**Plaza Centers N.V.**

# Condensed Consolidated Interim Financial statements

**June 30, 2014**

**Plaza Centers N.V.**
**Condensed Consolidated Interim Financial Information**
**June 30, 2014**

## Contents

KPMG

**KPMG Hungária Kft.**
Váci út 31.
H-1134 Budapest
Hungary

Tel.: +36 (1) 887 71 00
Fax: +36 (1) 887 71 01
E-mail: info@kpmg.hu
Internet: kpmg.hu

## Independent Auditors' Report on Review of Interim Financial Information

Board of Directors
Plaza Centers N.V.

*Introduction*

We have reviewed the accompanying condensed consolidated statement of financial position of Plaza Centers N.V. ("the Company") as at June 30, 2014, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six and three month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the EU. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

*Scope of Review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at June 30, 2014 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the EU.

*Emphasis of matter*

Without qualifying our conclusion, we draw attention to Notes 1, 3 and 6 in the condensed consolidated interim financial information which disclose important information regarding the Company's required steps to finalize its restructuring procedure.

Budapest, August 28, 2014
KPMG Hungária Kft.

Michael Carlson
Partner

## Plaza Centers N.V.
### Condensed consolidated interim statement of financial position

| | Note | June 30, 2014 € '000 Unaudited | December 31, 2013 € '000 Audited |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | 26,917 | 26,157 |
| Restricted bank deposits | | 6,841 | 6,319 |
| Held for trading financial assets | | 1,321 | 1,246 |
| Trade receivables | | 3,520 | 3,372 |
| Other receivables | | 3,107 | 4,871 |
| Prepayments and advances | | 1,723 | 1,393 |
| Trading property | 10(b) | - | 40,333 |
| **Total current assets** | | 43,429 | 83,691 |
| | | | |
| Trading property | 10(b) | 429,768 | 454,841 |
| Equity accounted investees | | 33,746 | 33,102 |
| Loan to equity accounted investees | | 7,084 | 7,039 |
| Property and equipment | 10 (c ) | 4,888 | 6,520 |
| Other non-current assets | | 584 | 573 |
| **Total non-current assets** | | 476,070 | 502,075 |
| **Total assets** | | 519,499 | 585,766 |
| | | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Interest bearing loans from banks | | 181,746 | 175,338 |
| Debentures at fair value through profit or loss | 7 | 117,418 | 97,983 |
| Debentures at amortized cost | 7 | 71,531 | 70,636 |
| Trade payables | | 1,819 | 2,432 |
| Related parties liabilities | | 1,250 | 944 |
| Provisions | | 15,597 | 15,597 |
| Derivatives | | 1,039 | 910 |
| Other liabilities | | 14,750 | 11,219 |
| **Total current liabilities** | | 405,150 | 375,059 |
| | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | 324 | 379 |
| **Total non-current liabilities** | | 324 | 379 |
| | | | |
| **Equity** | | | |
| Share capital | | 2,972 | 2,972 |
| Translation reserve | | (38,602) | (40,651) |
| Capital reserve due to transaction with Non-controlling interests | | (20,706) | (20,706) |
| Other reserves | | 35,257 | 35,133 |
| Share premium | | 261,773 | 261,773 |
| Retained losses | | (127,300) | (28,799) |
| **Total equity attributable to owners of the Company** | | 113,394 | 209,722 |
| Non-controlling interests | | 631 | 606 |
| **Total equity** | | 114,025 | 210,328 |
| **Total equity and liabilities** | | 519,499 | 585,766 |

| August 27, 2014 | | |
|---|---|---|
| Date of approval of the financial statements | Ran Shtarkman<br>President and Chief Executive Officer | David Dekel<br>Director and Chairman of the Audit Committee |

The notes on pages 9 - 18 are an integral part of these condensed consolidated interim financial statements.

