Plaza Dambovita Complex B.V.	Holding company	Holds 100% of Plaza Centers Enterprises B.V.
S.S.S. Project Management B.V.	Inactive	
Dambovita Center Holdings B.V.	Holding company	Holds 75% of Dambovita Center s.r.l

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2007

Note 40 – List of subsidiaries and affiliates of the Company continued

The Netherlands	Activity	Remarks
INDIRECTLY OWNED (OR JOINTLY CONTROLLED)		
Centers Classic B.V.	Holding company	Jointly controlled (50%-50%) with a partner – former holding company of Movement Poland S.A.
Mulan B.V. (Fantasy Park Enterprises B.V.)	Holding company	Held 100% by Dreamland N.V, and holding company of Fantasy Park Sp.z.o.o. and Fantasy Park S.R.O.
THE NETHERLANDS ANTILLES		
Dreamland N.V.	Holding company	

Cyprus – India	Activity	Remarks
PC India Holdings Public Company Limited	Holding company	Holds the following companies: (directly/indirectly)
Hom India Infrastructure Private Limited	Management company	99.90%
Spiralco Holdings Limited	Holding company	Holds 50% of P–one Infrastructure Private Limited
P-one Infrastructure Private Limited	Real estate	Kharadi Project
Trivandrum Project		
Dezimark Limited	Inactive	
Floricil Limited	Inactive	
Xifius Limited	Inactive	Holds 98% of Ximanco Developers India Private Limited
Ximanco Developers India Private Limited	Inactive	
Stenzo Limited	Inactive	Holds 98% of Cymsten Developers India Private Limited
Cymsten Developers India Private Limited	Inactive	
Sortera Limited	Inactive	Holds 98% of Sorcym Developers India Private Limited
Sorcym Developers India Private Limited	Inactive	
Mercero Limited	Inactive	Holds 98% of Meranco Developers India Private Limited
Meranco Developers India Private Limited	Inactive	
Rosemart Limited	Inactive	
Rafalmendo Limited	Inactive	
Rebeldora Limited	Inactive	
Ruvencio Limited	Inactive	
Ronavelo Limited	Inactive	
Amanati Limited	Inactive	

Note 40 – List of subsidiaries and affiliates of the Company continued

Cyprus – India	Activity	Remarks
INDIRECTLY OWNED THROUGH PERMINDO LTD.		
Anuttam developers private Ltd.	Holding company of 23 subsidiaries, all held in connection with the Company's JV in Pune India	Held 50% by Permindo in a joint venture agreement (Koregaon Park Project)
Atrushya developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Ajanu developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Agmesh developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Animish developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Anahat developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Apratirath developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Athang developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Avyang developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Asankhya developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Apramad developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Abhyang developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Amartya developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Atmavan developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Amrutansh developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Achal developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Akhula developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Antarmukh developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Aprameya developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Amraprabhu developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Ajakshya developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Avyaya developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Avyaja developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam
Anantshree developers private Ltd.	Owns plot of land	Wholly-owned subsidiary of Anuttam

Russia	Activity	Remarks
INDIRECTLY OWNED		
Plaza Centers Management OOO	Management company	100% held by Obuda B.V.
Plaza Centers Project 1 OOO	Inactive	100% held by Obuda B.V.
Plaza Centers Project 2 OOO	Inactive	100% held by Obuda B.V.

Note 40 – List of subsidiaries and affiliates of the Company continued

Bulgaria	Activity	Remarks
Shumen Plaza E.O.O.D.	Shopping center	Shumen Plaza Project

Serbia	Activity	Remarks
INDIRECTLY OWNED		
Totally Holiday d.o.o.	Shopping center	100% held by Plaza Centers (Ventures) B.V. Belgrade Plaza Project
Plaza Centers PPM d.o.o.	Shopping center	100% held by Plaza Centers (Ventures) B.V. Kragujevac Plaza Project
Prime d.o.o.	Shopping center	100% held by Plaza Centers (Estates) B.V.

Slovakia	Activity	Remarks
Plaza Centers Slovak Republic s.r.o.	Inactive	

Amsterdam, April 25, 2008

The Board of Directors

Mordechay Zisser **Ran Shtarkman** **Shimon Yitzchaki**

Marius Willem van Eibergen Santhagens **Marco Habib Wichers** **Edward Paap**

COMPANY BALANCE SHEET
ASSETS

As at December 31, 2007
After appropriation of result

	Note	2007 €	2007 €	2006 €	2006 €
ASSETS					
Non-current assets					
Tangible fixed assets	1		**7,924,800**		3,394,758
Other non-current assets					
Participations	2	**342,518,360**		33,001,744	
Loans associates	3	**–**		183,850,615	
Charges associates	4	**7,563,769**		8,976,555	
Other assets	5	**10,662,705**		1,814,425	
			360,744,834		227,643,339
Total non-current assets			**368,669,634**		231,038,097
CURRENT ASSETS					
Other receivables and prepayments	6		**263,280,403**		27,237,325
Short-term deposits and cash at bank	7		**59,573,397**		130,252,933
Total current assets			**322,853,800**		157,490,258
Total			**691,523,434**		388,528,355

COMPANY BALANCE SHEET CONTINUED
EQUITY AND LIABILITIES

For the year ended December 31, 2007

	Note	2007 €	2007 €	2006 €	2006 €
SHAREHOLDERS' EQUITY					
Issued share capital	8	**2,924,038**		2,923,461	
Share premium	9	**248,859,521**		248,859,521	
Foreign currency translation reserve	10	**(1,726,708)**		(1,894,718)	
Revaluation reserve	11	**2,994,527**		5,213,913	
Other capital reserves	12	**13,498,280**		1,839,761	
Retained earnings	13	**336,921,781**		107,735,438	
			603,471,439		364,677,376
PROVISIONS					
Provisions to associates	14	**14,201,849**		6,918,375	
LIABILITIES					
Loans to associates	15	**–**		7,255,766	
Long-term debentures	16	**53,820,879**		–	
			68,022,728		14,174,141
CURRENT LIABILITIES					
Other liabilities and accruals	17		**20,029,267**		9,676,838
Total			**691,523,434**		388,528,355

COMPANY PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2007

		2007		2006	
	Note	€	€	€	€
Other operating income	18	**232,020,733**		20,730,608	
Gross operating result			**232,020,733**		20,730,608
General expenses	19	**14,392,818**		3,625,089	
Total operating costs			**14,392,818**		3,625,089
Operating result			**217,627,915**		17,105,519
Financial income and expenses	20		**6,910,760**		5,086,947
Result from ordinary activities before taxation			**224,538,675**		22,192,466
Result associates	21		**2,428,282**		(7,463,990)
Income taxes	22		**–**		(8,503)
Result after taxation			**226,966,957**		14,719,973

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended December 31, 2007

GENERAL

ACTIVITIES AND OWNERSHIP

Plaza Centers N.V. (the "Company") is a company domiciled in the the Netherlands. The Company is a subsidiary of Elbit Ultrasound B.V. which owns 68.41% of the Company's shares. The ultimate shareholder of the Company is Elbit Medical Imaging Limited. The Company is listed on the main stock exchange market ("LSE") in London, United Kingdom commencing October 27, 2006. The Company owns subsidiary companies mainly in Central and Eastern Europe which purchase, develop, hold and sale real estate assets.

