

PLAZA CENTERS N.V.
CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

IN 000 EUR

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Report on the Audit of the Consolidated Financial Statements

Independent Auditors' Report

To the shareholders of Plaza Centers N.V.

Opinion

We have audited the consolidated financial statements of Plaza Centers N.V. and its subsidiaries ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2019 and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

As mentioned in note 2(a) in the consolidated financial statements, these consolidated financial statements, with our report included, are not intended for Netherlands statutory filing purposes.

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw your attention to Note 1(b) in the consolidated financial statements which disclose Company's financial position and board and management's future plans to face its financial liabilities.

The board and management estimate that the Company is unable to serve its entire debt according to the current repayment schedule (total payments of EURO 93 million due to bondholders the July 1, 2020) and is dependent on the bondholders approval for any postponement in payments. In addition, the Company is not in compliance with the main Covenants as defined in the restructuring plan (for more details refer also to Note 8), hence under default which could trigger early repayment clause by the bondholders.

Moreover, due to recent developments related to the COVID-19 virus epidemic there is additional uncertainty as to the effect on the short-term impacts on economic growth, business activity and even to severe and sustained slowdown in the markets in which the company operate thus this could also affect the ability of the company to complete the sale of the plots it owns.

The combination of the abovementioned conditions indicates the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matters

We draw your attention to Note 5(3)(c) which discloses the risk that the public authorities may seek to terminate the Public Private Partnership Agreement ("PPP Agreement") and/or relevant permits and/or could seek to impose delay penalties on the basis of perceived breaches of the Company's commitments under the PPP Agreement. In the event that the public authorities seek to terminate the PPP Agreement and/or seek to impose penalties, the Company may incur penalties and/or recover less than the carrying amount of the Casa radio asset recorded in the consolidated financial statements as at year end in the amount of € 24 million which reflects net realizable value based on the pre-sale agreement signed as described in Note 5(3)(f) and parameters and discounts used as described in Note 5(4).

Our opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

The Key Audit Matters we identified are:

| Key Audit Matter | Our Response |
|---|---|
| <p><i>Valuation of trading properties</i></p> <p>We have identified the measurement of trading properties at net realizable value as a significant audit matter due to their size and the complexity and judgement required in the valuation of trading properties. The valuations of these properties as of December 31, 2019, involved significant judgements and assumptions such as capitalization and discount rates, and forecasts of future rents, occupancy levels, construction costs and developer profits, made by management, in reliance on external valuers. In the context of properties which are not yet developed, these estimates contain further risks in regards to success in obtaining permits, market condition and political environment, required to forecast all circumstances through and beyond project completion.</p> <p>The Company's accounting policies regarding trading properties are disclosed in Notes 2(c), 2(m) and 5(4) to the consolidated financial statements. The significant estimates involved in the valuation are disclosed in Note 5(4) and 6(b).</p> | <p>Our procedures in relation to the management's fair value assessment of trading properties included:</p> <ul style="list-style-type: none">• Evaluation of the objectivity, independence, expertise of the external valuers;• Reviewed the reports prepared by the external valuers and held discussions with them in order to gain an understanding of their methodology and the key assumptions which they used in performing the valuations.• Using our own real estate specialists to assess the methodologies used the assumptions that were made and the appropriateness of the key estimates used in the calculation of the fair value of the trading properties based on their knowledge of the local economic, legal, political environment, and other specific circumstances, used to analyze the appropriateness of valuations.• Checked on a sample basis, the appropriateness and consistency with other information available to us of the inputs used by the valuers. We also assessed the appropriateness of the disclosures relating to the assumptions, as we consider them important to users of the financial statements. |
| <p><i>Casa radio existence and measurement</i></p> <p>As disclosed in Note 5(3) to the consolidated financial statements, the Company in 2006 entered into an agreement to acquire a 75% interest in a company which is under a public-private partnership (PPP) agreement with the Government of Romania to develop the Casa radio site in central Bucharest. The Company is currently in a breach of the PPP agreement mainly due to delays in the development works timelines.</p> <p>The preparation by management of estimates of potential future claims, penalties or sanctions arising from breach of contract and the possible impact on the existence and measurement of the Casa radio property is complex and involves significant judgment and uncertainties. Accordingly, the accounting for the Casa radio project was considered a key audit matter.</p> <p>Based on management's analysis as described in Note 5(3)(c) the likelihood of the PPP agreement being terminated is unlikely.</p> | <p>Our procedures in relation to the Casa radio project included:</p> <ul style="list-style-type: none">• We obtained a valuation of the Casa radio project prepared by an external valuator as of December 31, 2019.• We obtained external valuation of Casa Radio's net realizable value as of December, 31 2019 based on pre-sale agreement signed with third party. We obtained management's estimation as for the additional discount applied in order to reflect uncertainty related to meeting closing conditions as agreed in pre-sale agreement.• We involved our real estate specialist to review both valuation reports including assessing the assumptions used by external valuator and Company's assessment on the net realizable value of the project as reflected in the financial statements.• We read the PPP agreement and Additional Act and considered the provisions therein. |

| Key Audit Matter | Our Response |
|------------------|---|
| | <ul style="list-style-type: none"> • We held meetings with the Company's management and the chairmen of the Board of directors, which are involved in the discussion with government representatives. • We have obtained management assessment with respect to the breach of the PPP agreement and its possible effect on the existence of the property. In addition, we obtained management's assessment regarding the uncertainty related to meeting closing conditions based on pre-sale agreement and its impact on the financial statements. |

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The board of directors is responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2019, and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent report is Mr. Itay Bar-Haim.

March 31, 2020
Tel Aviv, Israel

KOST FORER GABBAY & KASIERER
A member of Ernst & Young Global

CONSOLIDATED STATEMENT OF FINANCIAL POSITION IN '000 EUR

| | Note | December 31, | |
|---|---------|-----------------|-----------------|
| | | 2019 | 2018 |
| ASSETS | | | |
| Cash and cash equivalents | 3 | 1,126 | 1,405 |
| Prepayments and other receivables | 4 | 181 | 240 |
| Total current assets | | 1,307 | 1,645 |
| Trading properties | 2,5 | 40,375 | 42,600 |
| Equity - accounted investees | 6 | 14,419 | 17,676 |
| Property and equipment | | - | 19 |
| Total non-current assets | | 54,794 | 60,295 |
| Total assets | | 56,101 | 61,940 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Bonds at amortized cost | 8 | 86,506 | 76,698 |
| Accrued interests on bonds | 8 | 3,846 | - |
| Trade payables | | 94 | 56 |
| Other liabilities | 7 | 477 | 500 |
| Total current liabilities | | 90,923 | 77,254 |
| Provisions | 5(3)(e) | 15,825 | 14,087 |
| Total non-current liabilities | | 15,825 | 14,087 |
| Share capital | 10 | 6,856 | 6,856 |
| Translation reserve | 10 | (29,677) | (29,598) |
| Other reserves | | (19,983) | (19,983) |
| Share based payment reserve | 10 | 35,376 | 35,376 |
| Share premium | 10 | 282,596 | 282,596 |
| Retained losses | | (325,815) | (304,648) |
| Total equity | | (50,647) | (29,401) |
| Total equity and liabilities | | 56,101 | 61,940 |

The notes are an integral part of the consolidated financial statements.

March 31, 2020

**Date of approval of the
financial statements**

**Ron Hadassi
Executive Officer**

**David Dekel
Chairman of the Board of
Directors**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS IN '000 EUR

| | Note | Year ended December 31, | |
|--|------|----------------------------|----------|
| | | 2019 | 2018 |
| Revenues and gains | | | |
| Revenue from disposal of trading properties | 5 | 3,684 | 2,333 |
| Total revenues | | 3,684 | 2,333 |
| Gains and other | | | |
| Other income | 14 | 78 | 254 |
| Total gains | | 78 | 254 |
| Total revenues and gains | | 3,762 | 2,587 |
| Expenses and losses | | | |
| Cost of trading properties disposed | 5 | (3,463) | (2,891) |
| Cost of operations | | (207) | (357) |
| Write-down of trading properties | 5 | (500) | (29,450) |
| Share in results of equity-accounted investees | 6 | (2,396) | 1,443 |
| Administrative expenses | 13 | (1,577) | (2,722) |
| Other expenses | 14 | (67) | (329) |
| | | (8,210) | (34,306) |
| Finance income | 15 | - | 3,647 |
| Finance costs | 15 | (16,648) | (11,306) |
| | | (24,858) | (41,965) |
| Loss before income tax | | (21,096) | (39,378) |
| Tax benefit (Income tax expense) | | (71) | 1,013 |
| Loss for the year | | (21,167) | (38,365) |
| Loss attributable to: | | | |
| Equity holders of the Company | | (21,167) | (38,365) |
| Earnings per share | | | |
| Basic and diluted loss per share (EUR) | 11 | (3.09) | (5.60) |

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IN '000 EUR

| | Year ended December 31, | |
|--|------------------------------------|-----------------|
| | 2019 | 2018 |
| Loss for the year | (21,167) | (38,365) |
| Other comprehensive income | | |
| Items that are or may be reclassified to profit or loss: | | |
| Foreign currency translation differences - foreign operations (Equity accounted investees) | <u>(79)</u> | <u>(798)</u> |
| Other comprehensive loss for the year, net of income tax | <u>(79)</u> | <u>(798)</u> |
| Total comprehensive loss for the year | <u>(21,246)</u> | <u>(39,163)</u> |

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN '000 EUR

| | Share capital | Share Premium | Share based payment reserves | Translation Reserve | Capital reserve from acquisition of non- controlling interests | Retained losses | Total |
|--|--------------------------|--------------------------|---|--------------------------------|---|----------------------------|--------------|
| Balance at January 1, 2018 | 6,856 | 282,596 | 35,376 | (28,800) | (19,983) | (267,682) | 8,363 |
| Adjustments on initial application of IFRS 9 (see Note 2(j)) | - | - | - | - | - | 1,399 | 1,399 |
| Comprehensive income for the year | | | | | | | |
| Net loss for the year | - | - | - | - | - | (38,365) | (38,365) |
| Foreign currency translation differences | - | - | - | (798) | - | - | (798) |
| Total comprehensive loss for the year | - | - | - | (798) | - | (36,966) | (37,764) |
| Balance at December 31, 2018 | 6,856 | 282,596 | 35,376 | (29,598) | (19,983) | (304,648) | (29,401) |
| Comprehensive income for the year | | | | | | | |
| Net loss for the year | - | - | - | - | - | (21,167) | (21,167) |
| Foreign currency translation differences | - | - | - | (79) | - | - | (79) |
| Total comprehensive loss for the year | - | - | - | (79) | - | (21,167) | (21,246) |
| Balance at December 31, 2019 | 6,856 | 282,596 | 35,376 | (29,677) | (19,983) | (325,865) | (50,647) |

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS IN '000 EUR

| | Year ended December 31, | |
|---|----------------------------|-----------------|
| | 2019 | 2018 |
| Cash flows from operating activities | | |
| Loss for the year | (21,167) | (38,365) |
| <u>Adjustments necessary to reflect cash flows used in operating activities</u> | | |
| Depreciation and impairment of property and equipment | 19 | 155 |
| Net finance costs | 16,648 | 7,659 |
| Share of loss (Gain) of equity-accounted investees, net of tax | 2,396 | (1,443) |
| Income tax expense (Tax benefit) | 71 | (1,013) |
| | <u>(2,033)</u> | <u>(33,007)</u> |
| <u>Changes in:</u> | | |
| Trade receivables | (6) | 27 |
| Other receivables | (5) | 2,287 |
| Provision | 1,738 | 1,238 |
| Trading properties | 2,224 | 30,970 |
| Trade payables | 41 | (85) |
| Other liabilities, related parties' liabilities and provisions | (88) | (634) |
| | <u>3,904</u> | <u>33,803</u> |
| Interest paid | (2,682) | (5,887) |
| Net cash used in operating activities | <u>(811)</u> | <u>(5,091)</u> |
| Cash from investing activities | | |
| Proceeds from sale of property and equipment | - | 4 |
| Distribution received from Equity Accounted Investees | 782 | 2,503 |
| Net cash provided by investing activities | <u>782</u> | <u>2,507</u> |
| Cash from financing activities | | |
| Repayment of debentures | (250) | (40,065) |
| Net cash used in financing activities | <u>(250)</u> | <u>(40,065)</u> |
| Decrease in cash and cash equivalents during the year | (279) | (43,439) |
| Effect of movement in exchange rate fluctuations on cash held | - | (790) |
| Cash and cash equivalents as at January 1st | <u>1,405</u> | <u>44,844</u> |
| Cash and cash equivalents as at December 31st | <u>1,126</u> | <u>1,405</u> |

The notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 1:- GENERAL INFORMATION

- a. Plaza Centers N.V. ("the Company" and together with its subsidiaries, "the Group") was incorporated and is registered in the Netherlands. The Company's registered office is at Pietersbergweg 283, 1105 BM, Amsterdam, the Netherlands. In past the Company conducted its activities in the field of establishing, operating and selling of shopping and entertainment centers, as well as other mixed-use projects (retail, office, residential) in Central and Eastern Europe (starting 1996) and India (from 2006). Following debt restructuring plan approved in 2014 the Group main focus is to reduce corporate debt by early repayments following sale of assets and to continue with efficiency measures and cost reduction where possible.

The consolidated financial statements for each of the periods presented comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities.

The Company is listed on the premium segment of the Official List of the UK Listing Authority and to trading on the main market of the London Stock Exchange ("LSE"), the Warsaw Stock Exchange ("WSE") and on the Tel Aviv Stock Exchange ("TASE").

The Company's immediate parent company was Elbit Ultrasound (Luxembourg) B.V. / S.à r.l. ("EUL"), which held 44.9% of the Company's shares, till December 19, 2018 when EUL informed that it has signed a trust agreement according to which EUL will deposit its shares of the Company with a trustee and no longer considers itself to be the controlling shareholder of the Company. For the list of the Group entities, refer to Note 19.

- b. Going concern and liquidity position of the Company:

As at December 31, 2019 the Company's outstanding obligations to bondholders (including accrued interests) are app. EUR 93 million (refer also to Note 8) which is due on July 1, 2020. In addition, the Company is not in compliance with the main Covenants as defined in the restructuring plan (for more details refer also to Note 8), hence under defaulted which could trigger early repayment clause by the bondholders.

Due to the above the Company's primary need is for liquidity. The Company's resources include the following: (i) cash and cash equivalents (including the cash of fully owned subsidiaries) of approximately EUR 1.13 million; (ii) the Company's part (50%) in the expected proceeds from future repayments on account of the sale of a plot in Chennai, India (which is held by indirect subsidiary of the Company) based on a sale agreement signed on June 13, 2019 (see also Note 6(b)(2)) in a total amount of approximately EUR 13 million (the Company's part EUR 6.5 million out of which an amount of EUR 1.18 million have been repaid to the Company on February 18, 2020). At this stage, there is uncertainty if the buyer will exercise the sale agreement and pay the additional instalments; (iii) proceeds in the amount of EUR 0.57 million (last instalment) from disposal of land plot of an indirect subsidiary in Brasov, Romania as mentioned in Note 19(a); (iv) in addition, the fully owned subsidiary of the Company have signed a pre-sale agreement with AFI Europe N.V. ("AFI Europe") to transfer its interest in a Romanian subsidiary to AFI Europe for the maximum consideration of EUR 60 million, subject to the fulfilment of certain conditions which includes among others an execution of an SPA between the parties not later than December

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 1:- GENERAL INFORMATION (Cont.)

5, 2020, following which AFI Europe is bound to make the first instalment in the amount of EUR 20 million.

At this stage, due to the uncertainty as to the fulfillment of the conditions set out in the pre sale agreement as mentioned in Note 5(3)(f), there can be no certainty that the SPA will eventually be executed and/or that the Transaction will be completed.

Following the recent default of purchaser of Bangalore project to meet payments schedule according to the signed amendment agreement (refer to Note 6(b)(1)) there can be no certainty that the agreement will be completed, hence no resources are expected to be available in forceable future at this time.