**Plaza Centers N.V.**
**Condensed consolidated interim statement of profit or loss**

| | Note | For the three months ended June 30, 2014 € '000 Unaudited | For the three months ended June 30, 2013 € '000 Unaudited | For the six months ended June 30, 2014 € '000 Unaudited | For the six months ended June 30, 2013 € '000 Unaudited |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Rental income | | 5,814 | 6,159 | 11,693 | 12,005 |
| Revenues from entertainment centers | | 356 | 651 | 870 | 2,293 |
| | | 6,170 | 6,810 | 12,563 | 14,298 |
| Cost of operations | | (1,998) | (1,842) | (4,033) | (4,368) |
| Cost of operations – entertainment centers | | (658) | (1,106) | (1,198) | (2,297) |
| **Gross profit** | | 3,514 | 3,862 | 7,332 | 7,633 |
| Write-down of Trading Property | 10(b) | (69,716) | (60,380) | (69,716) | (60,906) |
| Write-down of equity-accounted investees | | - | - | - | (4,277) |
| Loss from disposal of equity accounted investees (holding undeveloped Trading Property) | 10(h) | (4,048) | (5,143) | (4,048) | (5,143) |
| Share in results of equity-accounted investees, net of tax | | 521 | 44 | 414 | (195) |
| Administrative expenses, excluding restructuring costs (*) | | (2,014) | (2,634) | (4,162) | (5,037) |
| Restructuring costs | | (2,141) | - | (2,519) | - |
| Other income | 10(g) | 2,336 | (228) | 2,336 | 318 |
| Other expenses | | (416) | (4,771) | (1,035) | (4,771) |
| **Results from operating activities** | | (71,964) | (69,250) | (71,398) | (72,378) |
| Finance income | | 205 | 5,067 | 211 | 6,671 |
| Finance costs | | (14,693) | (10,121) | (27,486) | (15,636) |
| Net finance costs | | (14,488) | (5,054) | (27,275) | (8,965) |
| **Loss before income tax** | | (86,452) | (74,304) | (98,673) | (81,343) |
| Tax benefit (income tax expense) | | 116 | (807) | 113 | 754 |
| **Loss from continuing operations** | | (86,336) | (75,111) | (98,560) | (80,589) |
| **Discontinued operation** | | | | | |
| Profit (loss) from discontinued operation, net of tax | | (7) | (130) | 59 | (454) |
| **Loss for the period** | | (86,343) | (75,241) | (98,501) | (81,043) |
| **Loss attributable to:** | | | | | |
| Owners of the Company | | (86,343) | (75,241) | (98,501) | (81,043) |
| **Earnings per share** | | | | | |
| Basic and diluted loss per share (in EURO) | | (0.29) | (0.25) | (0.33) | (0.27) |
| **Earnings per share – continuing operations** | | | | | |
| Basic and diluted loss per share (in EURO) | | (0.29) | (0.25) | (0.33) | (0.27) |

(*) Including share based payment expenses of EUR 0.1 million (2013 – EUR 0.2 million).

The notes on pages 9 - 18 are an integral part of these condensed consolidated interim financial statements.

**Plaza Centers N.V.**
**Condensed consolidated interim statement of comprehensive income**

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| | **€ '000** | **€ '000** | **€ '000** | **€ '000** |
| | **Unaudited** | **Unaudited** | **Unaudited** | **Unaudited** |
| **Loss for the period** | (86,343) | (75,241) | (98,501) | (81,043) |
| **Other comprehensive income** | | | | |
| **<u>Items that are or may be reclassified subsequently to profit or loss:</u>** | | | | |
| Net changes in fair value on Available for sale financial assets transferred to the statement of profit or loss | - | (513) | - | (723) |
| Net change in fair value of available for sale financial assets | - | (19) | - | (14) |
| Foreign currency translation differences - foreign operations (Equity accounted investees) – reclassified to profit or loss | - | 4,360 | - | 4,360 |
| Foreign currency translation differences - foreign operations (Equity accounted investees) | 255 | (12,209) | 1,470 | (8,010) |
| Foreign currency translation differences - foreign operations (trading properties) | 207 | (3,768) | 604 | (2,006) |
| Income tax effect on other comprehensive income due to change in fair value of Available for sale financial assets | - | 133 | - | 184 |
| Other comprehensive income (loss) for the period, net of income tax | 462 | (12,016) | 2,074 | (6,209) |
| **Total comprehensive loss for the period, net of tax** | (85,881) | (87,257) | (96,427) | (87,252) |
| Total comprehensive income (loss) attributable to: | | | | |
| Owners of the Company | (85,885) | (87,177) | (96,452) | (87,200) |
| Non-controlling interests | 4 | (80) | 25 | (52) |