The Company's immediate parent company is Elbit Ultrasound B.V. ("EUL"), which holds 68.4% of the Company's shares. The ultimate parent company is Elbit Medical Imaging Limited ("EMI"), which is indirectly controlled by Mr Mordechay Zisser, a director of the Company.

ACCOUNTING POLICIES IN RESPECT OF THE VALUATION OF ASSETS AND LIABILITIES

The Company financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands, applying the accounting principles of the consolidated financial statements as set out in article 362, sub 8 of Part 9, Book 2 of the Netherlands Civil Code.

The Company financial statements are denominated in euros.

We refer to the notes of the consolidated financial statements, unless indicated otherwise.

FINANCIAL NON-CURRENT ASSETS

The participating interest in which the Company is able to exert a significant influence on policy are included at the amount of the Group's share in the net asset value of the interests concerned. The net asset value is calculated according to the same policies as have been applied to these financial statements. The other participating interests are stated at cost.

Provisions have been formed for negative net asset values of the interests concerned.

REVALUATIONS

Revaluations are included in the revaluation reserve. They are a result of investment property revaluations, and are based on external valuation reports provided to the Company. Upon exercising the investment property, the revaluation is released to the results of operations.

Note 1 – Tangible fixed assets

NON-CURRENT ASSETS

Movements in tangible fixed assets are broken down as follows:

	Fixed assets €
Balance as at January 1, 2007	
Actual cost airplane	3,920,997
Accumulated depreciation	(526,239)
Actual net cost airplane	3,394,758
Acquisition of an airplane	4,733,669
Depreciation airplane 2007	(203,627)
Balance as at December 31, 2007	
Actual cost airplane	8,654,666
Accumulated depreciation	(729,866)
Book value	7,924,800
Depreciation rate	3.7%-5%

The depreciation rate is based on the estimated economic useful lives of the tangible fixed assets concerned.

The depreciation rate of the airplanes was 3.7%-5% in 2007.

Note 2 – Participations

Movements in participations are broken down as follows:

	2007 €	2006 €
Balance as at January 1	**33,001,744**	27,798,683
New investments	**325,892,541**	5,025,120
Finance capitalized to investments	**843,513**	956,220
Reclassified	**(505,701)**	–
Translation reserve effect	**(469,186)**	–
Investment disposed	**(14,808,883)**	–
Result for the year	**(1,435,668)**	(778,279)
Balance as at December 31	**342,518,360**	33,001,744

For the detailed breakdown of participations, please refer to note 23.

Included under this heading are the following participating interests:

Name	Registered office	Share in issued capital as percentage
Plaza House Ingatlanfejlesztési Kft.	Budapest, Hungary	100.0%
Kerepesi 4 Szálloda Ingatlanfejlesztő Kft.	Budapest, Hungary	100.0%
Kerepesi 5 Irodaépület Ingatlanfejlesztő Kft.	Budapest, Hungary	100.0%
Ercorner Kft.	Budapest, Hungary	50.0%
Szeged 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	Budapest, Hungary	100.0%
Tatabánya Plaza Ingatlanfejlesztési Kft.	Budapest, Hungary	100.0%
Plasi Invest 2007 Ingatlanforgalmazo Kft.	Budapest, Hungary	70.0%
HOM Ingatlanfejlesztési és Vezetési Kft.	Budapest, Hungary	100.0%
Szombathely 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	Budapest, Hungary	100.0%
Helios Plaza S.A.	Athens, Greece	100.0%
EDP Sp.zo.o	Warsaw, Poland	50.0%
Katowice Plaza Sp.zo.o	Warsaw, Poland	100.0%
Lodz Centrum Plaza Sp.zo.o	Warsaw, Poland	100.0%

Note 2 – Participations continued

Name	Registered office	Share in issued capital as percentage
Wroclaw Plaza Sp.zo.o	Warsaw, Poland	100.0%
Suwałki Plaza Sp.zo.o	Warsaw, Poland	100.0%
Zgorzelec Plaza Sp.zo.o.	Warsaw, Poland	100.0%
Radom Plaza Sp.zo.o	Warsaw, Poland	100.0%
Olsztyn Plaza Sp.zo.o	Warsaw, Poland	100.0%
Plaza Centers (Poland) South Sp.zo.o.	Warsaw, Poland	100.0%
Zielona Gora Plaza Sp.zo.o	Warsaw, Poland	100.0%
Bytom Plaza Sp.zo.o	Warsaw, Poland	100.0%
Plaza Centers (Poland) Sp.zo.o.	Warsaw, Poland	100.0%
Hokus Pokus Rozrywka Sp.zo.o.	Krakow, Poland	100.0%
Gdansk Centrum Sp.zo.o	Warsaw, Poland	100.0%
Jelenia Gora Plaza Sp.zo.o	Warsaw, Poland	100.0%
Chorzow Plaza Sp.zo.o	Warsaw, Poland	100.0%
Gliwice Plaza Sp.zo.o.	Warsaw, Poland	100.0%
Rzeszów Plaza Sp.zo.o.	Warsaw, Poland	100.0%
Tarnow Plaza Sp.zo.o	Warsaw, Poland	100.0%
Tychy Plaza Sp.zo.o	Warsaw, Poland	100.0%
Opole Plaza Sp.zo.o	Warsaw, Poland	100.0%
Bielsko-Biala Sp.zo.o	Warsaw, Poland	100.0%
Gorzów Wielkopolski Plaza Sp.zo.o.	Warsaw, Poland	100.0%
Szczecín Plaza Sp.zo.o	Warsaw, Poland	100.0%
Plock Plaza Sp.zo.o	Warsaw, Poland	100.0%
Grudziadz Plaza Sp.zo.o	Warsaw, Poland	100.0%
Wloclawek Plaza Sp.zo.o	Warsaw, Poland	100.0%
Zabrze Plaza Sp.zo.o	Warsaw, Poland	100.0%
Bialystok Plaza Sp.zo.o	Warsaw, Poland	100.0%
Koszalin Plaza Sp.zo.o	Warsaw, Poland	100.0%
Torun Plaza Sp.zo.o	Warsaw, Poland	100.0%
Legnica Plaza Sp.zo.o	Warsaw, Poland	100.0%
Bydgoszcz Sp.zo.o	Warsaw, Poland	100.0%
P4 Plaza S.R.O.	Prague, Czech Republic	100.0%
Praha Plaza S.R.O.	Prague, Czech Republic	100.0%
Plaza Centers S.R.O.	Prague, Czech Republic	100.0%
B1 Plaza S.R.O.	Prague, Czech Republic	100.0%
Pilzen Plaza S.R.O.	Prague, Czech Republic	100.0%
NG Plaza S.R.O.	Prague, Czech Republic	100.0%
BTY SN Plaza S.R.O.	Prague, Czech Republic	100.0%
Hradec Plaza S.R.O.	Prague, Czech Republic	100.0%