Moreover, due to recent developments related to the COVID-19 virus epidemic there is additional uncertainty as to the short-term impacts on economic growth and on the business activity in the markets in which the Company operate which could also lead to severe and sustained slowdown. This will limit the ability of the Company to complete the sale of the plots it owned.

Due to the abovementioned and due to the board and management estimation that the Company is unable to serve its entire debt according to the current bond's repayment schedule in its current liquidity position, the Company intends to request the bondholders of both series to postponement of the repayment of the remaining balance of the bonds. However, there is an uncertainty if the bondholders will approve the request. In the case that the bondholders would declare their remaining claims to become immediately due and payable, the Company would not be in a position to settle those claims and would need to enter to an additional debt restructuring or might cease to be a going concern basis.

Due to the abovementioned conditions a material uncertainty exists that casts significant doubt about the Company's ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet the mandatory repayment obligations of its bonds and other working capital requirements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of preparation of these financial statements:

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

The consolidated financial statements have been prepared on the historical cost basis.

These consolidated financial statements are not intended for statutory filing purposes. The

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Company is required to file consolidated financial statements prepared in accordance with The Netherlands Civil Code. At the date of approving these financial statements the Company had not yet submitted consolidated financial statements for the year ended December 31, 2019 in accordance with the Netherlands Civil Code.

The consolidated financial statements were authorized for issue by the Board of Directors on March 31, 2020.

b. Functional and presentation currency:

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

c. Investment property vs. trading property classification:

The Group has designated all its properties for sale. The Company is actively seeking buyers and does not hold the properties with the intention to gain from capital appreciation. Therefore, management also believes that these are appropriately classified as trading properties.

d. Functional and presentation currency

The EUR 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 is the currency of the economic environment in which the Group operates. This is because the EUR (and in India the INR) is the main currency in which management determines its pricing with potential buyers and suppliers, determine its financing activities and budgets and assesses its currency exposures.

e. Operating cycle determination:

The Group is unable to clearly identify its actual operating cycle with respect to trading properties. As such, the Group's operating cycle relating to trading properties and corresponding liabilities is 12 months. Trading properties and liabilities associated therewith are presented as non-current assets and non-current liabilities, respectively.

Despite of the above, where a sale and purchase agreement exists as of the end of the reporting period, the asset and related liabilities are reclassified as current.

f. Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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. Information about other critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 5 - judgements used in determining the net realisable value of trading properties;

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 5 - key assumptions used in determining the net realisable value of trading properties;
- Notes 5,16 - recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

g. Basis of consolidation:

1. Subsidiaries:

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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. Interests in equity-accounted investees:

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

When the equity attributable to the owners of an associate changes as a result of the associate selling or buying shares of its subsidiaries (that are consolidated in its financial statements) to third parties while retaining control in those subsidiaries, the balance of the investment in the associate that is presented on the Company's books on the equity basis changes. The Company has chosen the accounting policy of recognizing the change in the balance of the investment in these cases directly in profit or loss.

3. Loss of control:

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity.

Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

4. Transactions eliminated on consolidation:

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

h. Foreign currency:

1. Foreign currency transactions:

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

2. Foreign operations:

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income, and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest.

When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign currency differences arising from such item form part of the net investment in the foreign operation. Accordingly, such differences are recognised in other comprehensive income and accumulated in the translation reserve.

3. Index-linked monetary items:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at each reporting date according to the terms of the agreement.

i. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Financial instruments:

On January 1, 2018, the Company initially adopted IFRS 9, "Financial Instruments" ("the Standard"). The Company elected to apply the provisions of the Standard retrospectively without restatement of comparative data.

The accounting policy for financial instruments applied until December 31, 2017, is as follows:

1. Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of financial assets is based on their classification as follows:

a) Loans and receivables:

Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortized cost plus directly attributable transaction costs using the effective interest method and less any impairment losses. Short-term borrowings are measured based on their terms, normally at face value.

2. Financial liabilities:

Financial liabilities are initially recognized at fair value. Loans and other liabilities measured at amortized cost are presented less direct transaction costs.

After initial recognition, the accounting treatment of financial liabilities is based on their classification as follows:

a) Financial liabilities at amortized cost:

After initial recognition, loans and other liabilities are measured based on their terms at amortized cost less directly attributable transaction costs using the effective interest method.

3. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

the asset and settle the liability simultaneously.

4. Derecognition of financial instruments:

a) Financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

b) Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

5. Impairment of financial assets:

The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows:

a) Financial assets carried at amortized cost:

Objective evidence of impairment exists when one or more events that have occurred after initial recognition of the asset have a negative impact on the estimated future cash flows. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

The accounting policy for financial instruments applied commencing from January 1, 2018, is as follows:

1. Financial assets:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial assets are measured upon initial recognition at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

Debt instruments are measured at amortized cost when:

The Company's business model is to hold the financial assets in order to collect their contractual cash flows, and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. After initial recognition, the instruments in this category are measured according to their terms at amortized cost using the effective interest rate method, less any provision for impairment.

2. Impairment of financial assets:

The Company evaluates at the end of each reporting period the loss allowance for financial debt instruments which are not measured at fair value through profit or loss.

3. Derecognition of financial assets:

A financial asset is derecognized only when:

- The contractual rights to the cash flows from the financial asset has expired; or
- The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or
- The Company has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

4. Financial liabilities:

a) Financial liabilities measured at amortized cost:

Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability.

After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest rate method.

5. Derecognition of financial liabilities:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is discharged or cancelled or expires. A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

6. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

k. Fair value measurement

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. The Company's finance department reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes, is used to measure fair values, then the finance department assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 16 - Financial instruments

l. Share capital:

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12. Costs attributable to listing existing shares are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Trading properties:

Trading properties are being designated for sale in the ordinary course of business and as such are classified as trading properties (inventory) and measured 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. If net realisable value is less than the cost, the trading property is written down to net realisable value.

In each subsequent period, a new assessment is made of net realisable value. When the circumstances that previously caused trading properties to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realisable value.

The amount of any write-down of trading properties to net realisable value and all losses of trading properties are recognised as a write-down of trading properties expense in the period the write-down or loss occurs. The amount of any reversal of such write-down arising from an increase in net realisable value is recognised as a reduction in the expense in the period in which the reversal occurs.

Costs comprise all costs of purchase, direct materials, direct labour costs, subcontracting costs and other direct overhead costs incurred in bringing the properties to their present condition.

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the costs of the asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognized as an expense in the period in which they incurred.

n. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

impairment loss of an asset presented at cost is recognized in profit or loss.

The following criteria are applied in assessing impairment of these specific assets:

Investment in associate or joint venture:

After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the investment in associates or joint ventures. The Company determines at each reporting date whether there is objective evidence that the carrying amount of the investment in the associate or the joint venture is impaired. The test of impairment is carried out with reference to the entire investment, including the goodwill attributed to the associate or the joint venture.

o. Provisions:

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 the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Warranties

A provision for warranties is recognised when the underlying products or services are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

Legal claims:

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

p. Revenue recognition:

On January 1, 2018, the Company initially adopted IFRS 15, "Revenue from Contracts with Customers" ("the Standard"). The Company elected to apply the provisions of the Standard using the modified retrospective method with the application of certain practical expedients and without restatement of comparative data.

The accounting policy for revenue recognition applied until December 31, 2017, is as follows:

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Revenues from selling of trading property

Revenue from selling of trading property is measured at the fair value of the consideration received or receivable. Revenues are recognized when all the following conditions are met:

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

Determining whether these criteria have been met for each sale transaction, requires certain degree of judgment by the Group management. The judgment is made in determination whether, at the end of the reporting period, the Group has transferred to the buyer the significant risks and rewards associated with the real estate assets sold.

Such determination is based on an analysis of the terms included in the sale agreement executed with the buyer as well as an analysis of other commercial understandings with the buyer in respect of the real estate sold. In certain cases, the sale agreement with the buyer is signed during the construction period and the consummation of the transaction is subject to certain conditions precedents which have to be fulfilled prior to delivery.

Revenues are, therefore, recognized when all the significant condition precedent included in the agreement have been fulfilled by the Group and/or waived by the buyer prior to the end of the reporting period.

Generally, the Group is provided with a bank guarantee from the buyer for the total estimated proceeds in order to secure the payment by the buyer at delivery. Therefore, the Group is not exposed to any significant risks in respect of payment of the proceeds by the buyer.

The accounting policy for revenue recognition applied commencing from January 1, 2018, is as follows:

Revenue recognition:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenue from contracts with customers is recognized when the control over the goods or services is transferred to the customer. Revenues from trading properties are taken into account at the moment the trading property is sold. The company considers the moment of sale being the latest of a) receiving the payment for the trading property; or b) the transfer of the deed at the public notary. The transaction price is the amount of the consideration that is expected to be received based on the contract terms, excluding amounts collected on behalf of third parties (such as taxes).

In determining the amount of revenue from contracts with customers, the Company evaluates whether it is a principal or an agent in the arrangement. The Company is a principal when the Company controls the promised goods or services before transferring them to the customer.

In these circumstances, the Company recognizes revenue for the gross amount of the consideration. When the Company is an agent, it recognizes revenue for the net amount of the consideration, after deducting the amount due to the principal.

Revenue from the sale of goods:

Revenue from sale of goods is recognized in profit or loss at the point in time when the control of the goods is transferred to the customer, generally upon delivery of the goods to the customer.

Variable consideration:

The Company determines the transaction price separately for each contract with a customer. When exercising this judgment, the Company evaluates the effect of each variable amount in the contract, taking into consideration discounts, penalties, variations, claims, and non-cash consideration. In determining the effect of the variable consideration, the Company normally uses the "most likely amount" method described in the Standard. Pursuant to this method, the amount of the consideration is determined as the single most likely amount in the range of possible consideration amounts in the contract.

According to the Standard, variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

q. Finance income and cost:

Interest income and expense which are not capitalized are recognized in the income statement as they accrue, using the effective interest method.

r. Income tax:

Income tax expense comprises current and deferred tax. It is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible Temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Such reduction is reversed when the probability of future taxable profits improved.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences.

When they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria are met.

s. 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 to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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 with

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employees as measured at the date of modification. 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 liability are recognized as an additional cost in salaries and related expenses in the income statement.

- t. Changes in accounting policies - initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:

1. Initial adoption of IAS 28, "Investments in Associates and Joint Ventures":

In October 2017, the IASB published an amendment to IAS 28, "Investments in Associates and Joint Ventures" ("the Amendment"). The Amendment clarifies that long-term interests in associates and joint ventures (such as loans receivable or investments in preferred shares) which form part of the net investment in an associate or joint venture are initially accounted for according to the provisions of IFRS 9 (both regarding measurement and impairment) and subsequently those interests are subject to the provisions of IAS 28.

The Amendment had no impact on the Company's financial statements as the Group does not have long-term interests in its associate and joint venture.

2. Initial adoption of IFRIC 23, "Uncertainty over Income Tax Treatments":

In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("the Interpretation"). The Interpretation clarifies the accounting for recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12, "Income Taxes", in situations of uncertainty involving income taxes. The Interpretation provides guidance on considering whether some tax treatments should be considered collectively, examination by the tax authorities, measurement of the effects of uncertainty involving income taxes on the financial statements and accounting for changes in facts and circumstances in respect of the uncertainty.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing.

The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments.

The interpretation did not have an impact on the Company's financial statements.

3. Initial adoption of IFRS 16, "Leases":

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption IFRS 16 as at 1 January 2019 did not have a material effect on the financial statements.

4. Annual Improvements to IFRS Cycle for 2015-2017:

In December 2017, the IASB issued amendments to the following standards in the context of the Annual Improvements to IFRS 2015-2017 Cycle.

a) IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the Company's financial statements.

b) IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the Company's financial statements.

u. Disclosure of new standards in the period prior to their adoption:

1. IFRS 3, "Business Combinations":

In October 2018, the IASB issued an amendment to the definition of a "business" in IFRS 3, "Business Combinations" ("the Amendment"). The Amendment is intended to assist entities in determining whether a transaction should be accounted for as a business combination or as an acquisition of an asset.

The Amendment consists of the following:

1. Clarification that to meet the definition of a business, an integrated set of activities and assets must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create output.
2. Removal of the reference to the assessment whether market participants are capable of acquiring the business and continuing to operate it and produce

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

outputs by integrating the business with their own inputs and processes.

3. Introduction of additional guidance and examples to assist entities in assessing whether the acquired processes are substantive.
4. Narrowing the definitions of "outputs" and "business" by focusing on goods and services provided to customers.
5. Introducing an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The Amendment is to be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, with earlier application permitted.

2. Amendments to IFRS 9, IFRS 7 and IAS 39:

In September 2019, the IASB published an amendment to IFRS 9, "Financial Instruments", IFRS 7, "Financial Instruments: Disclosures" and IAS 39, "Financial Instruments: Recognition and Measurement" ("the Amendment").

In view of global regulatory changes, numerous countries have considered introducing a reform in the benchmark Interbank Offered Rates ("IBORs") (LIBOR, the London Interbank Offered Rate, being one of the most common examples) and switching to a risk-free interest rate alternative ("RFRs") which extensively rely on data of specific transactions. The IBOR reform leads to uncertainty regarding the dates and amounts to be attributed to future cash flows relating to both hedging instruments and hedged items that rely on existing IBORs.

According to the existing accounting guidance of IFRS 9 and IAS 39, entities that have entered into the above hedges are facing uncertainty as a result of the IBOR reform which is likely to affect their ability to continue meeting the effective hedging requirements underlying existing transactions as well as the hedging requirements of future transactions. In order to resolve this uncertainty, the IASB issued the Amendment to offer transitional reliefs for entities that apply IBOR-based hedge accounting. The Amendment represents phase one in the reform that will include additional amendments in the future.

The Amendment also permits certain reliefs in applying the hedge accounting effectiveness tests during the period of transition from IBORs to RFRs. These reliefs assume that the benchmark interest underlying the hedge will not change as a result of the expected interest reform. The reliefs will be effective indefinitely, until the occurrence of one of the events specified in the Amendment. The Amendment also requires entities to provide specific disclosures of the application of any reliefs.

The Amendment is to be applied retrospectively for annual periods beginning on or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

after January 1, 2020. Early adoption is permitted.

The Company believes that the adoption of the Amendment will not have an effect on the Company's financial statements since it does not enter into substantial IBOR-based hedges.

NOTE 3:- CASH AND CASH EQUIVALENTS

| Bank deposits and cash denominated in | December 31, | |
|--|---------------------|--------------|
| | 2019 | 2018 |
| EUR - bank balances | 1,044 | 1,323 |
| United States Dollar (USD) - bank balances | 9 | 11 |
| New Israeli Shekel (NIS) | 4 | 4 |
| Polish Zlotys (PLN) | 9 | 34 |
| Other currencies | 60 | 33 |
| | <u>1,126</u> | <u>1,405</u> |

*) The balances are not bearing interest.

The Group's sensitivity analysis for financial assets and liabilities are disclosed in Note 16.

NOTE 4:- PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables:

| | December 31, | |
|---------------------------|---------------------|-------------|
| | 2019 | 2018 |
| Tax receivables *) | 133 | 226 |
| Prepayments and others *) | 48 | 14 |
| | <u>181</u> | <u>240</u> |

*) refer to Note 18.

NOTE 5:- TRADING PROPERTIES

| | December 31, | |
|---|---------------------|---------------|
| | 2019 | 2018 |
| Balance as at 1 January | 42,600 | 73,569 |
| Increase in value (Write-down) of trading properties, net (1) | 1,238 | (28,212) |
| Trading properties disposed (2) | (3,463) | (2,757) |
| Balance as at 31 December | <u>40,375</u> | <u>42,600</u> |
| Trading properties designated for sale | <u>40,375</u> | <u>42,600</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)

- (1) Breakdown of write-downs (Increase in value) of trading properties is presented in the table below:

| <u>Project name (location)</u> | Year ended December 31, | |
|---|------------------------------------|--------------------|
| | <u>2019</u> | <u>2018</u> |
| Helios Plaza (Athens, Greece) | - | 1,150 |
| Krusevac (Krusevac, Serbia) | - | 300 |
| Lodz Plaza (Lodz, Poland) | - | 1,940 |
| Lodz Centrum (Lodz, Poland) | - | 100 |
| Casa radio (Bucharest, Romania) | (738) | 24,172 |
| Brasov (Brasov, Romania) | - | 550 |
| Miercurea Ciuc (Miercurea Ciuc, Romania) | (500) | - |
| | <u>(1,238)</u> | <u>28,212</u> |
| Change in provision in respect to PAB (*) | <u>1,738</u> | <u>1,238</u> |
| Total write-downs | <u>500</u> | <u>29,450</u> |

- (*) See also (3)(e) in this Note below.