The notes on pages 9 - 18 are an integral part of these condensed consolidated interim financial statements**.**

**Plaza Centers N.V.**

**Condensed consolidated interim statement of changes in equity**

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share Premium** | **Other reserves** | **Translation Reserve** | **Capital reserve from acquisition of non-controlling interests without a change in control** | **Available for sale reserve** | **Retained earnings (losses)** | **Total** | **Non-controlling interests – restated** | **Total equity** |
| | € '000 | | | | | | | | | |
| **Balance at December 31, 2013 (audited)** | 2,972 | 261,773 | 35,133 | (40,651) | (20,706) | - | (28,799) | 209,722 | 606 | 210,328 |
| Share based payment | - | - | 124 | - | - | - | - | 124 | - | 124 |
| Total comprehensive income (loss) | - | - | - | 2,049 | - | - | (98,501) | (96,452) | 25 | (96,427) |
| **Balance at June 30, 2014 (unaudited)** | **2,972** | **261,773** | **35,257** | **(38,602)** | **(20,706)** | **-** | **(127,300)** | **113,394** | **631** | **114,025** |
| | | | | | | | | | | |
| **Balance at December 31, 2012 (audited)** | 2,972 | 261,773 | 34,709 | (26,359) | (20,706) | 553 | 189,274 | 442,216 | 716 | 442,932 |
| Share based payment | - | - | 215 | - | - | - | - | 215 | - | 215 |
| Total comprehensive loss | - | - | - | (5,604) | - | (553) | (81,043) | (87,200) | (52) | (87,252) |
| **Balance at June 30, 2013 (unaudited)** | **2,972** | **261,773** | **34,924** | **(31,963)** | **(20,706)** | **-** | **108,231** | **355,231** | **664** | **355,895** |

The notes on pages 9 - 18 are an integral part of these condensed consolidated interim financial statements**.**

**Plaza Centers N.V.**

**Condensed consolidated interim statement of cash flows**

| | For the six months ended June 30, | |
|---|---|---|
| | **2014** | **2013** |
| | **€ '000** | **€ '000** |
| | **Unaudited** | **Unaudited** |
| **Cash flows from operating activities** | | |
| Loss for the period | (98,501) | (81,043) |
| | | |
| Adjustments necessary to reflect cash flows used in operating activities: | | |
| Depreciation and impairment of property and equipment | 153 | 56 |
| Net finance costs | 27,275 | 8,965 |
| Write-down of investment property | | 3,439 |
| Equity-settled share-based payment transaction | 124 | 262 |
| Loss (gain) on sale of property and equipment | 109 | (19) |
| Share of loss (profit) of equity-accounted investees, net of tax | (414) | 195 |
| Tax benefit | (113) | (754) |
| | (71,367) | (68,899) |
| Changes in: | | |
| Trade receivables | 544 | (223) |
| Other receivables | 1,684 | 7,083 |
| Trading property | 71,922 | 57,674 |
| Equity accounted investees | 3,846 | 24,435 |
| Trade payables | (618) | (2,443) |
| Other liabilities, related parties liabilities | 2,843 | (146) |
| | 80,221 | 86,380 |
| | | |
| Interest received | 293 | 385 |
| Interest paid | (4,930) | (6,558) |
| Taxes paid | (111) | (344) |
| | | |
| **Net cash from operating activities** | 4,106 | 10,964 |
| | | |
| **Cash from investing activities** | | |
| Purchase of property and equipment | (6) | (4) |
| Proceeds from sale of property and equipment | 1,375 | 44 |
| Proceeds from liquidation of equity accounted investee EPUS | - | 32,438 |
| Purchase of marketable debt securities financial assets | - | (155) |
| Proceeds from sale of available for sale financial assets | - | 11,014 |
| | | |
| **Net cash from investing activities** | 1,369 | 43,337 |
| | | |
| **Cash from financing activities** | | |
| Proceeds from bank loans and financial institutions | - | 509 |
| Payments due to hedging activities through sell of options | - | (1,950) |
| Right issuance prepayments | (202) | - |
| Changes in restricted cash | (364) | 3,193 |
| Proceeds from re-issuance of long term debentures | - | 13,772 |
| Repayment of interest bearing loans from banks | (4,169) | (17,833) |
| | | |
| **Net cash used in financing activities** | (4,735) | (2,309) |
| **Effect of exchange rate fluctuations on cash held** | 20 | (432) |
| **Increase in cash and cash equivalents during the period** | 760 | 51,560 |
| **Cash and cash equivalents at 1 of January** | 26,157 | 35,374 |
| **Cash and cash equivalents at 30 of June** | **26,917** | **86,934** |

The notes on pages 9 - 18 are an integral part of these condensed consolidated interim financial statements.