Note 2 – Participations continued

Name	Registered office	Share in issued capital as percentage
Plaza Housing S.R.O.	Prague, Czech Republic	100.0%
Plaza Station S.R.O.	Prague, Czech Republic	100.0%
PC India Holdings Public Company limited	Nicosia, Cyprus	100.0%
Amanati Ltd.	Nicosia, Cyprus	100.0%
PC Ukraine Holdings Limited	Nicosia, Cyprus	100.0%
Obuda B.V.	Amsterdam, the Netherlands	100.0%
Plaza-BAS B.V.	Amsterdam, the Netherlands	100.0%
Plaza Centers (Estates) B.V.	Amsterdam, the Netherlands	100.0%
Plaza Centers (Logistics) B.V.	Amsterdam, the Netherlands	100.0%
Plaza Centers (Holdings) B.V.	Amsterdam, the Netherlands	100.0%
Plaza Dambovita Complex B.V.	Amsterdam, the Netherlands	100.0%
S.S.S. Project Management B.V.	Amsterdam, the Netherlands	100.0%
PCM B.V.	Amsterdam, the Netherlands	100.0%
Plaza Centers (Ventures) B.V.	Amsterdam, the Netherlands	100.0%
Dombovita Center Holdings B.V.	Amsterdam, the Netherlands	100.0%
Dreamland N.V.	the Netherlands Antilles	100.0%
Centers Classic B.V.	Amsterdam, the Netherlands	50.0%
SIA Diksna	Riga, Latvia	50.0%
Green Plaza S.R.L.	Bucharest, Romania	100.0%
S.C. Plaza Centers Management Romania S.R.L.	Bucharest, Romania	100.0%
S.C. North Gate Plaza S.R.L.	Bucharest, Romania	100.0%
S.C. South Gate Plaza S.R.L.	Bucharest, Romania	100.0%
S.C. West Gate Plaza S.R.L.	Bucharest, Romania	100.0%
S.C. Eastern Gate Plaza S.R.L.	Bucharest, Romania	100.0%
S.C. North West Plaza S.R.L.	Bucharest, Romania	100.0%
S.C. North Eastern Plaza S.R.L.	Bucharest, Romania	100.0%
S.C. South West Plaza S.R.L.	Bucharest, Romania	100.0%
S.C. South Eastern Plaza S.R.L.	Bucharest, Romania	100.0%
S.C. White Plaza S.R.L.	Bucharest, Romania	100.0%
S.C. Golden Plaza S.R.L.	Bucharest, Romania	100.0%
S.C. Blue Plaza S.R.L.	Bucharest, Romania	100.0%
S.C. Red Plaza S.R.L.	Bucharest, Romania	100.0%
S.C. Palazzo Ducale S.R.L.	Bucharest, Romania	100.0%
S.C. Mountain Gate S.R.L.	Bucharest, Romania	100.0%
S.C. Central Plaza S.R.L.	Bucharest, Romania	100.0%
Elite residence esplanada S.R.L.	Bucharest, Romania	100.0%
Shumen Plaza E.O.O.D	Sofia, Bulgaria	100.0%
Plaza Centers Slovak Republic S.R.O.	Bratislava, Slovakia	100.0%

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended December 31, 2007

Note 2 – Participations continued

Breakdown per participation is as follows:

	2007 €	2006 €
Plaza House Ingatlanfejlesztési Kft.	**408,333**	493,532
Duna Plaza Irodaház Ingalanfejlesztő Kft.	**–**	12,955,001
Kerepesi 2 Hypermarket Ingatlanfejlesztő Kft.	**–**	942,646
Kerepesi 3 Áruház Ingatlanfejlesztő Kft.	**–**	3,012,535
Kerepesi 4 Szálloda Ingatlanfejlesztő Kft.	**36,726**	36,726
Kerepesi 5 Irodaépület Ingatlanfejlesztő Kft.	**426,459**	36,726
Ercorner Kft.	**754,305**	848,305
Szeged 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	**7,615**	12,716
Plasi invest Kft.	**–**	–
Plaza Dambovita Complex (FinCo)	**277,263,104**	–
Plaza Bas B.V.	**6,720**	–
Shumen Ltd.	**3,049,566**	–
Helios Plaza S.A.	**12,458,040**	13,128,285
PC India holdings Ltd.	**31,557,215**	–
Plaza housing s.r.o	**3,016,128**	–
Plaza station s.r.o	**7,500**	–
Hradec Plaza s.r.o	**7,500**	–
NG Plaza s.r.o	**7,500**	–
BYTY SN s.r.o	**7,500**	–
North Eastern Plaza s.r.l	**580**	–
North West Plaza s.r.l	**580**	–
South Eastern Plaza s.r.l	**580**	–
South West Plaza s.r.l	**580**	–
SC White Plaza s.r.l	**590**	–
SC Golden Plaza s.r.l	**590**	–
SC Blue Plaza s.r.l	**590**	–
PC Ukraine holdings Ltd	**1,708**	–
Wloclawek Plaza Sp.zo.o	**14,319**	–
Bydzgodsz Plaza Sp.zo.o	**13,369**	–
Byalistok Plaza Sp.zo.o	**14,319**	–
Koszalyn Plaza Sp.zo.o	**13,369**	–
Gdansk Centrum Plaza Sp.zo.o	**12,250**	–
Plaza Centers (Estates) B.V.	**55,636**	–
North gate s.r.l	**953,922**	–
South gate s.r.l	**18,683**	–
Palazzo du Calle s.r.l	**2,413,193**	–
P4 Plaza S.R.O.	**5,953,156**	1,000
B1 Plaza S.R.O.	**236,026**	–
PCM B.V.	**14,688**	18,000
Plaza Centers (JVenture) B.V.	**–**	19,000
Dombovita Center Holding B.V.	**–**	722,727
SIA Diksna	**1,339,510**	774,425
Obor Plaza S.R.L.	**60**	60
Elite residence esplanada S.R.L.	**2,445,852**	60
Total	**342,518,360**	33,001,744

Refer also to note 23 for a detailed breakdown.