The 2019 write-downs were caused mainly due to the following factors:

- EUR 0.5 million of partial reversal of write-down in Miercurea Ciuc, Romania, which reflects signed sale agreement.
- EUR 0.7 million of partial reversal of write-down in Casa Radio project, Romania and EUR 1.7 million of write-down (relating to change in provision in respect to PAB) in Casa Radio project, Romania (see (3) in this Note).

For detailed information with respect to valuation techniques and main assumptions, refer also to (4) in this Note.

- (2) Sale of assets in the reporting period:

- a) Disposal of land plot in Lodz, Poland (representing 22% of this holding):

On June 13, 2017, the Company announced that it has signed a preliminary sale agreement for the disposal of a 13,770 sqm plot at its second land holding in Lodz, Poland, (representing 22% of this holding) to a retail developer, for EUR 1.15 million. As part of the agreement, the purchaser paid an immediate installment of EUR 0.035 million followed by an installment of EUR 0.073 million paid in 2018 after obtaining environmental permit for investing in the access road to the plot.

During February 2019 the Company has signed conditional sale agreement for which the remaining balance less 50% of the sum invested in the road (up to maximum

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)

amount of circa EUR 0.19 million) will be paid once the final agreement is signed after the municipality confirms that it will not exercise preemptive rights.

On March 26, 2019 the Company has signed definitive sale agreement, under terms of which the purchaser paid the rest of consideration (circa EUR 0.84 million) in two installments: EUR 0.76 million was paid at the date of the signing of the definitive sale agreement and the remaining amount of EUR 0.09 million was paid on April 29, 2019.

b) Disposal of the remaining land plot in Lodz, Poland:

In May 2019, the Company has signed a preliminary agreement for the sale of its remaining holdings in the plot (circa 47,860 sqm) to a local developer for a total gross consideration of approximately EUR 1.10 million.

On October 10, 2019 the Company has signed definitive sale agreement. The Company has received 50% upon signing of the definitive sale agreement and the remaining 50% was paid before December 10, 2019.

c) Disposal of land plot in Miercurea Ciuc, Romania:

On June 15, 2017 a directly owned subsidiary signed a Pre-Agreement for the sale of land plot in Miercurea Ciuc, Romania. On April 1, 2019 the last amendment of the Pre-Agreement was signed, based on which the purchase price of land plot was fixed at EUR 1.58 million and the date of a definitive agreement was postponed by 3 months to mid-July 2019.

By the end of April 2019, a directly owned subsidiary received an amount of EUR 0.36 million as non-refundable advance payments.

On July 10, 2019 a directly owned subsidiary completed the sale of land plot in Miercurea Ciuc, Romania and signed a definitive agreement for a total amount of EUR 1.58 million, following which it received the last installment of EUR 1.22 million (as described above the amount of EUR 0.36 million was already received as non-refundable advance payment).

(3) Casa Radio:

(a) General:

In 2006 the Company entered into an agreement according to which it acquired 75% interest in a company ("Project SPV") which is under a PPP agreement with the Government of Romania to develop the Casa Radio site in the city center of Bucharest ("Project"). After signing the PPP agreement, the Company holds indirectly 75% of the shares in the Project SPV, the remaining 25% are held by the Romanian authorities (15%) and a third-party private investor (10%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)

As part of the PPP, the Project SPV was granted with development and exploitation rights in relation to the site for a period of 49 years, starting December 2006 (36 years remaining at the end of the reporting period). As part of its obligations under the PPP, the Project SPV has committed to construct a Public Authority Building ("PAB") measuring approximately 11.000 square meters for the Romanian Government at its own cost.

Large scale demolition, design and foundation works, financed by loans given to the Project SPV by the Company were performed on the construction site until 2010, when current construction and development was put on hold due to lack of progress in the renegotiation of the PPP agreement with the Authorities, as discussed in subsection (c) below, and the global financial crisis. These circumstances (and mainly the bureaucratic deadlock with the Romanian Authorities to deal with the issues specified below) caused the Project SPV not to meet the development timeline of the Project, as specified in the PPP. However, management believes that it had legitimate reasons for the delays in this timeline, as discussed in subsection (c) below.

(b) Obtaining of the Detailed Urban Plan ("PUD") permit:

The Project SPV obtained the PUD related to this project in September 2012. Furthermore, on December 13, 2012, the Court took note of the waiver of the claim submitted by certain plaintiffs and rejected the litigation aiming to cancel the approval of the Zonal Urban Plan ("PUZ") related to the Project. The court decision is irrevocable.

As the PUD is based on the PUZ, the risk that the PUD would be cancelled as a result of the cancellation of the PUZ was removed following the date when the PUZ was cleared in court on December 13, 2012.

(c) Discussions with Authorities on construction time table deferral:

Following the Court decision with respect to the PUZ, the Project SPV was required to submit a request for building permits within 60 days from the approval date of the PUZ/PUD and commence development of its project within 60 days after obtaining building permit. The building permits have not been obtained.

However, due to substantial differences between the approved PUD and stipulations in the PPP agreement as well as changes in the EU directives concerning environmental considerations in buildings used by public authorities the Project SPV attempted to renegotiate the future development of the Project with the Romanian Authorities on items such as time table, structure and milestones as well as adaptation of the PAB development to the current EU requirements. Despite many notifications sent to the Romanian Authorities expressing a wish to renegotiate the existing PPP agreement no major breakthrough could be achieved. The Company can be subject to significant delay penalties under the terms of the PPP agreement if it is determined that the Company was at fault in causing the delays.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)

Because of the failure of the public authorities to cooperate, negotiate and adjust the PPP agreement, the Project SPV was not able to meet its obligations under the PPP. This resulted in a situation where the Project SPV could not "de facto" continue the execution of the Project and created a risk that the public authorities could attempt to terminate the PPP agreement. In the event that the public authorities seek to terminate the PPP Agreement and/or seek to impose penalties, the Company may incur penalties and/or recover less than the carrying amount of the Casa Radio asset recorded in the consolidated financial statements as of year end (EUR 24 million). As of the date of approval of these consolidated financial statements the Project SPV did not receive any termination notification by the public authorities.

The Company believes that although there is no formal obligation for the Romanian Authorities to renegotiate the PPP agreement, such obligation is implicitly provided for the situation when significant unexpected circumstances arise and that the unresponsiveness of the authorities is a violation of the general undertaking to support the Project SPV in the execution of the Project as agreed in the PPP agreement.

The Company believes that the risk that the public authorities may seek to terminate the PPP and/or relevant permits on the basis of the perceived breach of the Company's commitments and/or may seek to impose delay penalties on the basis of the PPP contract is unlikely given the public authorities have not sought to do such since the perceived breach in 2012 and given the Company believes that it has basis for counter claims against the relevant public authorities.

In the case of termination for breach under the PPP agreement the relationship and compensation between the parties is to be decided by a competent court of arbitrations. Management believes that, in the case of termination, the Company has a strong case to claim compensation for damages.

Since 2016 management has taken a number of steps in order to unblock the development of the project and mitigate the risk of termination of the PPP agreement, including commencing a process to identify third party investors willing and capable to join the Group for the development of the project and/or potential buyers for the Project. Management believes that reputable investors with considerable financial strength can enhance negotiation position vis-à-vis the public authorities and assist in advancing an amicable agreement with the relevant authorities with respect to the development of the project. As a result of its ongoing efforts, pre-sale agreement for the sale of its holdings was signed on 3 July, 2019 (see (3)(f) in this Note).

Management considers the risk of termination of the PPP agreement and/or the imposition of penalties by the authorities to be unlikely and the consolidated financial statements do not include any provision in respect to any potential future penalties in respect to the breach of the PPP agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)

- (d) Co-operation with the Romanian Authorities regarding potential irregularities

In 2015, the Board and Management became aware of certain issues with respect to certain agreements that were executed in the past in connection with the Project. In order to address this matter, the Board appointed the chairman of the Audit Committee to investigate the matters and independent law firms to analyze the available alternatives in this respect. The chairman of the Audit Committee did not conclude the investigation as the person with key information was not available to answer questions. The Board, among other steps, implemented a specific policy in order to prevent the reoccurrence of similar issues and appointed the chairman of the audit committee to monitor the policy's implementation by the Company's management. In addition, it was decided that in the future certain agreements will be brought to the Board's approval prior to signing.

The Company has approached and was co-operating fully with the relevant Romanian Authorities regarding the matters that have come to its attention and it has submitted its initial findings in March 2016 to the Romanian Authorities. On September 23, 2019, the Romanian Prosecutor (the "Prosecutor") decided to close the investigation considering that there is no evidence to indicate that any bribery offense was committed in relation to the Project. The Prosecutor decided that no money laundry exists and that the evidence regarding a potential traffic of influence leads to the conclusion that this may be considered a matter for civil litigation and not a criminal offense.

- (e) Provision in respect of PAB:

As mentioned in point (a) above, when the Company entered into an agreement to acquire 75% interest in the Project SPV it assumed a commitment to construct the PAB at its own costs for the benefit of the Romanian Government. Consequently, the statement of financial position includes a provision in the amount of EUR 15.8 million in respect of the construction of the PAB (December 31, 2018: EUR 14.1 million).

During 2019, the Company recorded a loss amounting to EUR 1.7 million as a result from the change in the PAB provision as part of write-down of trading properties (in 2018 loss - EUR 1.2 million).

Management believes that the current level of provision is an appropriate estimation in the current circumstances. Upon reaching concrete agreements with Authorities, the Company will be able to further update the provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)

- (f) On February 11, 2019 the Company signed a non-binding Letter of Intent ("LOI") with AFI Europe N.V. (the "Purchaser", and together with the Company, the "Parties"), for the sale of its entire indirect shareholdings (75%) in the Casa Radio Project, for a maximum consideration of EUR 60 million, subject to the fulfilment of certain conditions precedent.

On July 3, 2019 the Company's wholly owned subsidiary Dambovita Center Holding B.V ("Dambovita NL") as seller, the Company as guarantor and AFI Europe as buyer entered into a pre-sale agreement for the sale of the shareholding in Dambovita Center S.R.L ("Dambovita RO") (the "**Pre-Sale Agreement**"). Pursuant to the terms of the Pre-Sale Agreement, AFI Europe N.V. shall carry out a due diligence review which shall be completed no later than 5 September 2019 following which, subject to the satisfaction of the other conditions precedent in the Pre-Sale Agreement, the parties to the Pre-Sale Agreement will execute a share purchase agreement in the short form being Annex 3 to the Pre-Sale Agreement (the "**SPA**") and an intragroup loan assignment/novation agreement.

The Company, as guarantor under the Pre-Sale Agreement, will undertake to indemnify AFI Europe, jointly and severally, against all losses, charges, costs and expenses (including reasonable attorney's fees) which AFI Europe N.V. shall sustain or incur (i) by reason of a breach of Dambovita NL's warranties under the Pre-Sale Agreement in whole or in part (the aggregate liability of Dambovita NL under claims for breach of Dambovita NL's warranties and any other indemnification event under the Pre-Sale Agreement: (a) occurring between the signing date of the Pre-Sale Agreement and the Closing Date shall be limited to the costs and expenses actually incurred by AFI Europe in connection with the fulfillment of the conditions precedent and only after and subject to (i) satisfactory due diligence and (ii) down payment; (b) arising after the Closing date, shall not exceed EUR 60 million; and (ii) in connection with a specific indemnity granted by Dambovita NL in the Pre-Sale Agreement, whereby Dambovita NL expressly, irrevocably and unconditionally undertakes to fully indemnify AFI Europe N.V. against any losses related to or deriving from the investigation of the Romanian National Anticorruption Directorate that is currently pending against Dambovita RO and/or its current and former officers or any other criminal investigation concerning Dambovita RO and/or its current and/or former officers in relation to events occurring prior to the Closing Date which specific indemnity is unlimited; these guarantee obligations from the Company are not laid down in a separate document but are incorporated in the Pre-Sale Agreement (the "**Company Guarantee**").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)

Conditions precedent in the Pre-Sale Agreement comprise inter alia (i) the satisfactory completion of a due diligence investigation by AFI Europe N.V. by the latest on 5 September 2019; (ii) the Romanian competition council having issued competition approval for the Transaction; (iii) publication of the contemplated sale of the shares in Dambovita RO by Dambovita NL in the Official Gazette of the Romanian Government and the lapse of a 30-day objection period with no opposition being lodged; (iv) no pending or imminent material adverse change (which includes insolvency of Dambovita RO, termination of the PPP Agreement or a significant amendment of the terms and conditions of the PPP Agreement rendering the fulfilment thereof more onerous; (v) issuance of a Government Decision confirming that Dambovita NL may transfer the shares to AFI Europe N.V.(or any of its affiliates) and that the Company and Elbit Imaging Ltd. may transfer their rights and obligations under the PPP Agreement to AFI Europe N.V.(vi); amendment of the PPP Agreement in order to transfer the rights of Elbit Imaging Limited and the Company to AFI Europe N.V.; (vii) obtaining a written confirmation that the 49 years term of the PPP Agreement shall be calculated, the earliest, starting from 2012, however, in case the 49 years concession term is calculated from any other previous date, the parties to the Pre-Sale Agreement will try to find an amicable compromise, discounting the Purchase Price (as defined below) to reflect the shorter concession term; in case of such parties' failure to reach an agreement with respect to the discounted Purchase Price, AFI Europe N.V. has the right to consider this condition precedent as not being fulfilled; and (viii) the receipt of approval of the General Meeting and the Company's bondholders for the Transaction.

The fulfilment of the condition's precedent relating to the approval of the Company's shareholders and bondholders as referred to above must occur no later than 5 September 2019. The long stop date as referred to in the Pre-Sale Agreement (i.e. the date on which all conditions precedent must be fulfilled and closing of the Transaction must occur) is 15 months after the lapse of the due diligence period (5 September 2019).

On July 30, 2019 at the bondholders' meeting of Bonds series A and Bonds Series B it was decided to authorize the company to enter into an agreement and execute the transaction contained therein, despite the Company's failure to comply with the minimum coverage ratio (as defined in the Trust Deed) and notwithstanding the provision of section 4.6 of the Trust Deed.

In addition, an extraordinary general meeting of Shareholders of the Company held on 29 August 2019 approved the transaction as detailed in the Notice of EGM.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)**PRE-SALE AGREEMENT – SPECIFIC PROVISIONS**

Pursuant to the Pre-Sale Agreement, Dambovita NL will transfer its interest in Dambovita RO and will assign the Intragroup Loans to AFI Europe N.V. for the maximum consideration of EUR 60 million, subject to the fulfilment of certain conditions (the "**Purchase Price**").

The Purchase Price is defined in the Pre-Sale Agreement as EUR 60 million minus 75% of Dambovita RO's liabilities computed based on the closing accounts (being the financial statements of Dambovita RO for the period from 1 January of the year in which the closing of the Transaction will occur) and excluding the Intragroup Loan, plus 75% of Dambovita RO's available cash and other current assets as shown in the closing accounts (as referred to above) and minus (insofar applicable) an amount agreed upon by the parties to the Pre-Sale Agreement to be reduced from the Purchase Price if the 49-year PPP-rights period will be calculated from any date prior to the year 2012. The loan assignment amount (as part of the Purchase Price) will be calculated on the Closing Date as the balance between the Purchase Price and the price for the shares sold (being the nominal value of these shares RON 44,050,380, which is the equivalent of USD 14,778,862).