## Notes to the condensed consolidated interim financial statements

### 1. Reporting entity

Plaza Centers N.V. ("the Company") was incorporated and is registered in the Netherlands. The Company's registered office is at Prins Hendrikkade 48-S, 1012 AC, Amsterdam, the Netherlands. The Company conducts 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), India (from 2006), and, between 2010 and 2012, also in the USA.

The Company is dually listed on the Main Board of the London Stock Exchange ("LSE") and on the Warsaw Stock Exchange ("WSE").

The Company's immediate parent company is Elbit Ultrasound (Luxembourg) B.V. / S.à r.l. ("EUL"), which holds 62.5% of the Company's shares, as at the end of the reporting period (December 31, 2013 – 62.5%). The ultimate parent company is Elbit Imaging Limited ("EI").

As previously announced the Company has filed for reorganization proceedings (surseance van betaling) with the District Court of Amsterdam in the Netherlands (the Court") and submitted a restructuring plan to the Court in November 2013. The restructuring plan was approved on June 26, 2014 by the vast majority of the creditors, and subsequently approved by the Court on July 9, 2014, becoming an irrevocable decision on July 21, 2014. For more information on the restructuring plan, refer to note 6.

The condensed consolidated interim financial statements of the Company as at June 30, 2014 and for the six months then ended comprise the Company, its subsidiaries (together referred to as the "Group") and the Group's interests in joint ventures.

The consolidated financial statements of the Group as at and for the year ended December 31, 2013 are available on the Company's website (www.plazacenters.com) and also upon request from the Company's registered office.

During the six months period ended June 30, 2014, no changes occurred in the Company's holdings, except as described in note 10(h).

### 2. Basis of accounting

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the EU. It does not include all of the information required for a complete set of IFRS financial statements; and should be read in conjunction with the annual Consolidated Financial Statements of the Group as at and for the year ended December 31, 2013.

However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2013.

These condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on August 27, 2014.

## 3. Use of judgements and estimates

In preparing these condensed consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were principally the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2013, with the exception of valuations performed in July 2014 (refer to note 10(b)).

### Going concern

As part of the reorganization proceedings filling, as mentioned in note 1 above, the Company withheld payment on the bonds and any material payment to its creditors.

For a detailed discussion about the group's liquidity position and the approved restructuring plan refer to note 6.

The condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Group will be able to successfully complete its proposed debt arrangement plan, following court approval. It is noted that, though the restructuring plan was approved by both the creditors and the Court, if the Group will not be able to raise EUR 20 million equity from shareholders which is a pre-condition to the debt restructuring plan completion (refer to Note 6) then this would likely have an adverse impact on the Group's ability to realise assets at their recognised values, and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements and ultimately result in the Group being unable to continue as a going concern.

However, the Company's management and Board of Directors estimate the chances of raising the EUR 20 million as highly probable, based on the information it has, as describes also in note 6.

## 4. Significant accounting policies

The accounting policies applied by the Group in this condensed consolidated interim financial information are the same as those applied by the Group in its consolidated financial statements as at and for the year ended December 31, 2013.

## 5. Segment reporting

The Group comprises the following main geographical segments: CEE and India. The Group does not have reportable operating segments. In presenting information on the basis of geographical segments, segment revenue is based on the revenue resulting from either selling or operating of Trading Property and Investment Property geographically located in the relevant segment. None of the Group's tenants is accounting for more than 10% of the total revenue. Also, no revenue is derived in the Netherlands, where the Company is domiciled.