Note 3 – Loans to associates

Name	2007 €	2006 €
HOM Ingatlanfejlesztési és Vezetési Kft	–	1,789,561
Plaza House Ingatlanfejlesztési Kft.	–	2,908,101
Kerepesi 3 Áruház Ingatlanfejlesztő Kft.	–	27,620,672
Green Plaza S.R.L.	–	97,779,434
Ercorner Kft.	–	1,470,113
Helios Plaza S.A.	–	5,627,900
Suwałki Plaza Sp.zo.o	–	1,593,315
Sosnowiec Plaza Sp.zo.o.	–	12,717,067
Czestochowa Plaza Sp.zo.o.	–	17,269
Rybnik Plaza Sp.zo.o	–	7,184,603
Olsztyn Plaza Sp.zo.o	–	44,087
Plaza Centers (Poland) South Sp.zo.o.	–	146,345
Praha Plaza S.R.O.	–	5,402,595
Plaza Centers S.R.O.	–	1,119,810
B1 Plaza S.R.O.	–	424,592
Pilzen Plaza S.R.O.	–	3,015,049
P4 Plaza S.R.O.	–	399,474
Centers Classic B.V.	–	7,896,729
SIA Diksna	–	6,132,709
Fantasy Park Poland Sp.zo.o	–	148,719
Fantasy Park B.V.	–	412,471
Total	–	183,850,615

Refer also to note 23 for a detailed breakdown. All the loans were contributed to the finance company of the Group, Plaza Centers (Enterprises) B.V. (indirectly wholly owned by the Company). The interest of the above mentioned loans are according to the market condition of each country and vary between 0% and three months Euribor + 2%.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended December 31, 2007

Note 4 – Charges to associates

Name	2007 €	2006 €
Kerepesi 3 Áruház Ingatlanfejlesztő Kft.	**–**	766,761
Green Plaza S.R.L.	**90,840**	90,840
Dambovita s.r.l	**74,093**	–
Ercorner Kft.	**625,027**	535,506
Helios Plaza S.A.	**3,516,822**	3,479,125
Suwałki Plaza Sp.zo.o	**48,120**	36,125
Sosnowiec Plaza Sp.zo.o.	**–**	356,719
Czestochowa Plaza Sp.zo.o.	**52,756**	45,383
Rybnik Plaza Sp.zo.o	**–**	532,991
Olsztyn Plaza Sp.zo.o	**114,843**	107,271
Plaza Centers (Poland) Sp.zo.o.	**1,641,984**	–
Fantasy Park Poland Sp.zo.o	**–**	1,516,206
Movement Poland S.A.	**–**	214,012
Praha Plaza S.R.O.	**–**	142,993
Plaza Centers S.R.O.	**–**	154,740
Plzen Plaza S.R.O.	**9,682**	587,971
P4 Plaza S.R.O.	**84,735**	–
SIA Diksna	**198,879**	101,809
PC India Holdings Ltd	**921,699**	126,264
Other	**174,824**	181,839
Total	**14,201,849**	8,976,555

Note 5 – Other assets

	2007 €	2006 €
Uncharged costs – Romania	**2,016,274**	824,739
Uncharged costs – share-based plan	**–**	834,616
Uncharged costs – other projects	**1,116,163**	155,070
Cross exchange security deposit – Bank Hapoalim Ltd.	**5,302,000**	–
Derivative	**2,228,268**	–
Total	**10,662,705**	1,814,425

Note 6 – Other receivables and prepayments

CURRENT ASSETS

	2007 €	2007 €	2006 €	2006 €
CDPM Poland Sp.z.o.o	**398,028**		398,069	
Andrassy 25 Kft.	**53,064**		53,068	
Elbit Medical Imaging Ltd.	**–**		18,225,581	
CCB N.V.	**1,650,886**		2,813,214	
Control Centers (Israel) Ltd.	**–**		237,819	
IRDC Kft.	**15,651**		–	
Astrid Plaza N.V.	**6,341**		6,341	
Total related parties		**2,123,970**		21,734,092
aAIM – debtor due to selling of trading property		**254,362,566**		–
Klépierre – debtor due to selling of trading properties		**6,032,839**		4,283,251
Prepayment in respect of selling shopping center participations		**–**		1,073,145
Interest receivable from banks		**189,230**		143,554
Advance payments in respect of property purchase		**571,798**		–
Other		**–**		3,283
Total		**263,280,403**		27,237,325

Note 7 – Short-term deposits and cash at bank

CURRENT ASSETS

Name	2007 €	2006 €
Anglo Irish bank corporation Plc	**40,684,730**	50,748,400
InvestKredit bank AG	**8,280,424**	51,497,082
MKB Bank	**2,790,916**	7,588,680
Winter bank	**–**	297,152
BAWAG	**777,005**	705,374
ABN-AMRO	**17,001**	512
Fortis Bank (Escrow account)	**5,844,035**	19,401,141
	1,001,400	–
Hansa Banka (Latvia)	**10,191**	11,536
Bank Hapoalim Ltd.	**167,695**	3,056
Total	**59,573,397**	130,252,933

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended December 31, 2007

Note 8 – Issued share capital

	2007 €	2006 €
The issued share capital can be specified as follows:		
Balance as at January 1	**2,923,461**	18,151
Issued for forgiveness of loan to parent company	**–**	26,849
Issued for forgiveness of loan to parent company	**–**	1,955,000
Issued for cash to the public	**–**	923,461
Exercise – share-based plan	**577**	–
Balance as at December 31	**2,924,038**	2,923,461

a. The number of shares authorized as of January 1, 2006 was 40 with a €453.80 par value.
In September 2006, the authorized share capital was revised as follows:
1. 40 shares of €453.80 were subdivided into 1,815,120 shares of €0.01.
2. The authorized share capital was increased to 1 billion shares of €0.01.

b. In the course of the last quarter of 2006 the following share capital increases occurred:
1. 2,684,880 shares of €0.01 were issued to Elbit Ultrasound B.V., the parent company of the Company, in October 2006, upon the change of the Company from B.V. status to N.V. status. The capital increase was effected in exchange for the forgiveness of a loan, and the shares were issued at no share premium.
2. 195,500,000 shares of €0.01 were issued to Elbit Ultrasound B.V. in October 2006, in order to create a share capital structure which will allow the Company to initiate the IPO. The capital increase was effected through the contribution of loans, and the shares were issued with a share premium of €15,281,550.
3. 92,346,087 shares of €0.01 were issued to the public, in October and November 2006 (including "Green Shoe" option exercised), as a result of the IPO which took place at the London Stock Exchange ("LSE") (see also note 33 to the consolidated financial statements). The share premium recorded on the flotation (net of IPO costs) was €233,577,971.

c. In the course of the last quarter of 2007, 303,471 vested options were exercised into 57,700 shares of €0.01.