Upon satisfactory completion of the due diligence to be carried out by AFI Europe, there will be a down payment of EUR 200,000, which shall be repaid upon the occurrence of (i) cancellation of the PPP Agreement; (ii) initiation of Dambovita RO's dissolution due to negative equity requirements; (iii) the existence of elements of criminal investigation against Dambovita RO, beyond the information as disclosed to AFI Europe or, if such investigation would be held against Dambovita RO's directors or employees, in case this would trigger a significant impact on the Dambovita Project or (iv) Dambovita NL refuses to proceed to closing or is not present at the closing date, although all the conditions precedent were fulfilled or waived.

Subject to fulfilment of the condition's precedent in the Pre-Sale Agreement as detailed above which includes, among others, the execution of the SPA, AFI Europe is bound to make a payment of EUR 20 million to Dambovita NL. A further EUR 22 million is to be paid later upon the issuance by the competent authorities of a building permit for the first stage of the Dambovita Project (the development of the shopping mall or the office building, excluding the public authority building as referred to above). The balance between the Purchase Price and the payments already made, will be paid out to Dambovita NL upon all permits required for the operation of any of the components (office building or shopping mall) of the first stage of the Dambovita Project including a fire permit and the operation permit having been obtained.

On September 5, 2019 in accordance with the pre-sale agreement, AFI has paid the down payment of EUR 200,000.

As described above, the Parties have 15 months from September 5, 2019 to execute the SPA, subject to the satisfaction of conditions precedent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)

As of the date hereof, there can be no certainty that either the condition's precedent in the Pre-Sale Agreement as detailed above will be met, or that the Sale Agreement will be executed and/or that the Transaction will be consummated as presented above or at all.

There can be no certainty that the SPA will eventually be executed and/or that the Transaction will be consummated as presented above or at all.

(4) Write-down of trading properties:

Trading properties are measured at the lower of cost and net realizable value. Determining net realizable value is inherently subjective as it requires estimates of future events and takes into account special assumptions in the valuations, many of which are difficult to predict.

Actual results could be significantly different than the Company's estimates and could have a material effect on the Company's financial results. Trading Properties accumulated write-downs from cost as of December 31, 2019, amounted to EUR 132.4 million or 76.6% percent of outstanding trading properties original.

These valuations become increasingly difficult as they relate to estimates and assumptions for projects in the preliminary stage of development.

Management is responsible for determining the net realizable value of the Group's trading properties. In determining net realizable value of the vast majority of trading properties, management utilizes the services of an independent third party recognized as a specialist in valuation of properties (as at December 31, 2019, 98.6% of the value of trading properties was based on valuations done by the independent third-party valuation service (2018 – 91.8%).

On the Casa Radio project, following several years of efforts to promote the development of the project either by bringing a partner or through the sale of the Company's holdings, a number of serious proposals were received during the course of 2018 from serious and experienced real estate investors which were examined by management and the board. The management and the board of directors came to the conclusion that the proposed price and terms of pre-sale agreement are optimal and reasonable considering the Company's current status and decided to sign a pre-sale agreement with AFI Europe.

Following signing of pre-sale agreement as described in Note 5(3)(f), the Company measured the net realizable value of the project based on the signed pre-sale agreement. For this purpose, a valuation was performed through an external appraiser whose opinion does not reflect the risk related to uncertainty in respect of fulfilment of the closing conditions, as described in Note 5(3)(f) and derived to a value of EUR 37 million (2018 - 37.7 million). As a result, the Company's management assumed additional discount of 35% (2018 - 33.3%) in order to reflect this uncertainty which resulted in value of the proposed deal of EUR 24 million (2018 - EUR 25 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)

In addition, the Company, with the assistance of an independent appraisal, carried out a valuation using the Residual value approach which set a value of EUR 47.3 million (2018 - EUR 43 million).

Accordingly, since the value based on the Residual value approach is higher than estimated present value of the proposed deal, as of December 31, 2019, the Company recorded Casa Radio project at its net realizable value in the amount of EUR 24 million (2018 - EUR 25 million).

Trading property is presented at gross basis in the amount of EUR 39.8 million (2018 - EUR 39.1 million) and provision for PAB liability in the amount of EUR 15.8 million (2018 - EUR 14.1 million).

The following parameters have been considered to arrive at the net realizable value of the property (based on the signed pre-sale agreement):

| Risk category | Rate | Comments |
|----------------------|---------------|--|
| | | 7.085% Prime Yield - the prime real estate yield as a basis for the computation of the discount rate since this risk reflects investors' sentiment regarding the country risk as well as liquidity/industry risk; and |
| | | 0.375% Submarket risk - based on relevant transactions recently closed but as well as considering current market sentiment, the respective prime yield was adjusted, for each asset class planned to be developed on the site |
| Asset risk | 7.46% | The overall estimated transaction yield is resulting from the weighted average, for each asset class, between the expected GLA and its respective transaction yield. |
| Approval risk | 0.00% | Their assessment, assumed that all authorizations will be obtained therefore no risk was considered in this respect. |
| Project risk | 1.75% | Considering the legal specificities of the transaction (PPP legal framework), the potential delays in obtaining all authorizations/approvals as well as the potential adjustments resulting from the CPs fulfilment, we assumed an overall project risk of 1.75% |
| Counterparty risk | 4.50% | Considering the macroeconomic encouraging perspective, the continuity of ECB's quantitative easing, the recent spread reduction on bonds markets, the interest rate expected stability, the slight improvement of local financing conditions as well as AFI's financial standing and shareholding structure, we estimated a 4.5% counterparty risk for this transaction. |
| Discount rate | 13.71% | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)

The following table provides sensitivity analysis on net realizable value of the property, based on additional discount implemented by the management:

| | | Discount rate | | | | | | | |
|--------------------|--------|---------------|--------|--------|--------|--------|--------|--------|--------|
| | | 12.71% | 13.21% | 13.71% | 14.21% | 14.71% | 15.21% | 15.71% | 16.21% |
| Potential discount | 0.00% | 38.2 | 37.6 | 37.0 | 36.5 | 36.0 | 35.5 | 35.0 | 34.5 |
| | 10.00% | 34.4 | 33.8 | 33.3 | 32.9 | 32.4 | 32.0 | 31.5 | 31.1 |
| | 20.00% | 30.6 | 30.1 | 29.6 | 29.2 | 28.8 | 28.4 | 28.0 | 27.6 |
| | 35.00% | 24.8 | 24.4 | 24.1 | 23.7 | 23.4 | 23.1 | 22.8 | 22.4 |
| | 40.00% | 22.9 | 22.6 | 22.2 | 21.9 | 21.6 | 21.3 | 21.0 | 20.7 |
| | 50.00% | 19.1 | 18.8 | 18.5 | 18.3 | 18.0 | 17.8 | 17.5 | 17.3 |

Relating the trading property in India owned by joint controlled entity refer to Note 6.

All trading properties carrying amounts equal their net realizable values.

The Company reviews annually (and in certain cases during the year), the valuation methodologies utilized by the independent third-party valuator service for each property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)

(5) Below is a summary table for main projects status:

| Project | Location | Purchase year | Holding Rate (%) | Nature of rights | Permit status | Plot Size (sqm) | Carrying amount December 31, 2019 (MEUR) | Carrying amount December 31, 2018 (MEUR) |
|----------------------|----------|---------------|------------------|--------------------------------|---|-----------------|--|--|
| Lodz plaza | Poland | 2009 | 100 | Perpetual usufruct | Planning permit pending | 61,500 | sold | 1.96 |
| Casa radio | Romania | 2007 | 75 | Remained Lease period 37 years | Detailed Urban Plan ("PUD") valid | 467,000 GBA (*) | (**) 39.8 | (**) 39.1 |
| Miercurea Ciuc Plaza | Romania | 2007 | 100 | Ownership | No valid permit (Building Permit expired) | 36,500 | sold | 1.0 |
| Brasov Plot | Romania | | | | | | 0.55 | 0.55 |
| Total | | | | | | | 40.4 | 42.6 |

(*) Gross Building area (sqm)

(**) Represents gross value including commitment for PAB construction, which is presented as non-current provision in amount of EUR 15.8 million as of December 31, 2019 (EUR 14.1 million as of December 31, 2018).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR
NOTE 6:- EQUITY ACCOUNTED INVESTEEES

- a. The Group has the following interest (directly and indirectly) in the below joint ventures.

| Company name | Country | Activity | Interest of holding (percentage) as at December 31, | |
|---|----------------|--------------------------------|--|-------------|
| | | | 2019 | 2018 |
| Elbit Plaza India Real Estate Holdings Ltd. ("EPI") (*) | Cyprus | Mixed-use large-scale projects | 47.5% | 47.5% |

None of the joint ventures are publicly listed.

- (*) Though EPI is 47.5% held by the Company, the Company is accounted for 50% of the results, as the third party holding 5% in EPI is deemed not to participate in accumulated losses, hence Elbit and the Company, the holders of the remaining 95% each account for 50% of the results of EPI.

The movement in equity accounted investees (in aggregation) was as follows:

| | 2019 | 2018 |
|--|---------------|---------------|
| Balance as at 1 January | 17,676 | 19,530 |
| Distribution received from equity-accounted investees, net (3) | (782) | (2,499) |
| Share in results of equity-accounted investees, net of tax (1) | (2,396) | 1,443 |
| Effect of movements in exchange rates | (79) | (798) |
| Balance as at 31 December (2) | <u>14,419</u> | <u>17,676</u> |

- (1) Breakdown of the Group's share of increase (write-downs) of trading properties projects held by equity accounted investees is as follows:

| Project name (holding company name) | Year ended December 31 | |
|--|-------------------------------|--------------|
| | 2019 | 2018 |
| Bangalore (held by EPI) (*) | (1,809) | 1,623 |
| Chennai (held by EPI) (*) | (472) | - |
| | <u>(2,236)</u> | <u>1,623</u> |

- (*) Refer to the below paragraphs b(1) and b(2) regarding the properties' write downs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 6:- EQUITY ACCOUNTED INVESTEES (Cont.)

- (2) Repayment of loan granted to the Company by EPI from proceeds received from the Partner in Bangalore property. See b (1) below.

b. Material joint ventures:

The summarized financial information of the material joint venture EPI (due to holding of major schemes in Bangalore and Chennai) is as follows:

| | <u>2019</u> | <u>2018</u> |
|--|---------------|---------------|
| Current assets (*) | 2,994 | 1,956 |
| Trading properties-non current | 39,354 | 46,390 |
| Other current liabilities | (13,510) | (12,994) |
| Net assets (100%) | 28,838 | 35,352 |
| Group share of net asset (50%) (**) | <u>14,419</u> | <u>17,676</u> |
| Carrying amount of interest in joint venture | <u>14,419</u> | <u>17,676</u> |

(*) Including cash and cash equivalents in the amount of EUR 2,816 thousand (2018 – EUR 1,812 thousand);

(**) Refer to remark on EPI holding rate in section a above.

| | <u>2019</u> | <u>2018</u> |
|---|----------------|--------------|
| Increase (write-downs) of trading properties | (4,472) | 3,246 |
| Other income (expenses) | (320) | (360) |
| Total net profit (loss) and comprehensive income (100%) | (4,792) | 2,886 |
| Group share of Profit (loss) and comprehensive income (50%) | <u>(2,396)</u> | <u>1,443</u> |
| Total results from investees | <u>(2,396)</u> | <u>1,443</u> |

(1) Bangalore:

In March, 2008 EPI entered into a share subscription and framework agreement (the "Agreement"), with a third-party local developer (the "Partner"), and a wholly owned Indian subsidiary of EPI which was designated for this purpose ("SPV"), to acquire together with the Partner, through the SPV, up to 440 acres of land in Bangalore, India (the "Project") in certain phases as set forth in the Agreement. As of December 31, 2019, the Partner has surrendered sale deeds to the SPV for approximately 54 acres (the "Plot"). In addition, under the Agreement the Partner has also been granted with 10% undivided interest in the Plot and have also signed a Joint Development Agreement with the SPV in respect of the Plot.

On December 2, 2015 EPI has signed an agreement to sell 100% of its interest in the SPV to the Partner (the "Sale Agreement"). The total consideration upon completion of the transaction was INR 321 crores (approximately EUR 40.2 million) which should have been paid no later than September 30, 2016 ("Long Stop Date"). On November 15, 2016, the Partner informed EPI that it will not be able to execute the advance payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 6:- EQUITY ACCOUNTED INVESTEEES (Cont.)

As a result of the foregoing, the Company has received from the escrow agent the sale deeds in respect of additional 8.7 acres (the "Additional Property") which has been mortgaged by the Partner in favor of the SPV in order to secure the completion of the transaction on the Long Stop Date. The Additional Property has not yet been registered in favor of the SPV for cost-benefit reasons. In addition, as per the Sale Agreement, the Company took actions in order to get full separation from the Partner with respect to the Plot and specifically the execution of the sale deed with respect of the 10% undivided interest, all as agreed in the Sale Agreement.

As a result of the failure of the Partner to complete the transaction under the Sale Agreement and in accordance with the provisions thereto, EPI has 100% control over the SPV and the partner is no longer entitled to receive the 50% shareholding.

In light of the above, and after lengthy negotiations between the parties, new understandings were formulated and the parties signed a revised agreement that substantially altered the outline of the original transaction (and this agreement was amended several more times, the last of which in April 2019), and concluded that: (i) the closing date for the transaction will be extended to November 2019, and may be further extended to August 2020 (the "Closing Date"). It should be clarified that the postponement of the closing date to November 2019 and August 2020 was subject to receipt of payments as agreed in the Sale Agreement and subject to mutually agreed payment terms; and (ii) the consideration was increased to INR 356 crores (approximately EUR 44.6 million) (Plaza part approximately EUR 22.3 million) (the "Consideration").

On January 10, 2020, the Company announced that a notice has been issued to the Partner to file its response in the insolvency proceedings initiated for the recovery of the amounts due. As regards the criminal cases filed for dishonor of the cheques which were given as security for payment of certain installments, the court has issued arrest warrants and the local police is on the look out for the accused persons.

Until the approval of the financial statements, the Partner paid to EPI approximately EUR 11.2 million (INR 87.00 crores) (Plaza part INR 43.5 crores (approximately EUR 5.6 million) out of a total consideration of INR 356 crores (EUR 44.6 million) (Plaza part INR 178 crores (approximately EUR 22.3 million) the SPV should have been received as of the said date as per the Agreement.

As of the date the Partner has paid during 2019 INR 17 crores (Plaza part INR 8.5 crores (app. EUR 1.1 million)), during 2018 INR 30 crores (Plaza part INR 15 crores (app. EUR 2 million)), during 2017 INR 40 crores (Plaza part INR 20 crores (app. EUR 2.5 million)). Further, the Partner has mortgaged approximately 8.7 acres of plots as security for completion of the transaction as noted above.

Environmental update on Bangalore project - India:

On May 4, 2016, the National Green Tribunal ("NGT"), an Indian governmental tribunal established for dealing with cases relating to the environment, passed general directions with respect to areas that should be treated as "no construction

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR**NOTE 6:- EQUITY ACCOUNTED INVESTEEES (Cont.)**

zones" due to its proximity to water reservoirs and water drains ("Order"). The restrictions in respect of the "no construction zone" are applicable to all construction projects.

The government of Karnataka had been directed to incorporate the above conditions in respect of all construction projects in the city of Bangalore including the Company's project which is adjacent to the Varthur Lake and have several storm-water crossing it.

An appeal was filed before the Supreme Court of India against the Order. On March 2019, the Supreme Court has set aside the Order thereby restoring the position as it existed before the Order was passed by NGT.

Net realizable value measurement of Bangalore project:

As for December 31, 2019 and 2018 the Group measured the net realizable value of the project. The net realizable value of the project based on the comparable Method is INR 206 crores (EUR 25.8 million); 2018 - INR 235 crores (EUR 29.5) Due to decrease in value of the plot EPI recognized a write down in the amount of app. Euro 3.6 Million (the company part (50%) app. EUR 1.8 Million).

| The evaluation method | Value in INR million | Value in EUR million |
|------------------------------|-----------------------------|-----------------------------|
| Comparable Method | 2,061 | 25,80 |
| DCF Method | 1,979 | 24,73 |

In light of the Company's intention to sell the Plot to the Partner or to any other third party (see above), and in light of the uncertainty as to the completion of the transaction with the Partner, the Company believes that the comparable method reliably reflects the net realizable value of the Plot and therefore the Property is included in the financial statements at the value of EUR 12.9 million (the Company's part 50%) .