Data regarding the geographical analysis in the six months ended June 30, 2014 and 2013 is as follows:

| | Central & Eastern Europe | India | Total |
|---|---|---|---|
| | **€ 000'** | **€ 000'** | **€ 000'** |
| | **Six months ended June 30, 2014** | | |
| Total revenues (1) | 11,988 | 575 | 12,563 |
| Operating loss by segment (2) | (57,799) | (10,830) | (68,629) |
| Net finance costs | (2,983) | (1,668) | (4,651) |
| Other income (expenses), net | (1,035) | 2,336 | 1,301 |
| Share in results of equity-accounted investees | 1,087 | (673) | 414 |
| Reportable segment loss before tax | (60,730) | (10,835) | (71,565) |
| Less - unallocated general and administrative expenses | | | (1,965) |
| Restructuring cost | | | (2,519) |
| Discontinued operations | | | 59 |
| Less - unallocated finance costs | | | (22,624) |
| Loss before income taxes | | | (98,614) |
| Tax benefit | | | 113 |
| Loss for the period | | | (98,501) |
| Assets and liabilities as at June 30, 2014 | | | |
| Total segment assets | 421,569 | 60,395 | 481,964 |
| Unallocated assets (Mainly Cash and other financial instruments held mainly on Dutch corporate level) | | | 37,535 |
| Total assets | | | 519,499 |
| Segment liabilities | 181,839 | 26,837 | 208,676 |
| Unallocated liabilities (Mainly debentures) | | | 196,798 |
| Total liabilities | | | 405,474 |

(1) CEE- Out of which Poland – EUR 7.7 million.

(2) CEE – including impairment losses of EUR 59.6 million (refer to note 10(b)) and loss from the Bas transaction (refer to note 10(h)) of EUR 4.0 million. India – includes impairment of EUR 10.1 million (refer to note 10(b)).

**5. Segment reporting (cont.)**

| | Central & Eastern Europe | India | Total |
|---|---|---|---|
| | **€ 000'** | **€ 000'** | **€ 000'** |
| | **Six months ended June 30, 2013** | | |
| Total revenues (1) | 13,915 | 383 | 14,298 |
| Operating loss by segment (2) | (44,709) | (16,726) | (61,435) |
| Net finance costs | (3,589) | (1,899) | (5,488) |
| Other expenses, net (3) | (4,121) | (332) | (4,453) |
| Share in results of equity-accounted investees (4) | 537 | (5,009) | (4,472) |
| Reportable segment profit (loss) before tax | (51,882) | (23,966) | (75,848) |
| Less - unallocated general and administrative expenses | | | (2,018) |
| Discontinued operations | | | (454) |
| Unallocated finance costs | | | (3,477) |
| Loss before income taxes | | | (81,797) |
| Tax benefit | | | 754 |
| Loss for the period | | | (81,043) |
| | | | |
| Assets and liabilities as at December 31, 2013 | | | |
| Total segment assets | 480,196 | 68,829 | 549,025 |
| Unallocated assets (Mainly Cash and other financial instruments held mainly on Dutch corporate level) | | | 36,741 |
| Total assets | | | 585,766 |
| Segment liabilities | 175,302 | 26,715 | 202,017 |
| Unallocated liabilities (Mainly debentures) | | | 173,421 |
| Total liabilities | | | 375,438 |

(1) CEE- Out of which Poland – EUR 8.7 million.
(2) CEE – including impairment of EUR 45.3 million. India - including impairment of EUR 15.6 million.
(3) CEE- including fair value negative adjustment of Investment property of EUR 3.4 million.
(4) India – including equity accounted investees loss mainly due to impairment of EUR 4.3 million

**6. Restructuring plan update**

As mentioned in notes 1 and 3, the Court has approved the restructuring plan after the Company experienced a significant liquidity crisis.

Since December 31, 2013, the following main changes occurred in the restructuring plan, as approved by the Company's creditors on June 26, 2014:

1. **Equity upside -** The Company will allocate, post the completion of the right issuance, to the Deferred Debt holders shares representing 13.21% of the Company's shares (2.86% to series A holders, 9.22% to series B holders and 1.13% to the Polish holders), instead of options to purchase shares in the Company representing an aggregate maximum of 9.99% of the outstanding share capital of the Company.