Note 9 – Share premium

	2007 €	2006 €
Balance as at January 1	**248,859,521**	–
Private issuance of ordinary shares to Elbit Ultrasound B.V.		
– parent company (in consideration of loan conversion)	**–**	15,281,550
Issuance of ordinary shares, net	**–**	233,577,971
Balance as at December 31	**248,859,521**	248,859,521

Note 10 – Foreign currency translation reserve

SHAREHOLDERS' EQUITY

The table below presents the movement in the translation reserve:

	2007 €	2006 €
Balance as at January 1	**(1,894,718)**	(2,057,877)
Movement	**168,010**	163,159
Balance as at December 31	**(1,726,708)**	(1,894,718)

The movement concerns the translation reserve resulted from the operation in India, as well as realization of reserve due to the selling of participations in Romania and Poland. The reserve is considered a legal reserve which is not distributable (if more than nil).

Note 11 – Revaluation reserve

	2007 €	2006 €
Balance as at January 1	**5,213,913**	4,566,729
Movement	**(2,219,386)**	647,184
Balance as at December 31	**2,994,527**	5,213,913

As of December 31, 2006, the Company had two investment properties (Duna Plaza Offices ("DPO") and Prague 3 Logistic Center) which were fair valued at €13.8 million and €13.0 million respectively in December 2006. In 2007 only the Prague 3 Logistic Center remained. The book value recorded in December 2006 and 2007 was €11.2 million and €9.0 million respectively.

The reserve is considered a legal reserve which is not distributable (if more than nil).

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended December 31, 2007

Note 12 – Other capital reserves

The table below presents the movement in other capital reserve:

	2007 €	2006 €
Balance as at January 1	**1,839,761**	(180,653)
Movement	**11,658,519**	2,020,414
Balance as at December 31	**13,498,280**	1,839,761

The movement concerns a share-based payment as a result of the Employee Share Option Plan which was adopted by the Company on October 26, 2006. On the same date, 26,108,602 non-negotiable options ("Options") over Ordinary Shares have been granted, the terms and conditions of which (except for the exercise price) will be regulated by the Share Option Scheme. No Options vested at that date. Options will vest annually in three equal parts. One-third of Options granted to an Eligible Grantee (see below) will vest one year after the date of grant, another third of granted Options will vest two years after the date of grant and the last third will vest three years after the date of grant. Options expire, unless otherwise determined by the Board, on the fifth anniversary of the date of grant. The total amount of options in the Share Option Plan is 33,834,586 options. For grants, exercise and forfeiture of options in 2007, refer to other information below.

Note 13 – Retained earnings

SHAREHOLDERS' EQUITY

The table below presents the movements in the retained earnings:

	2007 €	2006 €
Balance as at January 1	**107,735,438**	93,662,649
Movement	**226,966,957**	14,719,973
Transfer from (to) revaluation reserve	**2,219,386**	(647,184)
Balance as at December 31	**336,921,781**	107,735,438

The movement is reflecting the 2007 and 2006 results, as well as the movements in revaluation reserve due to trading properties. In 2007, following the sale of DPO, the Company utilized part of the revaluation reserve. The Company is intended to declare dividend due to 2007 in the amount of €56.7 million, being 25% of the 2007 profit. There was no dividend declared during the course of 2006.

Note 14 – Provisions of balance sheet associates

Name	December 31, 2007 €	December 31, 2006 €
Tatabánya Plaza Ingatlanfejlesztési Kft.	**389,359**	211,956
Dombovita Center holding B.V.	**44,155**	–
Plaza Center (Ventures) B.V.	**809,738**	–
PCM s.r.l	**358,538**	–
Plasi invest Kft	**135,469**	–
HOM Ingatlanfejlesztési és Vezetési Kft	**929,840**	–
Szombathely 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	**219,057**	211,144
Katowice Plaza Sp.zo.o	**1,953,946**	1,786,835
Lodz Centrum Plaza Sp.z.o.o	**1,505,422**	–
Wroclaw Plaza Sp.zo.o	**553,319**	–
Suwałki Plaza Sp.zo.o	**119,710**	1,358,872
Zgorzelec Plaza Sp.z.o.o.	**283,518**	84,151
Radom Plaza Sp.zo.o	**458,749**	162,645
Olsztyn Plaza Sp.zo.o	**259,828**	–
Plaza Centers (Poland) South Sp.z.o.o.	**562,247**	–
Zielona Gora Plaza Sp.z.o.o	**562,725**	450,932
Bytom Plaza Sp.z.o.o	**17,673**	23,814
Plaza Centers (Poland) Sp.z.o.o.	**191,115**	371,789
Hokus Pokus Rozrywka Sp.z.o.o.	**2,222,353**	594,161
Praha Plaza S.R.O.	**827,266**	–
Plaza Centers S.R.O.	**397,957**	–
Pilzen Plaza S.R.O.	**223,751**	–
Dreamland N.V.	**91,117**	1,657,021
Amanati Ltd.	**866,644**	5,055
Green Plaza S.R.L.	**120,387**	–
EDP Sp.z.o.o	**60,272**	–
Obuda B.V.	**37,694**	–
Total	**14,201,849**	6,918,375

Note 15 – Loans of balance sheet associates

Name	December 31, 2007 €	December 31, 2006 €
Tatabánya Plaza Ingatlanfejlesztési Kft.	**–**	5,454,549
Szombathely 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	**–**	1,289,013
Kerepesi 2 Hypermarket Ingatlanfejlesztő Kft.	**–**	512,204
Total	**–**	7,255,766

All three loans were repaid in the course of 2007.