The plot in Bangalore is still in land stage and therefore the value of the plot has been derived using land comparable method. The valuation of the property reflects the interest that the partner still holds in the plot (10% as described above), the size of the plot and the non-contiguous land parcel and the petition/application filed with NCLT against the partner.

The local authorities have proposed a revised master plan for Bangalore under which it is proposed to change the zoning of the Plot from residential to open Space/ parks/ recreation zone which if given effect might adversely affect the development prospects on the Plot. It should be clarified that as long as the proposed change has not been definitively approved, the land zoning remains intact (residential zoning). However, there is no certainty as to the response of the local authorities if and as a construction plan is submitted to them during this period (before a final decision is made as to whether or not to approve the change). The Company being aggrieved by the proposed change was entitled to and has filed (as well as other third parties) the necessary objections with the concerned authorities (the period for submitting

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 6:- EQUITY ACCOUNTED INVESTEEES (Cont.)

objections to the revised master plan has expired) and believes that the current zoning regulations will be maintained. Management believes that the current discount rate used towards this end is an appropriate estimation in the current circumstances.

The following main parameters have been considered to arrive at the land value of the subject property by land sale comparison method:

| Parameter | Premium (Discount) |
|---|---------------------------|
| Applicable land value (INR Mn/acre) | 99 |
| Applicable FSI value (INR/Sq. ft) | 1,229 |
| Total land value | 5389 |
| Discount on account of Revised Master Plan 2015 Buffer zone norms (%) | -25% |
| Presence of minority shareholder | -20% |
| Discount on account of possible change in zoning (open space/parks) | -25% |
| Discount on account of the petition/application filed with NCLT | -15% |
| Total land value (INR Mn) | 2,061 |

(2) Chennai:

In December 2007, EPI executed agreements for the establishment of a special purpose vehicle ("Chennai Project SPV") together with a local developer in Chennai ("Local Partner"). The Chennai Project SPV acquired 74.73 acres of land situated in the Sipcot Hi-Tech Park in Siruseri District in Chennai ("Property").

On September 16, 2015, EPI has obtained a backstop commitment from the Local Partner for the purchase of its 80% shareholding in the Chennai SPV by January 15, 2016, for a net consideration of approximately INR 161.7 Crores (EUR 21.1 million). Since the Local Partner had breached its commitment, EPI exercised its rights and acquired the Local Partner's 20% holdings in the Chennai Project SPV. Accordingly, as of the balance sheet date EPI has 100% of the equity and voting rights in the Chennai Project SPV. However, there are two lawsuits (being filed in India) by plaintiffs claiming to be legal heirs of the landowners of the Property, who wish to recognize them as owners of 2.5% the Property.

During 2016, Chennai Project SPV has signed a Joint Development Agreement with a local developer ("Developer" and "JDA", respectively) with respect to the Property. Under the terms of the JDA, the Chennai Project SPV granted the property development rights to the Developer" who shall bear full responsibility for all of the project costs and liabilities, as well as for the marketing of the scheme. The JDA also stipulates specific project milestones, timelines and minimum sale prices.

The JDA may be terminated in the event that the required governmental approvals for establishment of access road to the Property has not been achieved within 12 (twelve) months period from the execution date of the JDA. The required approvals have not yet been obtained at the target date. Upon such termination, the Developer shall be entitled to the refund of the relevant amounts paid as Refundable Deposit

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 6:- EQUITY ACCOUNTED INVESTEEES (Cont.)

and any other cost related to such access road or the title over the Property.

On July 5, 2018 EPI signed a term sheet ("Term Sheet") with the Developer, which were adjusted during October 2018, for the sale of the Property for a total consideration of approximately EUR 13.2 million (INR 108 crores). The closing of the transaction was expected in February 2019. As the transaction was not completed the Term Sheet was terminated by EPI.

In February 2019 the Chennai Project SPV issued notice to Developer terminating the JDA due to its failure to obtain the access road. The said termination of JDA has been disputed by the Developer. Therefore, the Chennai Project SPV has initiated arbitration proceeding against the Developer in accordance with the Arbitration Rules of the Singapore International Arbitration Centre, in accordance with the JDA Agreement to protect its rights.

On June 13, 2019 the Company announced that EPI and the Developer have signed a share purchase agreement ("SPA") according to which: (i) the Developer has paid a deposit of INR 5 crores (approximately EUR 0.625 million) in order to provide the Developer with an additional six months to complete the closing, which may be extended by another three month upon payment by the Developer of an additional deposit of INR of 5 crores (approximately EUR 0.625 million). (ii) if the Developer is unable to complete the closing within the aforesaid time periods, then the parties will mutually appoint an international real estate consulting firm for the purpose of identifying a third-party buyer within a period of six months; (iii) if the Developer is unable to complete the closing and no third-party buyer is found within the aforesaid time periods, both the JDA and SPA shall be terminated, subject to the Developer receiving the Deposits. However, the Purchaser will not be entitled to reimbursement of expenses incurred by it under the JDA; (iv) any final price received from a third-party buyer above approximately EUR 13.2 million (INR 108 crores) (the "Consideration") will be shared 67% by the Developer and 33% by EPI. The Consideration is subject to adjustment with respect to the Deposits and the existing cash in the Chennai Project SPV; (v) the Consideration will be remitted in Euro at the base rate already agreed upon by the parties. Foreign exchange loss arising due to change in conversion rate from INR to Euro will be borne by the Developer and gain will be credited to the account of EPI; (vi) the parties withdraw the arbitration proceedings and other notices of the Company and of Elbit Imaging Ltd. as guarantor under the SPA, undertake EPI will transfer to the partner 100% of the rights in SPV. The liability in connection with the guarantee as stated here in on standalone bases (and not together) and limited to an amount not exceeding 200% of the updated consideration and for a period not exceeding 5 years from the date of the agreement being concluded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 6:- EQUITY ACCOUNTED INVESTEEES (Cont.)

On December 5, 2019 the Company announced that EPI and the Developer have reached a revised understanding regarding the amendment of the agreement according to which: (i) The Developer further paid the Chennai Project SPV INR 5 crores (approximately EUR 0.625 million) and received a three months extension to complete the closing (i.e., until March 3, 2020). This closing may be extended for an additional three months period (i.e., until June 3, 2020), for an additional payment of INR 5 crores, to be paid by the Developer. As of December 5, 2019, the Developer has paid the SPV a total of INR 20 crores (approximately EUR 2.5 million) out of the Consideration; (ii) According to the SPA, if the Developer is unable to complete the closing within the aforesaid time periods, then the parties will mutually appoint an international property consultant for the purpose of identifying a third-party buyer within a period of six months; (iii) Out of the payments received from the Developer (as detailed above) EPI is entitled to receive a total of INR 17 crores (Plaza part INR 8.5 crores (approximately EUR 1.05 million)).

On February 18, 2020 the Company announced that EPI has received the 17 crores (approximately EUR 2.1 million (the Company's part EUR 1.05 million)) from the Chennai Project SPV.

On March 8, 2020 the Company announced that EPI and the Developer have reached a revised understanding regarding the amendment of the agreement according to which: (i) The Purchaser paid further INR 5 crores (approximately EUR 0.625 million) and get additional three months to complete the closing until June 3, 2020, which may be extended by another three months upon payment by the Purchaser of an additional deposit of INR of 7.5 crores (approximately EUR 0.92 million). (ii) if the Developer is unable to complete the closing within the aforesaid time periods, then the parties will mutually appoint an international real estate consulting firm for the purpose of identifying a third-party buyer within a period of six months. At this stage, there is no certainty that the SPA closing will occur.

Net realizable value measurement of Chennai project

Following signing of SPA (as described above) and in spite of the uncertainty on the ability of the developer to complete the closing within the aforesaid time periods (as detailed above), the management and the board of EPI decided in order to measure the value of the property, to compare between the Consideration (INR 1,082 million) which were agreed between the parties in the SPA to the value in the valuation prepared by an external appraisal based on the assets comparable method . Accordingly, since the appraiser valued the property in the valuation based on the comparable method in the value of INR 1,245 million (app. EUR 15.6 million) which is higher than the consideration, the company recorded the value of the plot as of December 31, 2019, in the value of INR 1,082 million (app. EUR 13.5 million) out of which the company part in financial reports were EUR 6.77 million. Due to decrease in value of the plot EPI recognized a write down in the amount of app. EUR 0.86 million (the company part (50%) app. EUR 0.43 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 7:- OTHER LIABILITIES

| | December 31, | |
|------------------------------------|--------------|------------|
| | 2019 | 2018 |
| Prepayments (*) | 250 | 202 |
| Salaries and related expenses (**) | 53 | 8 |
| Accrued expenses | 177 | 290 |
| Total | <u>480</u> | <u>500</u> |

(*) Including EUR 200 thousand payable due to down payment in regard to pre-sale agreement for the sale of Casa Radio Project and EUR 50 thousand prepayments in regard to plot sale in Brasov, Romania (In 2018 - EUR 107 thousand payable due to refundable deposit received regarding the sale of plot in Lodz, Poland and EUR 95 thousand prepayments in regard to plot sale in Miercurea Ciuc Plaza, Romania).

(**) Refer to Note 18.

NOTE 8:- BONDS

a. Composition:

| | Effective interest rate (*) | Contractual interest rate | Principal final maturity | Adjusted par value | Carrying amounts as at December 31 2019 |
|----------------|-----------------------------------|------------------------------|--------------------------------|-----------------------|---|
| Series A Bonds | 11.58% | CPI+6% | 2020 | 36,742 | 35,824 |
| Series B Bonds | 13.83% | CPI+6.9% | 2020 | 52,275 | 50,682 |
| | | | | <u>89,017</u> | <u>86,506</u> |

b. Mandatory repayments subsequent to the reporting date (without early repayments):

| | |
|------|---------------|
| 2020 | <u>89,017</u> |
| | <u>89,017</u> |

(*) Revised effective interest rate – refer to Note 2(j) regarding the effect of the initial adoption of IFRS 9 on effective interest rate.

(1) Pursuant to the Company's Restructuring Plan, the Company will assign 78% of the net proceeds received from the sale or refinancing of any of its assets as early repayment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8:- BONDS (Cont.)

- (2) Approved amendment to an early prepayment term under the Restructuring

The Company has implemented the restructuring plan that was approved by the Dutch court on July 9, 2014 (the "Restructuring Plan").

Under the Restructuring Plan, principal payments under the bonds issued by the Company and originally due in the years 2013 to 2015 were deferred for a period of four and a half years, and principal payments originally due in 2016 and 2017 were deferred for a period of one year.

The Restructuring Plan further provided that, if the Company does not prepay an aggregate amount of at least NIS 434 million (EUR 107.3 million) on the principal of the bonds on or before December 1, 2016 (the "Early Prepayment"), the principal payments due under the Extended Repayment Schedule will be advanced by one year (the "Accelerated Repayment Schedule").

On November 29, 2016, the Company's bondholders approved a postponement of the Early Prepayment date by up to four months and the reduction of the total amount of the required Early Prepayments to at least NIS 382 million (EUR 94.5 million) (a reduction of 12% on the original amount).

In addition, the Company agreed to pay to its bondholders, on March 31, 2018, a one-time consent fee in the amount of approximately EUR 238 thousand (which is equal to 0.25% from the Company's outstanding debt under the bonds at that time) (the "Consent Fee"). The consent Fee shall be paid to the Company's bondholders on a pro rata basis.

During first three months 2017, the Company paid to its bondholders a total amount of NIS 191.7 million (EUR 49.2 million) as an early redemption. Upon such payments, the Company complied with the Early Prepayment Term (early redemption at the total sum of at least NIS 382,000,000) and thus obtained a deferral of one year for the remaining contractual obligations of the bonds.

In addition to the above, the following terms were approved by the bondholders:

- (a) Casa radio proceeds - If the Company shall sell the Casa radio project located in Romania (hereinafter: the "Project") to a third party, including by way of selling its holdings in any of the entities through which the Company holds the project (and said sale shall be carried out before the full repayment of the bonds and until no later than December 31, 2019, and for an amount which exceeds EUR 45 million net (i.e. after brokerage fees (if any), taxes, fees, levies or any other obligatory payment due to any authority in respect to the said sale) which shall actually be received by the Company, then the holders of bonds shall be eligible for a one-time payment (which shall come in addition to the principal and interest payments in accordance with the repayment schedule), in certain amounts specified in tranches.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8:- BONDS (Cont.)

- (b) Registering of Polish bonds for trade - the Company has committed to undertake best efforts to admit the Polish bonds for trading on the Warsaw Stock Exchanges and proceeding in this respect are ongoing.
- (c) Deferred debt ratio of Series B bonds - were reduced to 68.24% from 70.44% following the cancellation of the treasury bonds. The ratio has been changed for Series B bonds in order to maintain a distribution ratio between the three series.

(c) Settlement agreement with Bondholders of Israeli Series of Bonds:

On September 26, 2017 the Company announced that, further to the resolutions of the Israeli series A bondholders and the series B bondholders in connection with future bondholder repayments (i.e., repayments to series A bondholders, to series B bondholders and to the Polish bondholders), the Company intends to repay a total amount of circa EUR 18,800,000, during October 2017, an amount which represents 75% of the funds Plaza has received in the last quarter from sale of real estate assets, as determined in the restructuring plan ("Mandatory Repayment Amount") to be allocated as follows:

- To the Polish bondholders: 8.33% of the Mandatory Repayment Amount – as per the ratio determined in the restructuring plan.
- To the Israeli series A bondholders: 21.23% of the Mandatory Repayment Amount - as per the ratio determined in the restructuring plan.
- To the Israeli series B bondholders: 31.16% of the Mandatory Repayment Amount - the proportional amount that corresponds to the ratio between the outstanding debts of the two Israeli series of bonds.

The Company intended to deposit the remainder of the funds with a third-party trustee for the benefit of both Israeli series of bonds and subsequently approached the competent court in Israel for the receipt of instructions with regard to the allocation of such remainder amount.

On October 4, 2017 the Company has received the consent of the trustees of its Israeli series A bonds and series B bonds for the allocation of certain funds received by the Company between the Company's series A bonds and series B bonds due for repayment of such bonds as detailed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8:- BONDS (Cont.)

During December 2017, the Israeli court has instructed that the mandatory repayment amounts due to the Israeli series A and series B bondholders should be allocated according to the ratios set out in the Company's restructuring plan. The court has also acknowledged that Plaza is not an interested party in this bondholder dispute and has granted the Company a protective order from any claims in this respect. The Israeli Series A bondholders triggered the immediate repayment of the entire outstanding debt under the Series A trust deed.

2018

In January 2018, a settlement agreement was signed by and among the Company and the two Israeli Series of Bonds ("Settlement Agreement"). In the Settlement Agreement it was agreed, inter alia, to approve:

- New repayment ratios between the two Israeli Series of Bonds (new ratio: Bond A- 39% Bond B- 61%);
- An increase in the level of the mandatory early repayments from 75% to 78% of the relevant net income;
- New repayment schedule;
- An increase in the compensation to be paid to the Bondholders in the event of successful disposal of Casa Radio Project;
- A waiver of claims to the Company and its directors and officers; and
- To waive the request for publication of quarterly financial reports by the Company.

As a result of settlement agreement signing, Series A Bondholders withdraw their request for immediate repayment.

It is clarified that the Settlement Agreement is a separate agreement among the parties thereto with respect to the Company's restructuring plan, and as such has no effect on the Polish Bondholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8:- BONDS (Cont.)

On January 31, 2018 the Company paid the bondholders a total amount of principal and interest of EUR 38,487 thousand.