**6. Restructuring plan update (cont.)**

2. **Payment to the holders of the Unsecured Debt -** following the removal of the suspension of payments order, the Company shall pay to the holders of the Deferred Debt an amount of EUR 11.6 million, on account of 2014 interest payments.
3. **Postponement of creditors meeting to vote on the restructuring plan -** On March 11, 2014, the Company obtained from the Dutch court a postponement of the dates for the voting on the proposed plan, due to technicalities involved with the completion of the arrangement. The Dutch court set June 26, 2014 as the date for voting on the proposed restructuring plan, and the restructuring plan was approved on that date and became an irrevocable decision on July 21, 2014.

In addition the bondholders demanded that shareholders provide capital/monetary inflow to the Company of at least EUR 20 million as a pre-condition to the approval of the debt restructuring plan.

The Company confirmed on June 23, 2014 that EI announced that, as part of the Company's debt restructuring process which incorporates a rights offering of shares to its existing shareholders to raise an aggregate amount of at least EUR 20 million (the "Rights Offering"), its wholly owned subsidiary EUL intends to enter into a Deed of Undertaking (the "Undertaking") with the Company. The Undertaking was signed and became binding and formal on July 7, 2014.

As part of this, EUL has undertaken, among other things, to ensure that it will exercise EUL's rights to take up EUL's full pro-rata portion under the Rights Offering and to procure that it will subscribe for any unexercised portion of the Rights Offering (the "Additional Shares"), at a price per share of EUR 0.105, all subject to the provisions of the Back Stop Agreement (as defined below).

EI will guarantee the performance of EUL's obligations as detailed in the Undertaking. EI has further announced that, concurrently with the Undertaking, EUL entered into a legally binding Back Stop Agreement (the "Back Stop Agreement") with various affiliates of Davidson Kempner Capital Management LP ("DK"), pursuant to which DK will undertake to purchase, in lieu of EUL, such proportion of shares in the Company to be determined by EUL, provided that the monies payable in respect of such shares to be acquired by DK shall not be less than the higher of EUR 3 million or the amount required to acquire the Additional Shares (the "Back Stop Undertaking"), and has further provided that such Back Stop Undertaking does not result in DK being liable to acquire more than EUR 10 million of the Company shares or result in DK and its affiliates, directly or indirectly crossing the threshold of 30 per cent of the total voting rights in the Company.

Consequently, in the event the total price of the Additional Shares falls below EUR 3 million, the Company will be obligated to increase the number of shares offered pursuant to the Rights Offering such that the total price of the shares acquired by DK shall not be less than EUR 3 million.

EI also voted in favour of all resolutions relating to the Rights Offering, including resolutions to designate the Company's board of directors, generally and unconditionally, as the competent body to issue ordinary shares (including rights to acquire ordinary shares) and to restrict or exclude pre-emptive rights upon issuing ordinary shares of the Company.

The Company's website (www.plazacenters.com) includes non-audited information related to the debt restructuring.

## 7. Financial instruments

### a. Carrying amounts and fair values

In respect to the Company's financial assets not presented at fair value, being mostly short term interest bearing liquid balances, the Company believes that the carrying amount approximates the fair value. In respect of the Company's financial liabilities:

For the Israeli debentures presented at amortized cost, a good approximation of the fair value would be the market quote from the Tel Aviv Stock Exchange of the relevant debenture, had they been measured at fair value.

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| | € 000' | | | |
| **Statement of financial position** | | | | |
| Debentures A at amortized cost – Israeli bonds | 13,996 | 13,765 | 11,981 | 10,393 |
| Debentures B at amortized cost – Israeli bonds (*) | 43,116 | 42,403 | 38,064 | 33,507 |
| Debentures at amortized cost – polish bonds | 14,419 | 14,468 | 14,419 | 14,468 |
| Total | 71.531 | 70,636 | 64,464 | 58,368 |

(*) Refer also to note 10(e)

In respect of most of other non-listed borrowings, the Group was not asked to raise interest rates or to bring forward maturities as a result of the restructuring procedure, as most financing banks do not expect the restructuring plan to have a material effect on the security the banks hold under non-recourse loans, and therefore the Company has a basis to believe that the fair value of non-listed borrowings approximates the carrying amount.

The Company presents and measures part of its debentures according to its fair value. The Carrying amount as at June 30, 2014 of the debentures presented at fair value (including accrued interest) was as follows:

| | Fair value | Adjusted par value (*) |
|---|---|---|
| | € 000' | |
| **Statement of financial position** | | |
| Debentures A at fair value – Israeli bonds | 43,666 | 48,877 |
| Debentures B at fair value – Israeli bonds | 73,752 | 79,378 |
| Total | 117,418 | 128,255 |

(*) Adjusted par value is the principal amount, as adjusted (or indexed) due to changes in Israeli Consumer price index.