Note 16 – Debentures

Name	2007 €	2006 €
Long-term debentures	**53,820,879**	–
Total	**53,820,879**	–

Long-term debentures are presented at fair value. For more details refer to note 21 of the consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended December 31, 2007

Note 17 – Other liabilities and accruals

CURRENT LIABILITIES

	December 31, 2007 €	**December 31, 2007 €**	December 31, 2006 €	December 31, 2006 €
CDPM Hungary Kft.	**240,882**		240,882	
Jet Link Ltd.	**–**		14,071	
C/A Elbit Medical Imaging Ltd.	**3,244,154**		2,202,742	
C/A Elbit Ultrasound B.V.	**6,017,332**		3,292,537	
4E loan	**508,721**		568,482	
Total related parties		**10,011,089**		6,318,714
VAT payable		**–**		129,842
Suppliers		**299,539**		518,609
Klépierre – creditor due to Duna Plaza		**–**		1,090,000
Dawnay Day Group – creditor due to selling of shopping center		**695,946**		1,010,909
Accruals		**9,022,693**		608,764
Total		**20,029,267**		9,676,838

Note 18 – Other operating income

	December 31, 2007 €	**December 31, 2007 €**	December 31, 2006 €	December 31, 2006 €
Gain from selling subsidiaries – Klépierre 2 transaction	**25,019,399**		14,289,662	
	203,722,406		–	
Gain from selling subsidiary – Bes Tes transaction	**1,707,394**		6,327,096	
	2,470,936		–	
Gain from selling subsidiary – Zalaegerszeg 2002 transaction	**–**		700,433	
Loss from selling subsidiaries – Klépierre 1 transaction	**–**		(420,000)	
Loss from selling subsidiaries – Dawnay Day transaction	**(400,000)**		(500,000)	
Loss from selling subsidiaries – other small	**(555,787)**		(196,084)	
Total from selling of subsidiaries		**231,964,348**		20,201,107
Release of old suppliers to P&L		**51,042**		278,650
Release of old debtor to P&L		**(237,819)**		–
Profit from subsidiaries – management fees on invoices		**9,444**		15,325
Profit from subsidiaries – late payment interest		**233,718**		235,526
Total		**232,020,733**		20,730,608

Concerning revenue from selling of subsidiaries we refer to note 37 of the consolidated financial statements.

Note 19 – General expenses

	2007 €	2006 €
Salary and salary-related expenses	**9,660,046**	1,807,026
Management fees Elbit Medical Imaging	**500,000**	579,000
Travelling expenses	**781,630**	429,114
Audit, legal and consultancy expenses	**2,701,251**	502,348
Initiation expenses	**587,442**	244,374
Other expenses	**162,449**	63,227
Total	**14,392,818**	3,625,089

Note 20 – Financial income and expenses

	2007 €	2007 €	2006 €	2006 €
Interest income from loans participations	**–**		4,635,000	
Interest expenses from loans participations	**(143,472)**		(456,422)	
Interest income (expenses) from loan to Elbit Medical Imaging	**–**		670,213	
Interest income from loans to Control Centers Group	**–**		2,063	
Total interest from related parties		**(143,472)**		4,850,854
Interest income from bank deposits		**3,667,292**		1,475,013
Derivative		**1,410,064**		–
Costs of raising bonds		**(585,924)**		–
Foreign exchange difference		**1,303,216**		(799,363)
aAIM fine on late payment		**1,295,761**		–
Interest expenses on bank loans		**–**		(421,236)
Other bank expenses and charges		**(36,177)**		(18,321)
Total		**6,910,760**		5,086,947

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended December 31, 2007

Note 21 – Results participations

	2007 €	2006 €
Tatabánya Plaza Ingatlanfejlesztési Kft.	**(177,403)**	39,385
HOM Ingatlanfejlesztési és Vezetési Kft	**(281,505)**	(794,559)
Plaza House Ingatlanfejlesztési Kft.	**(85,199)**	(60,986)
Amanati Ltd.	**(5,050)**	(5,050)
Zalaegerszeg 2002	**–**	(4,607)
Szeged 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	**(5,101)**	47,163
Szombathely 2002 Ingatlanhasznosító és Vagyonkezelő Kft.	**(7,913)**	(118,567)
Helios Plaza S.A.	**(670,245)**	(843,195)
Bes Tes s.r.o.	**–**	(269,239)
Katowice Plaza Sp.z.o.o.	**(206,855)**	78,694
Lodz Centrum Plaza Sp.z.o.o.	**(154,336)**	(148,038)
Wroclaw Plaza Sp.z.o.o.	**9,986**	(18,439)
Suwałki Plaza Sp.z.o.o.	**(71,986)**	(22,086)
Sosnowiec Plaza Sp.z.o.o.	**25,444**	(258,078)
Zgorzelec Plaza Sp.z.o.o.	**(125,333)**	(33,932)
Radom Plaza Sp.z.o.o.	**(47,628)**	(2,169)
Rybnik Plaza Sp.z.o.o.	**57,399**	(332,470)
Olsztyn Plaza Sp.z.o.o.	**26,976**	1,601
Plaza Centers (Poland) South Sp.z.o.o.	**(193,615)**	(14,621)
Zielona Gora Plaza Sp.z.o.o	**(36,494)**	(35,318)
Bytom Plaza Sp.z.o.o.	**(3,713)**	(1,137)
Plaza Centers (Poland) Sp.z.o.o.	**(45,042)**	(495,743)
Hokus Pokus Rozrywka Sp.z.o.o.	**29,063**	(15,900)
Bucuresti Plaza S.R.L.	**–**	21,246
Praha Plaza S.R.O.	**101,383**	(1,246,293)
Plaza Centers S.R.O.	**(215,242)**	(110,929)
Pilzen Plaza S.R.O.	**(1,009,145)**	–
Eger Plaza Kft.	**–**	32,314
Ercorner Kft.	**(94,000)**	(150,000)
Dreamland N.V.	**460,409**	(391,492)
Centers Classic B.V.	**6,732,316**	(319,712)
SIA Diksna	**(298,973)**	(78,720)
Duna Plaza Irodaház Ingalanfejlesztő Kft.	**253,791**	367,374
Kerepesi 3 Áruház Ingatlanfejlesztő Kft.	**(2,870,152)**	(59,921)
Green Plaza S.R.L.	**1,999,606**	(2,220,566)
Plasi invest Kft.	**(167,151)**	–
Kerepesi 5 Kft.	**389,733**	–
Shumen Ltd.	**(434)**	–
Obuda B.V.	**(54,116)**	–
PC India Holdings Ltd.	**(1,309,218)**	–
Plaza Centers venture B.V.	**(957,212)**	–
Plaza Centers estates B.V.	**37,636**	–
EDP Sp.z.o.o.	**(60,272)**	–
Plaza Dambovita Complex (FinCo)	**3,512,979**	–
Plaza Bas B.V.	**(11,280)**	–
PCM B.V.	**(3,312)**	–
Dombovita Center Holding B.V.	**(1,401,507)**	–
PCM s.r.l.	**(358,598)**	–
Elite residence esplanada S.R.L.	**(153,815)**	–
North gate s.r.l.	**(83,066)**	–
South gate s.r.l.	**3,279**	–
Palazzo du Calle s.r.l.	**(46,807)**	–
	2,429,282	(7,463,990)

Note 22 – Income taxes

The applicable tax rate is 25.5%.