- (1) The net cash flow received by the Company following an exit or raising new financial indebtedness (except if taken for the purpose of purchase, investment or development of real estate asset) or refinancing of real estate assets after the full repayment of the asset's related debt that was realized or in respect of a loan paid in case of debt recycling (and in case where the exit occurred in the subsidiary - amounts required to repay liabilities to the creditors of that subsidiary) and direct expenses in respect of the asset (any sale and tax costs, as incurred), will be used for repayment of the accumulated interest till that date in all of the series (in case of an exit which is not one of the four shopping centers only 50% of the interest) and 78% of the remaining cash (following the interest payment) will be used for an early repayment of the close principal payments for each of the series (A, B, Polish) each in accordance with its relative share in the deferred debt. Such prepayment will be real repayment and not in bond purchase.
- (2) On November 22, 2018 the Company announced based on its current forecasts, the Company expected to pay the accrued interest on Series A and Series B Bonds on December 31, 2018, in accordance with the repayment schedule determined in the Company's Restructuring Plan and Settlement Agreement with Series A and Series B Bondholders from 11 January 2018 (the "Settlement Agreement"). The Company noted that it will not meet its principal repayment due on December 31, 2018 as provided for in the Settlement Agreement. The Company may be able to partially pay the said principal depending, among other things, on the actual sale of assets and taking into consideration the cash needs in accordance with the scope of the forecasted activity.

2019

Following the announcement of the Company from January 2019, the Company repaid in February 2019 circa EUR 400,000 (principal of circa EUR 250,000 and penalty interests of circa EUR 150,000) to its Series A and Series B. As provided for in the Settlement Agreement, the bondholders approved the deferral of payment to July 1, 2019.

In addition, during June 2019 the bondholders approved the deferral of the full payment of principal due on July 1, 2019 and of 58% ("deferred interest amount") of the sum of interest (consisting of the total interest accrued for the outstanding balance of the principal, including interest for part of the principal payment which was deferred as of February 18, 2019, plus interest arrears for part of the principal which was fixed on 18.2.2019 and was not paid by the Company and all in accordance with the provisions of the trust deed; "the full amount of interest"), the effective date of which is 19.6.2019, and the payment date was fixed as of 1.7.2019. The Company paid on the said date a total amount of circa EUR 1.17 million of which is only 42% of the full amount of interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8:- BONDS (Cont.)

On July 11, 2019, the Company announced that its Romanian subsidiary had signed a binding agreement to sell land in Romania (refer to Note 5(2)(c)), and that the Company would use part of the proceeds now received by it EUR 0.75 million (hereinafter: "the amount payable"), in order to make a partial interest payment to the bondholders (Series A) and (Series B) issued by the Company. The payment required changes in the repayment schedule and amendments of the trust deeds which was approved unanimously by the Bondholders. The amount payable was paid on August 14, 2019 and reflects 30% of accrued interest as of that date.

On November 17, 2019 the bondholders of Series A and Series B approved a deferral of all the scheduled Principal payment and app. 87% of deferral of the scheduled Interest payment, both, as of December 31, 2019 to July 1, 2020.

Accordingly, in December 2019, Company made a partial interest payment in amount of circa EUR 0.6 million of which is only 13% of the full amount of interest.

As detailed in Note 1(b) the Company expects that it will not be able to meet its entire contractual obligations in the following 12 months.

Accordingly, it intends to request the bondholders of both series to postponement of the repayment of the remaining balance of the Bonds.

d. Covenants:

The bonds' covenants are detailed in Note 17(b).

In respect of the Coverage Ratio Covenant ("CRC"), as defined in the restructuring plan, as at December 31, 2019 the CRC is not in compliance with 118% minimum ratio required.

e. Credit rating:

In January 2018, Standard & Poor's Maalot, the Israeli credit rating agency which is a division of International Standard & Poor's has discontinued tracking Plaza's rating at the Company's request.

f. Redemption at Maturity of Series of Bonds issued in Poland:

On May 16, 2018 further to the decision of the Israeli Series A and Series B Bondholders, the Company has redeemed in full the series of bonds issued in Poland at their principal amount together with interest accrued to the maturity date. Upon completion of the redemption, the Company has no outstanding bonds issued in Poland.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 9:- INCOME TAXES

- a. Deferred taxes recognized are attributable to the following items:

| Assets/(liabilities) 2019 | December 31, 2018 | Recognized in Profit or loss 2019 | December 31, 2019 |
|--|----------------------|---|----------------------|
| Bonds | (943) | 315 | (628) |
| Tax value of carry-forwards loss recognized (*) | 943 | (315) | 628 |
| Deferred tax asset (liability), net | - | - | - |
| Assets/(liabilities) 2018 | December 31, 2017 | Recognized in Profit or loss 2018 | December 31, 2018 |
| Bonds | (1,561) | 618 | (943) |
| Tax value of carry-forwards loss recognized (*) | 1,561 | (618) | 943 |
| Deferred tax asset (liability), net | - | - | - |

(*) Due to tax losses created at the Company level.

- b. Unrecognized deferred tax assets:

Deferred tax assets have not been recognized in respect of tax losses in a total amount of EUR 112,073 thousand (2018: EUR 111,669 thousand).

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 there from. As of December 31, 2019, the expiry date status of tax losses to be carried forward is as follows:

| Total tax losses carried forward | 2020 | 2021 | 2022 | 2023 | 2023 | After 2024 |
|-------------------------------------|-------|--------|--------|--------|--------|------------|
| 114,584 | 8,894 | 12,890 | 25,231 | 18,490 | 14,652 | 34,427 |

Tax losses are mainly generated from operations in the Netherlands. Tax settlements may be subject to inspections by tax authorities. Accordingly, the amounts shown in the financial statements may change at a later date as a result of the final decision of the tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 9:- INCOME TAXES (Cont.)

c. Amounts recognized in profit or loss:

| | Year ended December 31 | |
|---|-----------------------------------|--------------|
| | 2019 | 2018 |
| Adjustment in respect of previous years taxes (1) | (71) | 1,013 |
| Total | (71) | 1,013 |

(1) 2019 – result from withholding tax paid in Israel.
2018 – result of reverse of tax liability previously recorded in the financial statements (disposal of land plot in Greece).

d. Reconciliation of effective tax rate:

| | 2019 | 2018 |
|--|-------------|----------------|
| Dutch statutory income tax rate | 25% | 25% |
| Loss from continuing operations before income taxes | (21,096) | (39,378) |
| Tax benefit at the Dutch statutory income tax rate | (5,274) | (9,844) |
| Recognition of previously unrecognized tax losses | - | 5 |
| Effect of tax rates in foreign jurisdictions | (1,670) | 3,043 |
| Adjustment in respect of previous years taxes | 71 | (1,015) |
| Current year tax loss and other timing differences for which no deferred taxes are created (1) | 6,329 | 5,622 |
| Non-deductible expenses (exempt income) | 615 | 1,176 |
| Tax Expense (Tax Benefit) | 71 | (1,013) |

(1) 2019 and 2018 - Mainly due to write-down of trading property not recognized for tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR**NOTE 9:- INCOME TAXES (Cont.)**

e. 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 25%. The first EUR 200,000 of profits is taxed at a rate of 20%. Tax losses may be carried back for one year and carried forward for nine years.
- b. The Dutch participation exemption gives a full exemption from corporation tax applies to benefits such as dividends and capital gains derived from a qualifying participation. The participation exemption generally applies if the parent Company holds at least 5 percent of the shares in the participation. The requirements to meet the participation exemption are as follows:
1. The parent Company has an interest of at least 5 percent in the participation; and
 2. At least one of the following three tests is met:
 - a) The parent Company's objective with respect to its participation is to obtain a return that is higher than a return that may be expected from normal active asset management ("Motive Test"); or
 - b) The participation is subject to a "reasonable taxation" according to Dutch tax standards ("Subject-to-Tax Test"); or
 - c) The direct and indirect assets of the participation generally consist of less than 50 percent of 'low taxed free passive investments' ("Asset Test").

NOTE 10:- EQUITY

| | December 31, | |
|--|-------------------------|-------------------|
| | 2019 | 2018 |
| Remarks | Number of shares | |
| Authorized ordinary shares of par value EUR 1 each | <u>10,000,000</u> | <u>10,000,000</u> |
| Issued and fully paid | <u>6,855,603</u> | <u>6,855,603</u> |

Share based payment reserve

Share based payment reserve is in respect of Employee Share Option Plans ("ESOP") in the total amount of EUR 35,376 thousand as of December 31, 2019 (2018 - EUR 35,376 thousand).

Translation reserve

The translation reserve comprises, as of December 31, 2019, all foreign currency differences

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR**NOTE 10:- EQUITY (Cont.)**

arising from the translation of the financial statements of foreign operations in India.

Restriction of dividend

The Company shall not make any dividend distributions, unless (i) at least 75% of the Unpaid Principal Balance of the Bonds (EUR 199 million) has been repaid and the Coverage Ratio on the last Examination Date prior to such Distribution is not less than 150% following such Distribution, or (ii) a Majority of the Plan Creditors consents to the proposed Distribution.

Notwithstanding the aforesaid, in the event an additional capital injection of at least EUR 20 million occurs, then after one year following the date of the additional capital injection, no restrictions other than those under the applicable law shall apply to dividend distributions in an aggregate amount of up to 50% of such additional capital injection.

NOTE 11:- EARNINGS PER SHARE

The calculation of basic earnings per share ("EPS") at December 31, 2019 was based on the loss attributable to ordinary shareholders of EUR 21,167 thousand (2018: loss of EUR 38,365 thousand) and a weighted average number of ordinary shares outstanding of 6,856 thousand (2018: 6,856 thousand).

Weighted average number of ordinary shares:

| In thousands of shares with a EUR 1 par value | December 31, | |
|---|---------------------|--------------|
| | 2019 | 2018 |
| Issued ordinary shares at 1 January | 6,856 | 6,856 |
| Weighted average number of ordinary shares at 31 December | <u>6,856</u> | <u>6,856</u> |

The calculation of diluted earnings per share from continuing operations for comparative figures is calculated as follows:

Weighted average number of ordinary shares (diluted):

| In thousands of shares with a EUR 1 par value | December 31, | |
|---|---------------------|--------------|
| | 2019 | 2018 |
| Weighted average number of ordinary shares (basic) | 6,856 | 6,856 |
| Effect of share options on issue | - | - |
| Weighted average number of ordinary shares (diluted) at 31 December | <u>6,856</u> | <u>6,856</u> |

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 12:- EMPLOYEE SHARE OPTION PLAN

On October 26, 2006 the Company's Board of Directors approved the grant of up to 338,345 non-negotiable options for the Company's ordinary shares to the Company's board members, employees in the company and other persons who provide services to the Company including employees of the Group ("Offerees").

The options were granted to the Offerees for no consideration. Furthermore, 2nd ESOP plan was adopted on November 22, 2011 which is based on the terms of the 1st ESOP as amended in accordance with the terms as referred to above, with a couple of amendments, the most important of which is the total number of options to be granted under the 2nd ESOP is fourteen million (14) and a cap of GBP 200. Exercise of the options is subject to the following mechanism:

| <u>Grant date / employees entitled</u> | <u>Number of options</u> | <u>Contractual life of options (1)</u> |
|--|--------------------------|--|
| <i>ESOP No.1(3)</i> | | |
| Option grant to key management at October 27, 2006 | 132,180 | 15 years |
| Option grant to employees at October 27, 2006 | <u>18,585</u> | 15 years |
| Total granted in 2006 | <u>150,765</u> | 15 years |
| Total granted in 2007 (2) | 10,161 | 15 years |
| Total granted in 2008 (2) | 7,638 | 15 years |
| Total granted in 2009 (2) | 3,916 | 15 years |
| Total granted in 2011(2) | 1,200 | 15 years |
| <i>ESOP No.2(3)</i> | | |
| Total granted in 2011 (2) | 44,790 | 10 years |
| Total granted in 2012 (2) | 8,600 | 10 years |
| Total granted in 2013 (2) | <u>8,450</u> | 10 years |
| Total share options Granted | <u>235,520</u> | |

- (1) Following the 4th amendment of ESOP1, the contractual life for stock options granted changed from 10 years to 15 years
- (2) Share options granted to key management: 2007 - 1,000 share options; 2008 - 2,600 share options; 2009 - 733 share options; 2011- 32,250 share options (ESOP No. 2); 2012 - 4,500 share options; 2013 - 1,500 share options.
- (3) Vesting conditions - three years of service.

On the exercise date the Company shall allot, in respect of each option so exercised, shares equal to the difference between (A) the opening price of the Company's shares on the LSE (or WSE under certain conditions) on the exercise date, provided that if the opening price exceeds GBP 324, the opening price shall be set at GBP 324 (Except 2nd ESOP as stated above); less (B) the Exercise Price of the Options; and such difference (A minus B) will be divided by the opening price of the Company's Shares on the LSE (or WSE under certain conditions) on the exercise date:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 12:- EMPLOYEE SHARE OPTION PLAN (Cont.)

| | Weighted average exercise price (*) | Number of options | Weighted average exercise price | Number of options |
|--|--|----------------------|--|----------------------|
| | 2019 | | 2018 | |
| | GBP | | GBP | |
| Outstanding at the beginning of the year | 43 | 235,520 | 43 | 235,520 |
| Forfeited during the period - back to pool | | - | | - |
| Outstanding at the end of the year | 43 | 235,520 | 43 | 235,520 |
| Exercisable at the end of the year | | 235,520 | | 235,520 |

(*) The options outstanding at 31 December 2019 have an exercise price in the range of GBP 28 to GBP 54 (app. EUR 32.9 – EUR 63.5), and have weighted average remaining contractual life of two years.

The maximum number of shares issuable upon exercise of all outstanding options as of the end of the reporting period is 357,774. The estimated fair value of the services received were measured based on a binomial lattice model.

During 2019 and 2018 there were no employee costs for the share options granted.

NOTE 13:- ADMINISTRATIVE EXPENSES

| | Year ended December 31 | |
|-------------------------------|---------------------------|--------------|
| | 2019 | 2018 |
| Salaries and related expenses | 641 | 1,092 |
| Professional services | 748 | 1,258 |
| Offices and office rent | 95 | 130 |
| Travelling and accommodation | 24 | 54 |
| Depreciation and amortization | 3 | 1 |
| Others | 66 | 187 |
| Total | 1,577 | 2,722 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 14:- OTHER INCOME AND OTHER EXPENSES

| | Year ended December 31 | |
|----------------------|-----------------------------------|-------------|
| | 2019 | 2018 |
| Other income (1) | 78 | 254 |
| Total other income | <u>78</u> | <u>254</u> |
| Other expenses | 67 | 329 |
| Total other expenses | <u>67</u> | <u>329</u> |

(1) 2018 - Including EUR 225 thousand due to a settlement agreement with the buyer of Kragujevac shopping centre regarding refund of claim from the city of Kragujevac.

NOTE 15:- FINANCE INCOME AND FINANCE COSTS

| | Year ended December 31 | |
|--|-----------------------------------|-----------------|
| | 2019 | 2018 |
| Recognized in profit or loss | | |
| Interest from loans to related parties | - | 24 |
| Other finance income | - | 64 |
| Foreign currency gain other | - | 148 |
| Foreign currency gain on bonds | - | 3,411 |
| Finance income | <u>-</u> | <u>3,647</u> |
| Interest expense on bonds | (8,099) | (9,436) |
| Foreign currency losses on bonds | (8,536) | - |
| Foreign currency losses other | - | (1,870) |
| Other finance expenses | (13) | - |
| Finance costs | <u>(16,648)</u> | <u>(11,306)</u> |
| Net finance costs | <u>(16,648)</u> | <u>(7,659)</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 16:- 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.

The Board of Directors has established a continuous process for identifying and managing the risks faced by the Group (on a consolidated basis), and confirms that it is responsible to take appropriate actions to address any weaknesses identified.

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 Company's 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 financial instruments held in banks and from other receivables.