## 7. Financial instruments (cont.)

### b. Fair value hierarchy

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | € 000' | | | |
| **Assets** | | | | |
| **Held for trading financial assets** | 1,321 | - | - | 1,321 |
| **Liabilities** | | | | |
| Derivatives | - | 1,039 | - | 1,039 |
| Debentures at fair value through profit or loss | 117,418 | - | - | 117,418 |
| **Total financial liabilities carried at fair value** | 117,418 | 1,039 | - | 118,457 |

## 8. Income tax

The group calculates the period income tax using the tax rate that would be applicable to the expected total annual earnings.

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended June 30, 2014 was 0% (six months ended June 30, 2013: 1%) .The change in effective tax rate was caused mainly by the following factors:

- Change in fair value of Debentures at fair value through profit or loss.
- Impairment of trading property and Equity accounted investees.

## 9. Related parties

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| | € 000' | |
| **Statement of financial position** | | |
| Trade and other payables | 1,250 | 944 |

| | For the six months ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| | € 000' | € 000' |
| **Income statement** | | |
| Related parties - interest income | - | 34 |
| Related parties – recharges from Elbit | (99) | (67) |

## 10. Significant events during the period

### a. Updates to the proposed debt restructuring plan

In respect of main changes in the restructuring plan during the reporting period, refer to note 6 above.

### b. Write-down 2014

Following the appointment of the new Board in July, our external independent valuator was assigned to perform a desk-top valuation and re-appraised the properties which the Company does not intend to develop in the next 24 months, and also to value the Casa Radio project as it is the most single valuable asset in the company's assets portfolio and the permitting process for this asset had suffered significant delays in the time table. Altogether 13 assets were re-appraised as detailed in the below list.

| Assets appraised in June 2014:Country | Project Name | Value 2013 year end (MEUR) | Value 2014 June 30 (MEUR) |
|---|---|---|---|
| Hungary | Arena Plaza Extension | 7.8 | 6.6 |
| Poland | Lodz (Resi) | 6.5 | 5.4 |
| | Leszno Plaza | 1.7 | 1.5 |
| | Kielce Plaza | 5.4 | 4.3 |
| Romania | Casa Radio Plaza (*) | 130.6 | 89.25 |
| | Csiki Plaza | 5.6 | 3.4 |
| | Targu Mures | 6.2 | 3.8 |
| | Hunedoara Plaza | 2.4 | 1.6 |
| | Slatina Plaza | 1.7 | 1.1 |
| | Iasi Plaza | 11.6 | 7.8 |
| | Constanta Plaza | 6.3 | 5.0 |
| Greece | Helios Plaza | 15.3 | 4.4 |
| Bulgaria | Shumen Plaza | 2.1 | 1.6 |

(*)Represent the Company's share in the Project (75%)

The valuations were conducted taking into account updated market conditions, the current permit status and development time frame. More specifically, the Board requested the valuator to consider more conservative assumptions, but still in the acceptable range, than those used in the previous year valuation in respect to exit yields, rent price levels and commencement date of the project.

In respect of two main impairments performed in the first half of 2014 (Casa Radio and Helios), the main changes in the assumptions included in the updated valuations comparing the December 31, 2013 were as follows:

Casa Radio:

1) Exit yield for the shopping center changed from 7% to 7.5%.
2) Average assumed rent for the shopping center scheme dropped to 27.5 EUR/sqm from 29 EUR/sqm.
3) Average assumed rent for the office scheme reduced from 17 EUR/sqm to 16 EUR/sqm.
4) Construction cost of the shopping center dropped to 1,300 EUR/sqm from 1,400 EUR/sqm.

**10. Significant events during the period (cont.)**

**b. Write-down 2014 (cont.)**

Helios:

1) The project scheme will have to be redesigned as the building permit will expire at the end of 2014. According to the current zoning the land cannot be used for the construction of a shopping center. The new valued project is a ground floor retail scheme with office towers on the top.
2) Expected rent for the offices (including the ground floor commercial) is 13.00 EUR/sqm and the expected exit yield is – 8%.
3) Total size of the offices: 38,661 sqm with 700 car parking.