The Company is currently not subjected to corporate tax payments and is enjoying participation exemption.

The tax loss carry-forward for the Company's one tax unit is approximately €20 million as of December 31, 2007.

The last filing of corporate tax return relates to the fiscal year 2005.

Note 23 – Participation breakdown

	Plaza House Ingatlan-fejlesztő Kft. €	Duna Plaza Irodaház Ingatlan-fejlesztő Kft. €	Kerepesi 2 Hypermarket Ingatlan-fejlesztő Kft. €	Kerepesi 3 Áruház Ingatlan-fejlesztő Kft. €	Kerepesi 4 Szálloda Ingatlan-fejlesztő Kft. €	Kerepesi 5 Irodaépület Ingatlan-fejlesztő Kft. €	Ercorner Kft. €
Balance as at January 1, 2007	493,532	12,955,001	942,646	3,012,535	36,726	36,726	848,305
Investment during the year	–	–	–	–	–	–	–
Result for the year	(85,199)	253,791	–	(2,870,152)	–	389,733	(94,000)
Selling of investment	–	(13,208,792)	(942,646)	(644,245)	–	–	–
Translation reserve fund	–	–	–	–	–	–	–
Finance capitalized	–	–	–	501,862	–	–	–
Balance as at December 31, 2007	408,333	–	–	–	36,726	426,459	754,305

	Szeged 2002 Ingatlan-hasznosító és Vagyonkezelő Kft €	Plaza Dambovita Complex (FinCo) €	Plaza Bas B.V. €	Shumen €	Helios Plaza S.A. €	PC India Holdings Ltd. €	Plaza housing s.r.o €	Plaza station s.r.o. €
Balance as at January 1, 2007	12,716	–	–	–	13,128,285	–	–	–
Investment during the year	–	273,750,125	18,000	3,050,000	–	33,280,000	3,005,523	7,500
Result for the year	(5,101)	3,512,979	(11,280)	(434)	(670,245)	(1,310,702)	–	–
Selling of investment	–	–	–	–	–	–	–	–
Translation reserve fund	–	–	–	–	–	(469,186)	–	–
Finance capitalized	–	–	–	–	–	57,103	10,605	–
Balance as at December 31, 2007	7,615	277,263,104	6,720	3,049,566	12,458,040	31,557,215	3,016,128	7,500

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended December 31, 2007

Note 23 – Participation breakdown continued

	Hradec Plaza s.r.o. €	NG Plaza s.r.o. €	BYTY SN s.r.o. €	P4 Plaza s.r.o. €	North Eastern Plaza s.r.l. €	North West Plaza s.r.l. €	South Eastern Plaza s.r.l. €	South West Plaza s.r.l. €
Balance as at January 1, 2007	–	–	–	1,000	–	–	–	–
Investment during the year	7,500	7,500	7,500	5,902,270	580	580	580	580
Result for the year	–	–	–	–	–	–	–	–
Selling of investment	–	–	–	–	–	–	–	–
Translation reserve fund	–	–	–	–	–	–	–	–
Finance capitalized	–	–	–	49,886	–	–	–	–
Balance as at December 31, 2007	7,500	7,500	7,500	5,953,156	580	580	580	580

	SC White Plaza s.r.l. €	SC Golden Plaza s.r.l. €	SC Blue Plaza s.r.l. €	PC Ukraine Holdings Ltd €	Wloclawek Plaza Sp.z.o.o. €	Bydzgodsz Plaza Sp.z.o.o. €	Byalistok Plaza Sp.z.o.o. €	Koszalyn Plaza Sp.z.o.o. €
Balance as at January 1, 2007	–	–	–	–	–	–	–	–
Investment during the year	590	590	590	1,708	14,319	13,369	14,319	13,369
Result for the year	–	–	–	–	–	–	–	–
Selling of investment	–	–	–	–	–	–	–	–
Translation reserve fund	–	–	–	–	–	–	–	–
Finance capitalized	–	–	–	–	–	–	–	–
Balance as at December 31, 2007	590	590	590	1,708	14,319	13,369	14,319	13,369

	Gdansk Centrum Plaza Sp.z.o.o €	Gdinya Plaza Sp.z.o.o. €	PCM B.V. €	Plaza Centers Venture B.V. €	Plaza Centers estates B.V. €	Dombovita Center Holding B.V. €	Elite residence esplanada S.R.L. €
Balance as at January 1, 2007	–	–	18,000	19,000	–	722,727	60
Investment during the year	12,250	13,200	–	–	18,000	–	2,500,000
Result for the year	–	–	(3,312)	–	37,636	–	(153,815)
Selling of investment	–	(13,200)	–	–	–	–	–
Reclassified	–	–	–	(19,000)	–	(722,757)	–
Translation reserve fund	–	–	–	–	–	–	–
Finance capitalized	–	–	–	128,474	–	634,625	99,606
Balance as at December 31, 2007	12,250	–	14,688	–	55,636	–	2,445,851

Note 23 – Participation breakdown continued

	North Gate s.r.l. €	South Gate s.r.l. €	Palazzo du Calle s.r.l. €	SIA Diksna €	B1 Plaza S.R.O. €	Obor Plaza s.r.l. €	Total €
Balance as at January 1, 2007	–	–	–	774,424	–	60	33,001,743
Investment during the year	1,017,000	–	2,460,000	775,000	–	–	325,892,542
Result for the year	(83,066)	3,279	(46,807)	(298,973)	–	–	(1,435,668)
Selling of investment	–	–	–	–	–	–	(14,808,883)
Reclassified	–	–	–	–	236,026	–	(505,701)
Translation reserve fund	–	–	–	–	–	–	(469,186)
Finance capitalized	19,988	15,404	–	89,058	–	–	843,513
Balance as at December 31, 2007	953,922	18,683	2,413,193	1,339,509	236,026	60	342,518,360

	HOM Ingatlan-fejlesztési és Vezetési Kft. €	Plaza House Ingatlan-fejlesztési Kft. €	Kerepesi 3 Áruház Ingatlan-fejlesztési Kft. €	Green Plaza s.r.l. €	Ercorner Kft. €	Helios Plaza S.A. €
Balance as at January 1, 2007	1,789,561	2,908,101	27,620,672	97,779,434	1,470,113	5,627,900
Received/Repaid loans	809,356	–	(27,620,672)	(69,332,261)	74,591	361,593
Interest	–	–	–	–	–	–
Loans contributed to finance Company	(2,598,917)	(2,908,101)	–	(28,447,173)	(1,544,704)	(5,989,493)
Exchange rate results	–	–	–	–	–	–
Balance as at December 31, 2007	–	–	–	–	–	–