Management had a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Cash and deposits and other financial assets

The Group limits its exposure to credit risk in respect to cash and deposits, by investing mostly in deposits and other financial instruments with counterparties that have a credit rating of at least investment grade from international rating agencies. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

b. Liquidity risk:

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. For detailed information refer to Note 2(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 16:- FINANCIAL INSTRUMENTS (Cont.)
Liquidity risk

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

December 31, 2019

| <u>Non-derivative financial liabilities</u> | <u>Carrying amount</u> | <u>Contractual cash flow</u> | <u>6 months or less</u> | <u>6-12 months (*)</u> | <u>1 -2 years</u> | <u>2-5 years</u> | <u>> 5 years</u> |
|--|-----------------------------------|---|--|---------------------------------------|------------------------------|-----------------------------|--------------------------------|
| Bonds issued (*) | 90,352 | (96,512) | - | (96,512) | - | - | - |
| Trade and other payables | 144 | (144) | (144) | - | - | - | - |
| Related parties | - | - | - | - | - | - | - |
| | <u>90,496</u> | <u>(96,656)</u> | <u>(144)</u> | <u>(96,512)</u> | <u>-</u> | <u>-</u> | <u>-</u> |

December 31, 2018

| <u>Non-derivative financial liabilities</u> | <u>Carrying amount</u> | <u>Contractual cash flow</u> | <u>6 months or less (*)</u> | <u>6-12 months</u> | <u>1 -2 years</u> | <u>2-5 years</u> | <u>> 5 years</u> |
|--|-----------------------------------|---|--|-------------------------------|--------------------------|-----------------------------|----------------------------|
| Bonds issued (*) | 76,698 | (84,505) | (51,067) | (3,515) | (29,923) | - | - |
| Trade and other payables | 60 | (60) | (60) | - | - | - | - |
| Related parties | 3 | (3) | (3) | - | - | - | - |
| | <u>76,761</u> | <u>(84,568)</u> | <u>(51,130)</u> | <u>(3,515)</u> | <u>(29,923)</u> | <u>-</u> | <u>-</u> |

(*) Refer to Note 8.

c. Market risk:

Currency risk:

Currency risk is the risk that the Group will incur significant fluctuations in its profit or loss as a result of utilizing currencies other than the functional currency of the respective Group company.

The Group is exposed to currency risk mainly on borrowings (Bonds issued in Israel) that are denominated in NIS.

The Company ceased the using of currency options effective October 2015 in order to avoid liquidity risk. The Company can carry out hedging transactions occasionally using derivatives subject to limitation set by the Board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 16:- FINANCIAL INSTRUMENTS (Cont.)

The following exchange rate of EUR/NIS applied during the year:

| EUR | Average rate | | Reporting date Spot rate | |
|-------|--------------|-------|-----------------------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| NIS 1 | 0.251 | 0.235 | 0.257 | 0.233 |

NIS denominated bonds – a change of 5 percent in EUR/NIS rates at the reporting date would have increase profit by EUR 4.12 million or increase loss by EUR 4.33 million, as a result of having issued NIS linked Bonds.

This effect assumes that all other variables, in particular CPI index, remain constant.

Interest Rate Risk (including inflation):

The Group's interest rate risk arises mainly from Bonds issued at fixed interest rate expose the Group to changes in fair value, if the interest is changing. As the Israeli inflation risk is diminishing to a level that management believes is acceptable (Israeli CPI 2019 - 0.8%; 2018 - 0.8%) and due to liquidity constraints, the Company has stopped using hedging of CPI in recent years.

Sensitivity analysis - effect of changes in Israeli CPI on carrying amount of NIS bonds

A change of 3 percent in Israeli Consumer Price Index ("CPI") at the reporting date (and in 2018) 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.

| For the year ended December 31, | Carrying amount of bonds | Profit (loss) effect | |
|------------------------------------|-----------------------------|------------------------|------------------------|
| | | CPI increase effect | CPI decrease effect |
| 2018 | 76,698 | (2,300) | 2,300 |
| 2019 | 76,698 | (2,595) | 2,595 |

Profile

As of the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

| | Carrying amount | |
|---|-----------------|----------|
| | 2019 | 2018 |
| Fixed rate instruments | | |
| Bonds | (86,506) | (76,698) |
| Other financial liabilities – Loan from EPI | - | (315) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR**NOTE 16:- FINANCIAL INSTRUMENTS (Cont.)**Shareholders' equity management:

Refer to Note 12 in respect of shareholders equity components in the restructuring plan including dividend policy. The Company's Board of Directors is updated on any possible equity issuance, in order to assure (among other things) that any changes in the shareholders equity (due to issuance of shares, options or any other equity instrument) is to the benefit of both the Company's bondholders and shareholders.

Fair values:

The table below is a comparison between the carrying amount and fair value of the Company's financial instruments that are presented in the financial statements not at fair value:

| | <u>Carrying amount</u> | | <u>Fair value (*)</u> | |
|---|------------------------|-------------|-----------------------|-------------|
| | <u>2019</u> | <u>2018</u> | <u>2019</u> | <u>2018</u> |
| Bonds A at amortized cost - Israeli bonds | 35,824 | 31,767 | 7,184 | 9,388 |
| Bonds B at amortized cost - Israeli bonds | 50,682 | 44,931 | 10,340 | 14,365 |

(*) The fair value is based on Level 1 in fair value hierarchy and measured based on market quote.

Management believes that the carrying amount of cash, trade receivables and trade payables approximate their fair value to the short-term maturities of these instruments.

NOTE 17:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Contingent liabilities and commitments to related parties:

- The Company entered into an indemnity agreement with all of the Company's directors and senior management- the maximum indemnification amount to be granted by the Company to the directors 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. No consideration was paid by the Company in this respect since the agreement was signed.
- The Company maintains Directors' and Officers' liability cover, presently at the maximum amount of USD 60 million for a term of 18 months commencing on May 1, 2019. Pursuant to the terms of this policy, all the Directors and senior manager are insured. The new policy does not exclude past public offerings and covers the risk that may be incurred by the Directors through future public offerings of equity up to the amount of USD 50 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 17:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

- b. Contingent liabilities and commitments to others:
1. As part of the completion of the restructuring plan (refer also to Note 8), the Group has taken the following commitments and collaterals towards the creditors:
 - a) Restrictions on issuance of additional bonds - The Company undertakes not to issue any additional bonds other than as expressly provided for in the Restructuring Plan.
 - b) Restrictions on amendments to the terms of the bonds - The Company shall not be entitled to amend the terms of the bonds, with the exception of purely technical changes, unless such amendment is approved under the terms of the relevant series and the applicable law and the Company also obtains the approval of the holders of all other series of bonds issued by the Company by ordinary majority. Refer to Note 8 for recent amendments.
 - c) Coverage Ratio Covenant ("CRC") - the CRC is a fraction calculated based on known Group valuation reports and consolidated financial information available at each reporting period. The CRC to be complied with by the Group is 118% ("Minimum CRC") in each reporting period. For December 31, 2019 the calculated CRC is not in compliance with Minimum CRC (also refer to Note 8(d) regarding breach of covenant). In the event that the CRC is lower than the Minimum CRC, then as from the first cut-off date on which a breach of the CRC has been established and for as long as the breach is continuing, the Company shall not perform any of the following: (a) a sale, directly or indirectly, of a Real Estate Asset ("REA") owned by the Company or a subsidiary, with the exception that it shall be permitted to transfer REA's in performance of an obligation to do so that was entered into prior to the said cut-off date, (b) investments in new REA's; or (c) an investment that regards an existing project of the Company or of a subsidiary, unless it does not exceed a level of 20% of the construction cost of such project (as approved by the lending bank of these projects) and the certain loan to cost ratio of the projects are met.

If a breach of the Minimum CRC has occurred and continued throughout a period comprising two consecutive quarterly reports following the first quarterly/year-end report on which such breach has been established, then such breach shall constitute an event of default under the trust deeds, and the Bondholders shall be entitled to declare that all or a part of their respective (remaining) claims become immediately due and payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 17:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

- d) Minimum Cash Reserve Covenant ("MCRC") - cash reserve of the Company has to be greater than the amount estimated by the Company's management required to pay all administrative and general expenses and interest payments to the bondholders falling due in the following six months, minus sums of proceeds from transactions that have already been signed (by the Company or a subsidiary) and closed and to the expectation of the Company's management have a high probability of being received during the following six months. MCRC is not maintained as of December 31, 2019.
- e) Negative Pledge on REA of the Company - The Company undertakes that until the bonds have been repaid in full, it shall not create any encumbrance on any of the REA, held, directly or indirectly, by the Company except in the event that the encumbrance is created over the Company's interests in a subsidiary as additional security for financial indebtedness ("FI") incurred by such subsidiary which is secured by encumbrances on assets owned by that subsidiary.
- f) Negative Pledge on the REA of Subsidiaries - The subsidiaries shall undertake that until the bonds have been repaid in full, none of them will create any encumbrance on any of REA except in the event that:
- (i) the subsidiary creates an encumbrance over a REA owned by such subsidiary exclusively as security for new FI incurred for the purpose of purchasing, investing in or developing such REA; Notwithstanding the aforesaid, subsidiaries shall be entitled to create an encumbrance on land as security for FI incurred for the purpose of investing in and developing, but not for purchasing, an REA held by a different Group company (hereinafter: a "Cross Pledge"), provided the total value of the lands owned by the Group charged with Cross Pledges after the commencement date of the plan does not exceed EUR 35 million, calculated on the basis of book value (the "Sum of Cross Pledges"). When calculating the Sum of Cross Pledges, lands that were charged with Cross Pledges created prior to the commencement date of the plan or created solely for the purpose of refinancing an existing FI shall be excluded. The Group did not have cross-pledge as of December 31, 2019.
 - (ii) The encumbrance is created over an asset as security for new FI that replaces existing FI and such asset was already encumbered prior to the refinancing. Any excess net cash flow generated from such refinancing, shall be subject to the mandatory early prepayment of 75%.
 - (iii) The encumbrance is created over interests in a Subsidiary as additional security for FI incurred by such subsidiary which is secured by encumbrances on assets owned by that subsidiary as permitted by sub-section (i) above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 17:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

The encumbrance is created as security for new FI that is incurred for purposes other than the purchase of and/or investment in and development of a REA, provided that at least 75% of the net cash flow generated from such new FI is used for mandatory early prepayment.

- g) Limitations on incurring new FI by the Company and the subsidiaries - The Company undertakes not to incur any new FI (including by way of refinancing an existing FI with new FI) until the outstanding bonds debt (as of November 30, 2014) have been repaid in full, except in any of the following events:
- (i) the new FI is incurred for the purpose of investing in the development of a REA, provided that: (a) the Loan To Cost ("LTC") Ratio of the investment is not less than 50% (or 40% in special cases); (b) the new FI is incurred by the subsidiary that owns the REA or, if the FI is incurred by a different subsidiary, any encumbrance created as security for such new FI is permitted under the negative pledge stipulation above; and (c) following such investment the consolidated cash is not less than the MCRC;
 - (ii) The new FI is incurred by a subsidiary for the purpose of purchasing a new REA by such Subsidiary, provided that following such purchase the cash reserve is not less than the MCRC.
 - (iii) At least 75% of the net cash flow resulting from the incurrence of new FI is used for a 75% early prepayment of the bonds. Subject to the terms of the plan, the Group may also refinance existing FI if this does not generate net cash flow.
- h) No distribution policy - The Company's ability to pay dividend is limited unless certain conditions are met.
- i) 75% mandatory early repayment - Refer to Note 8 and to other sections in this note regarding changes in increase of repayment to 78%.

2. General commitments and warranties in respect of trading property disposals:

In the framework of the transactions for the sale of the Group's real estate assets, the Group has provided indemnities which are customary for such transactions to the respective purchasers.

Such indemnifications are limited in time and amount. No indemnifications were exercised against the Group till the date of the statement of financial position (refer to note 17(10) below relating a dispute with BIG Shopping Centers Ltd). The Company's management estimates that no significant costs will be borne thereby, in respect of these indemnifications.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 17:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

3. The Company is liable to the buyer of its previously owned shopping center in the Czech Republic ("NOVO") - sold in June 2006 - in respect to one of its tenants ("Tesco"). Tesco leased an area within the shopping center for a period of 30 years, with an option to extend the lease period for an additional 30 years, in consideration for EUR 6.9 million which was paid in advance. According to the lease agreement, the tenant has the right to terminate the lease agreement subject to fulfilment of certain conditions as stipulated in the agreement.

In case Tesco leaves the mall before expiration of lease period the Company will be liable to repay the remaining consideration in amount of EUR 1.59 million as of balance sheet date, unless the buyer finds another tenant that will pay higher annual lease payment than Tesco. The management does not expect to bear a material loss.

4. Contingent liabilities due to legal proceedings:

The Company is involved 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, that the chances these litigations will result in any material outflow of resources to settle them is remote, and therefore no provision or disclosure is required.

5. Certain issues with respect to an agreement from 2011:

The Company became made aware that commission paid to an agent in connection with the disposal of the US portfolio in 2012 may have benefited a former director of the Company, and it is probable therefore that those arrangements should have been classified as a related party transaction under the Listing Rules. At the time of the disposal, it appears that the Company was not aware that there was any potential related party interest with respect to the commission arrangements. The Company was discussing this matter with its Sponsor and the UKLA and were seeking appropriate advice as to whether any retrospective disclosures or other actions may be required under the Listing Rules.

In order to address this matter, Plaza's Board has appointed, on April 25, 2017, the chairman of the audit committee Mr. David Dekel, to investigate and examine the issues raised as part of a joint committee together with a special committee formed for the purpose by EI, and with the joint committee's external legal advisors. The internal committees have concluded their examination of these matters and submitted their recommendations to the Company's board of directors. The Company's board of directors fully adopted the committee's recommendations, and is working to implement them. Please also see Note 5(4)(d) in this respect, with respect to Elbit's settlement with the SEC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 17:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

Elbit, the Company's former parent company, announced in March 2016 that it appointed a special committee to examine these matters as they may contain potential violation of the requirements of the U.S. Foreign Corrupt Practices Act (FCPA), including the books and records provisions of the FCPA, and that it has approached and is co-operating fully with the US Securities and Exchange Commission (SEC).

Following discussions with the SEC regarding the potential violation of the requirements of the FCPA, Elbit submitted an Offer of Settlement ("Offer"). Solely for the purpose of the proceedings brought by or on behalf of the SEC and without admitting or denying the findings in the Offer, Elbit consented to the entry of an order containing the SEC's findings.

The SEC has determined to accept the Offer and ordered that: (i) Elbit cease and desist from committing or causing any violations and any future violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act; and (ii) Elbit shall pay a civil money penalty in the amount of \$500,000 to the SEC for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3).

In determining to accept the Offer, the SEC considered remedial acts that Elbit promptly undertook, its self-reporting, and its cooperation afforded to the SEC staff, including having conducted a thorough internal investigation, voluntarily providing detailed reports to the staff, fully responding to the staff's requests for additional information in a timely manner, and providing translations of certain documents.

Since 2012, Plaza has made significant changes to update and strengthen its financial controls and corporate governance in order to address the issues identified by SEC and to prevent any recurrence. In addition, a review was ongoing, as announced on 21 November 2017, with regard to one of the payments referred to by the SEC made in 2012 and which should have been treated as a related party transaction under the Listing Rules.

Following the review concluded in 2018 by the Financial Conduct Authority (FCA), no retrospective disclosures or other actions are required under the FCA's Listing Rules in relation to this matter.

6. Motion to reveal and review internal documents:

In March 2018, a Shareholder of the Company has filed a motion with the Financial Department of the District Court in Tel-Aviv to reveal and review internal documents of the Company and of Elbit Imaging Ltd., with respect to the events surrounding that certain agreements that were signed in connection with the Casa Radio Project in Romania and the sale of the US portfolio. Such events were previously announced by the Company and are detailed in notes 5(4)(d) and 17(5) of these annual financial statements. In July 2018, the Company has filed a response to the relevant court.

On January 13, 2019, a Court hearing was held following which the judge decided

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 17:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

that the board of directors of each of the Company and Elbit Imaging Ltd. would examine the allegations raised by the plaintiff in connection with the said events and the relevant facts and decide whether or not they should file a lawsuit against any of its officers.

The parties reached a procedural agreement whereby, without derogating from any parties claims, the Company and of Elbit Imaging Ltd will share with the plaintiff, under their sole discretion some of the documents he requested (subject a confidentiality obligation) and thereafter the plaintiff will notify the court whether he wants to continue with the motion.