	Suwałki Plaza Sp.z.o.o. €	Sosnowiec Plaza Sp.z.o.o. €	Zgorzelec Plaza Sp.z.o.o. €	Rybnik Plaza Sp.z.o.o. €	Olsztyn Plaza Sp.z.o.o. €	Plaza Centers (Poland) South Sp.z.o.o. €	Praha Plaza S.R.O. €	Plaza Centers S.R.O. €
Balance as at January 1, 2007	1,593,315	12,717,067	17,269	7,184,603	44,087	146,345	5,402,595	1,119,810
Received/ Repaid loans	160,497	(12,717,067)	164,443	(7,184,603)	278,660	398,847	456,002	773,742
Interest	–	–	–	–	–	–	–	–
Loans contributed to finance Company	(1,753,812)	–	(181,712)	–	(322,747)	(545,192)	(5,858,597)	(1,893,552)
Exchange rate results	–	–	–	–	–	–	–	–
Balance as at December 31, 2007	–	–	–	–	–	–	–	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS
As at December 31, 2007

Note 23 – Participation breakdown continued

	B1 Plaza S.R.O €	Pilzen Plaza S.R.O. €	P4 Plaza S.R.O. €	Centers Classic B.V. €	SIA Diksna €	Fantasy Park Poland Sp.z.o.o. €	Fantasy Park B.V. €	Total €
Balance as at January 1, 2007	424,592	3,015,049	399,474	7,896,729	6,132,709	148,719	412,471	183,850,615
Received/ Repaid loans	278,993	28,610,101	4,828,521	(7,896,729)	8,167,406	8,786	(15,455)	(79,395,249)
Interest	–	–	–	–	–	–	–	–
Loans contributed to finance Company	(703,585)	(31,625,150)	(5,227,995)	–	(14,300,115)	(157,505)	(397,016)	(104,455,366)
Exchange rate results	–	–	–	–	–	–	–	–
Balance as at December 31, 2007	–	–	–	–	–	–	–	–

Amsterdam, April 25, 2008

The Board of Directors

Mordechay Zisser **Ran Shtarkman** **Shimon Yitzchaki**

Marius Willem van Eibergen Santhagens **Marco Habib Wichers** **Edward Paap**

OTHER INFORMATION

AUDITOR'S REPORT

To: the shareholders of Plaza Centers N.V. (formerly: Plaza Centers (Europe) B.V.)

Report on the financial statements
We have audited the accompanying financial statements 2007 of Plaza Centers N.V., Amsterdam. The financial statements consist of the consolidated financial statements and the Company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2007, the income statement, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Company financial statements comprise the Company balance sheet as at December 31, 2007, the Company profit and loss account for the year then ended and the notes.

Management's responsibility
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion with respect to the consolidated financial statements
In our opinion, the consolidated financial statements give a true and fair view of the financial position of Plaza Centers N.V. as at December 31, 2007, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the Company financial statements
In our opinion, the Company financial statements give a true and fair view of the financial position of Plaza Centers N.V. as at December 31, 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements
Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the directors' report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, April 25, 2008

KPMG ACCOUNTANTS N.V.
S.A. Tross RA

OTHER INFORMATION

PROVISION IN THE ARTICLES OF ASSOCIATION CONCERNING THE APPROPRIATION OF PROFITS

In accordance with the Company's Articles of Association the result for the year is at the disposal of the Annual General Meeting of Shareholders.

APPROPRIATION OF RESULT

It is proposed that the 2007 profit of €226,966,957 will be added to the other reserves. The annual accounts have been prepared on the assumption that this profit appropriation will be adopted by the Annual General Meeting of Shareholders. The Company intends to declare dividends due during 2007 to the amount of €57 million, being 25% of the profit for 2007.

REMUNERATION POLICY

Plaza Centers' remuneration policy is designed to attract, motivate and retain the high-calibre individuals who will enable the Company to serve the best interests of shareholders over the long term, through delivering a high level of corporate performance. Remuneration packages are aimed at balancing both short-term and long-term rewards, as well as performance and non-performance related pay.

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

The Remuneration Committee believes that any director's total remuneration should aim to recognize his or her worth on the open market and to this end pays base salaries in line with the market median supplemented by a performance-related element with the capacity to provide more than 50% of total potential remuneration.

2007	Salary and fees €'000	Share incentive plan[1] €'000	Total non-performance related remuneration €'000	Total performance related remuneration €'000
Chairman and executive directors				
Non-performance related remuneration				
Mr Mordechay Zisser	204	2,324	2,528	–
Mr Ran Shtarkman	380	4,124	4,504	2,788[2]
Total	584	6,448	7,032	2,788
Non-executive directors				
Non-performance related remuneration				
Mr Shimon Yitzchaki	–	664	664	–
Mr Marius van Eibergen Santhagens	46	–	46	–
Mr Edward Paap	46	–	46	–
Mr Marco Wichers	46	–	46	–
Total	138	664	802	–
Total – all directors	722	7,112	7,834	2,788

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

(2) Per management agreement, calculated as 0.75% of net pre-tax profits of up to £10 million, and thereafter 1.25% of any net pre-tax profits which exceed £10 million.

SUBSEQUENT EVENTS

On February 13, 2008, the Company received the gross proceeds raised of New Israeli Shekels ("NIS") 713.5 million (approximately €137 million) from the issue of unsecured non-convertible Series B notes (Series B notes) in Israel and their registration for trade on the Tel Aviv Stock Exchange (TASE), along with the registration of Series A notes, which were issued in July 2007.

SERVICE ARRANGEMENTS

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

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

BONUSES

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

SHARE OPTIONS

The Company adopted its Share Option Scheme on October 26, 2006. At the same time, 26,108,602 non-negotiable options over Ordinary Shares were granted, the terms and conditions of which (except for the exercise price) are regulated by the Share Option Scheme. Options will vest in three equal annual portions and have a contractual life of five years following grant. In the course of 2007, 4,093,572 options were granted. For the exercise and forfeiture of options refer to the table below.

	Number of options	Number vested as at December 31, 2006	Exercise price of options £
Mr Mordechay Zisser	3,907,895	–	1.80
Mr Ran Shtarkman	10,150,376	–	1.80
Mr Shimon Yitzchaki	1,116,541	–	1.80
Mr Marius van Eibergen Santhagens	–	–	N/A
Mr Edward Paap	–	–	N/A
Mr Marco Wichers	–	–	N/A

	Number of options as at December 31, 2007
Total pool	**33,834,586**
Granted	**30,202,174**
Exercised	**(303,471)**
Forfeited	**(952,999)**
Left for future grant	**4,585,411**

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