Following the recipient of the documents by the plaintiff the parties have reached an understanding based on which they will notify the court that as the Shareholder received part of the documents he requested and without the company and Elbit Imaging Ltd admitting in any of the allegations raised by the plaintiff, the parties request that the motion will be closed without an order for expenses. The parties will consider filing a lawsuit against defaulters in certain grounds to be agreed upon between the parties

On February 16, 2020, a Court verdict was received according to which the motion was erased without any order for the payment of expenses. the Judge stated that the Motion had resulted in the plaintiff had received certain of the documents requested by him and that he would not be receiving any more documents as part of the present proceedings, and therefore there is no longer dispute between the parties in connection with the Motion. The Judge further noted that the plaintiff and the Company are free to act as they deem fit with respect to the possibility of filing a future lawsuit based on the grounds of some or all of the grounds specified in the Motion

As of today, the parties are considering to file a lawsuit as detailed above.

7. Request to reveal documents:

An indirect subsidiary of the Group in Romania (which holds plot of land outside Bucharest) received a request from Romanian Authorities to reveal documents regarding the years in 2007-2011 as part of an ongoing investigation procedures. The company is unaware of the subject of investigation and any illegal acts or irregularities which may cause investigation initiated. The company has submitted all relevant documents in respect of the said years. During 2019 another indirect subsidiary of the group (which was liquidated) was invited to a court hearing.

A criminal investigation carried out regarding the commission of the money laundering and fiscal evasion offenses against legal representative (directors) of certain companies in which the Company had indirect holdings through JV in the past. The prosecutor closed the case and the chief prosecutor denied the complaint of National Agency for Fiscal Administration as tardy. Against the prosecutor's disposition to close the case, the National Agency for Fiscal Administration filed a complaint in court.

In November 2019, the court denied the National Agency for Fiscal Administration complaint as unfounded. The court's decision is final.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 17:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

8. For details on the Romanian Prosecutor decision to close the investigation relating the Co-operation with the Romanian Authorities regarding potential irregularities on the property Casa Radio please refer to Note 5(3)(d).
9. For details on the notice which were issued to a local investor in the Bangalore project – India and on the Environmental status of the property in the project Please refer to Note 6(b)(1).
10. The Final Price adjustment of Belgrade Plaza:

On January 26, 2017, the Company signed a binding share purchase agreement with BIG Shopping Centers Ltd ("BIG"), for the sale of the SPV holding Belgrade Plaza shopping and entertainment center. The final agreed value of Belgrade Plaza, which comprise circa 32,300 sqm of GLA, will be calculated based on a general cap rate of

8.25% as well as the sustainable NOI after 12 months of operation, which the Company estimated in the range of EUR 6.2-6.5 million per annum.

Further installments will be due to the Company during the first year of operation based on this 12-month figure. The NOI will be re-examined again after 24 months and 36 months of operation, which may lead to an upward adjustment of the final purchase price. The Company did not record a gain from expected future purchase price adjustments at the sale date. During June 2018 (the first adjustment date) the First purchase price adjustment was examined and accordingly no additional proceed was made. During July 2019 (the second adjustment date) the Second purchase price adjustment was examined and accordingly no additional proceed was made. In respect of the last purchase price adjustment, which will be examined during 2020, the Company assess it will not receive any additional proceed on account of the above.

During December 2018, BIG paid to the Company EUR 466,000 for the stands and signage recorded as Revenue from disposal of trading property.

On July 20, 2019, BIG paid EUR 0.11 million for the stands and signage at the Belgrade Plaza.

In addition to the above, during 2020 the Company is expected to receive the last instalment for the stands and signage.

BIG further informed the Company that they intend to hold an additional EUR 1 million until an orderly engineering examination of the mall's technical conditions is completed as part of the final Price adjustment to be performed in May 2020. During November the Company received Technical Review prepared by a Consultancy firm which detailed the proposed investments to be performed by BIG. The Company believes that it has a good counter claims against BIG's claims and is currently evaluating its options regarding BIG's intention to hold the €1 million.

The Company didn't record a revenue in the annual consolidated financial statements due to uncertainty related to receipt of such amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 18:- RELATED PARTY TRANSACTIONS
Related party transactions

Transactions between the Company and its subsidiaries 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.

During the year, Group entities had the following trading transactions with related parties that are not members of the Group:

| | Year ended December 31, | |
|--|------------------------------------|-------------|
| | 2019 | 2018 |
| Income | | |
| Interest on balances with EI | - | 24 |
| Costs and expenses | | |
| Recharges – EI | 24 | 33 |
| Compensation to key management personnel (2) | 243 | 196 |
| Performance linked benefits - management | 29 | 6 |
| Compensation to board members (1), (2) | 265 | 321 |

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

- (1) 2019 – two board members (Executive director resigned in April 2019); 2018 - three board members.
- (2) There was no change in the number of Company share options granted to key personnel in 2019. There are no other benefits granted to directors.

As of the balance date owes the Company an amount of EUR 0.133 million, which is expected to be paid during 2020.

| | Year ended December 31, | |
|--|------------------------------------|-------------|
| | 2019 | 2018 |
| Prepayments and other receivables | | |
| Elbit Imaging Ltd | 139 | 226 |
| Other liabilities | | |
| Due amounts to directors and key management personnel. | 42 | 4 |

As of December 31, 2019, the Company identified Davidson Kempner Capital Management LLC ("DK") among the Company's related parties.

DK holds 26.3% of the Company's outstanding shares of the Company as of the reporting date, following the finalization of the Restructuring plan. DK has no outstanding balance as of the reporting date with any of the Group companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 19:- EVENTS AFTER THE REPORTING PERIOD

- a. Definitive agreement for the sale of a Plot of Land in Brasov, Romania:

On February 5, 2019 an indirect subsidiary signed a Pre-Agreement for the sale of a plot in Brasov, Romania for a total gross amount of EUR 620,000.

On November 25, 2019 an indirect subsidiary signed Addendum no. 1 to the Pre-Agreement signed on February 5, 2019 and the Parties agreed that the consummation of the Transaction will take place not later than February 15, 2020. An amount of circa EUR 50,000 was paid by the Promissory Purchaser as down Payment, which is included in Other liabilities (please refer to Note 7).

On February 14, 2020 the sale of the plot in Brasov, Romania was completed, followed by, a definitive agreement was signed for a total consideration of EUR 620,000 following which it received the last instalment of EUR 570,000 (as describe above the company already received a down payment of EUR 50,000).

- b. Update regarding the transaction for the sale of Plot in Chennai and Bangalore in India:

Please refer to Note 6.

- c. Motion to reveal and review internal documents:

Please refer to Note 17(6).

- d. Appointment of the Chairman of the Board of Directors:

On March 23, 2020 Mr. David Dekel was appointed as the non-executive chairman of the Board of Directors.

- e. Impact of the Coronavirus pandemic:

During the first quarter of 2020 the the risks and exposures arising from these consequences. At this stage, the Company is unable to estimate full impact of the effect of the Coronavirus on our business, Still this can have a negative potential impact on the values on the net realizable value of our assets compare to the values in the financial reports as of December 31, 2019. In addition, this crisis can have a material impact on the ability of the Company to complete the sale of the plots it owned.

- f. Dutch statutory auditor:

As described in Note 2(a) these consolidated financial statements are not intended for statutory filing purposes. The Company is required to file consolidated financial statements prepared in accordance with The Netherlands Civil Code. During 2019 the Company has been informed by the audit firm, Baker Tilly (Netherlands) N.V., that they would cancel their license to audit public interest entities (such as the Company) and that, as a consequence, they are not in the position to provide the Company with their audit services for the 2019 statutory annual accounts. As a listed company, the Company needs to engage a Dutch audit firm that is licensed to perform audits for public interest entities. The choice

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 19:- EVENTS AFTER THE REPORTING PERIOD (Cont.)

for such firms in the Netherlands is very limited as only six firms have the appropriate license.

Despite extensive effort of the Company to find a new Dutch auditor, none of those six firms has been found prepared to accept the Company as their client. The Company approached in writing the Dutch Ministry of Finance, The Royal Dutch Institute of Chartered Accountants, the Authority for the Financial Markets to indicate the severe adverse consequences the Company would suffer if this problem will not be solved but none of those authorities has been able to find the solution. The Royal Dutch Institute of Chartered Accountants has put considerable effort in helping the Company by approaching audit firms and assessing their procedures for client acceptance but has no legal possibilities at its disposal to force audit firms to accept a specific client. This leaves the Company in the awkward position of not being able to meet its obligations regarding the statutory audit. The Company has proposed to the authorities various alternative solutions to get the annual accounts of 2019 audited. It appeared that none of those are legally feasible and none of the addressees came up with any alternatives. It is now time to emphasize that the Company exhausted its sources to comply with the requirements of mandatory Dutch law.

Due to the above and in order to avoid an outright violation of applicable stock exchange regulations, the Company decided to engage EY Israel to audit its IFRS consolidated annual accounts and to issue an auditor statement on that. The IFRS report and the auditor statement will be submitted to the London Stock Exchange, the Warsaw Stock Exchange and the Tel Aviv Stock Exchange. In addition, the board of directors intends to submit the reports (as audited by EY Israel) to the AFM and to approach after all the Dutch authorities once again in order to explore a solution.

The Company don't expect any material effect of the financial statement due to the above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 20:- LIST OF GROUP ENTITIES

As of December 31, 2019, the Company owns the following companies (all are 100% held subsidiaries at the end of the reporting period presented unless otherwise indicated):

| | ACTIVITY | REMARKS |
|--|--|---|
| HUNGARY | | |
| Directly wholly owned | | |
| HOM Ingatlanfejlesztési és Vezetési Kft. | Management company | |
| Plaza Centers Establishments B.V. | Holding company | |
| Tatabánya Plaza Ingatlanfejlesztési Kft. | Inactive | |
| Plasi Invest 2007 Kft. | Inactive | |
| POLAND | | |
| Directly wholly owned | | |
| Wloclawek Plaza Sp. z o.o. w likwidacji | Mixed-use project – plot land sold 10/2019 | Lodz Plaza project, plot land sold 10/2019; Company under liquidation since 12/2019 |
| EDMC Sp. z o.o. w likwidacji | Inactive | Company under liquidation since 2018 |
| Plaza Centers (Poland) Sp. z o.o. w likwidacji | Management company | Company under liquidation since 2018 |
| Szczecin Plaza Sp. z o.o. | Inactive | |
| Indirectly or jointly owned | | |
| EDP Sp. z o.o. | Inactive | 50% held by Plaza Centers N.V. with Israeli-based partner |
| Lublin Or Sp. z o.o. | Inactive | 50% held by Plaza Centers N.V. with Israeli-based partner |
| Hokus Pokus Rozrywka Sp. z o.o. w likwidacji | Inactive | 50% held by Plaza Centers N.V. 50% held by P.L.A.Z.A B.V. |
| Fantasy Park Suwalki Sp. z o.o. w likwidacji | Inactive | 100% held by Mulan B.V., company under liquidation |
| Fantasy Park Torun Sp. z o.o. w likwidacji | Inactive | 100% held by Mulan B.V., company under liquidation |
| Fantasy Park Zgorzelec Sp. z o.o. w likwidacji | Inactive | 100% held by Mulan B.V., company under liquidation |
| Fantasy Park Kraków Sp. z o.o. | Inactive | 100% held by Mulan B.V. |
| ROMANIA | | |
| Indirectly or jointly owned | | |
| S.C. Dambovita Center S.R.L. | Mixed-use project | 75% held by Dambovita Centers Holding B.V. Casa Radio project |
| Plaza Bas B.V. | Holding company | 50.1% held by Plaza Centers N.V. |
| Adams Invest S.R.L. | Residential project | 95% held by Plaza Bas B.V. 5% held by Plaza Centers Management B.V. Valley View project |
| SERBIA | | |
| Directly wholly owned | | |
| Plaza Centers (Estates) B.V. | Inactive | |
| Plaza Centers Management D.O.O. | Management company | |
| CZECH REPUBLIC | | |
| Directly wholly owned | | |
| Plaza Centers Czech Republic S.R.O. | Inactive | |
| BULGARIA | | |
| Directly wholly owned | | |
| Shumen Plaza EOOD | Inactive | Shumen Plaza project - Sold 03/2017; Company under liquidations in 2018 |
| Plaza Centers Management Bulgaria EOOD | Management company | Company under liquidations in 2018 |
| Plaza Centers Development EOOD | Inactive | Company under liquidations in 2018 |
| CYPRUS – UKRAINE | | |
| Directly wholly owned | | |
| Tanoli Enterprises Ltd. | Inactive | |
| PC Ukraine Holdings Ltd. | Inactive | |
| Plaza Centers Ukraine Ltd. | Inactive | 100% held by PC Ukraine Holdings Ltd. |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 20:- LIST OF GROUP ENTITIES (Cont.)

| THE NETHERLANDS | ACTIVITY | REMARKS |
|---|--------------------|--|
| Directly wholly owned | | |
| Plaza Dambovita Complex B.V. | Holding company | |
| Plaza Centers Enterprises B.V. | Finance company | 100% held by Plaza Dambovita Complex B.V. |
| Mulan B.V. (Fantasy Park Enterprises B.V.) | Holding company | Holds Fantasy Park subsidiaries in CEE |
| P.L.A.Z.A B.V. | Inactive | 100% held by Mulan B.V. |
| Plaza Centers Management B.V. | Holding company | |
| Dambovita Centers Holding B.V. | Holding company | 100% held by Plaza Centers N.V. |
| Plaza Bas B.V. | Holding company | 50.1% held by Plaza Centers N.V. |
| Plaza Centers Establishments B.V. | Holding company | |
| Plaza Centers (Estates) B.V. | Holding company | |
| CYPRUS – INDIA | | |
| Directly wholly owned | | |
| PC India Holdings Public Company Ltd. | Inactive | |
| Indirectly or jointly owned | | |
| HOM India Management Services Pvt. Ltd. | Management company | 99.99% held by PC India Holdings Public Company Ltd. |
| Elbit Plaza India Real Estate Holdings Ltd. | Holding company | Equity accounted investee 47.5% held by Plaza Centers N.V. |
| Polyvendo Ltd. | Holding company | 100% held by Elbit Plaza India Real Estate Holdings Ltd. |
| Elbit Plaza India Management Services Pvt. Ltd. | Management company | 99.99% held by Polyvendo Ltd. |
| Vilmadoro Ltd. | Holding company | 100% held by Elbit Plaza India Real Estate Holdings Ltd. |
| Kadavanthra Builders Pvt. Ltd. | Mixed-use project | 100% held by Elbit Plaza India Real Estate Holdings Ltd. |
| Aayas Trade Services Pvt. Ltd. | Mixed-use project | Chennai (SipCot) project 99.9% held by Elbit Plaza India Real Estate Holdings Ltd. Bangalore project |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 20:- LIST OF GROUP ENTITIES (Cont.)

| ENTITIES DISPOSED OR DISSOLVED IN 2019 | | |
|--|---|---------------------------|
| HUNGARY | ACTIVITY | REMARKS |
| Directly wholly owned | | |
| Szombathely 2002 Ingatlanhasznosito es Vagyonkezele Kft. | Inactive | Company disposed 11/2019 |
| Kerepesi 5 Irodaepulet Ingatlanfejleszto Kft. | Holder of land usage rights | Company disposed 11/2019 |
| POLAND | | |
| Directly wholly owned | | |
| Lodz Centrum Plaza Sp. z o.o. | Owner of plot of land – sold 09/2018 | Company dissolved 11/2019 |
| O2 Fitness Club Sp. z o.o. | Inactive | Company dissolved 12/2019 |
| Kielce Plaza Sp. z o.o. | Inactive | Company dissolved 10/2019 |
| Leszno Plaza Sp. z o.o. | Inactive | Company dissolved 11/2019 |
| Wloclawek Plaza Sp. z o.o. SKA (previously Legnica Plaza Spolka z ograniczona odpowiedzialnoscia 1 S.K.A.) | Inactive | Company dissolved 10/2019 |
| Indirectly or jointly owned | | |
| Fantasy Park Poznań Sp. z o.o. w upadłości likwidacyjnej | Inactive | Company dissolved 03/2019 |
| LATVIA | | |
| Indirectly or jointly owned | | |
| Diksna SIA | Operating shopping center - Sold 2016 | Company dissolved 09/2019 |
| ROMANIA | | |
| Directly wholly owned | | |
| S.C. North Gate Plaza S.R.L. | Shopping center project – plot of land sold 07/2019 | Company dissolved 09/2019 |