The following four properties, which the Company intends to accelerate the selling process to a considerably shorter period, were valued internally based on management estimation of their expected net realizable values:

1. Csiki Plaza (Romania) – the net realizable value of the project was determined with reference to prevailing asking prices in the market. Discounted by 41 % to a net realizable value of EUR 2 million
2. Hunedoara Plaza Romania- the net realizable value of the project was determined with reference to asking prices in the market. Discounted by 25 % to a net realizable value of EUR 1.2 million
3. Constanta Romania- the net realizable value of the project was determined with reference to asking prices in the market. Discounted by 50 % to a net realizable value of EUR 2.5 million
4. Shumen Plaza Bulgaria - the net realizable value of the project was determined with reference to asking prices in the market. Discounted by 31 % to a net realizable value of EUR 1.1 million

Following the above mentioned valuations, In the course of the first six months of 2014, the following impairments were performed in respect of trading properties held by the Group (in MEUR):

| | The six months ended June 30, | |
|---|---|---|
| **Project name (location)** | 2014 | 2013 |
| Casa Radio (Bucharest, Romania) | 31.0 | - |
| Koregaon Park (Pune, India) (*) | 10.1 | 15.6 |
| Belgrade Plaza (MUP) (Belgrade, Serbia) | - | 25.7 |
| Helios Plaza (Athens, Greece) | 10.9 | 6.4 |
| Liberec Plaza(Liberec, Czech Republic) | - | 9.0 |
| Constanta (Constanta, Romania) | 3.8 | - |
| Csiki Plaza (Ciuc, Romania) | 3.7 | - |
| Iasi (Iasi, Romania) | 3.7 | - |
| Roztoky (Czech Republic) | - | 3.5 |
| Kragujevac Plaza (Serbia) (**) | 3.4 | - |
| Hunedoara Plaza (Hunedoara, Romania) | 1.2 | - |
| Shumen Plaza (Shumen, Bulgaria) | 1.0 | - |
| Other, aggregated | 0.9 | 0.7 |
| Total | 69.7 | 60.9 |

(*) In respect of the Koregaon park impairment; this impairment was done in light of ongoing delay in the closing process of the transaction that was announced on November 2013.Also, in light of the ongoing delay, the Company reclassified the Koregaon Park trading property to long term.
(**) In respect of Kragujevac, the Company impaired the asset based on its internal estimates, relying on its acquaintance with the investment market in Serbia.

**10. Significant events during the period (cont.)**

**c. Sale of airplane**

On February 25, 2014 the Company disposed of its corporate jet for a total consideration of USD 1.9 million (EUR 1.4 million). The proceeds from the disposal were used to partially repay the bank facility taken for the purchase of the airplane, and the Company currently negotiates with the financing bank the conditions to be set for the repayment of the remaining outstanding bank loan (EUR 1.2 million).

**d. Sale of turbines**

In March 2014 the Casa Radio's project company disposed of the turbines held in respect of the Casa Radio project (and included as part of the trading property) for a total net consideration of EUR 2.6 million.

**e. Bonds Series B held in treasury**

As at the date of approval of these condensed consolidated interim financial statements the Company, through its wholly owned subsidiary holds in treasury NIS 15.9 million (EUR 3.4 million) par value of series B bonds.

**f. Update on covenants**

As at the end of the reporting period, all of the group's companies are in compliance with the entire loan covenants, with the exception of three bank facilities, for two of which (Kragujevac, Zgorzelec), outstanding balance of EUR 50 million, the Company has received waiver valid for 2014, and in respect of the other facility (Liberec), totalling EUR 21 million, the Company negotiates with financial institutions for obtaining of waivers, on all outstanding breaches. In addition, and in respects of two bank facilities assumed under the termination agreement in Romania (refer to 10(h) below), both bank facilities have expired and the Company is in negotiations on new terms of the facilities.

Furthermore, cross-default clauses in credit facilities may be triggered due to the fact that the Company has been granted a provisional suspension of payments. The Company has therefore reclassified all bank debt as current.

**g. Receiving of insurance claim India**

In June 2014 the Company reclaimed INR 190 million (EUR 2.3 million) of cash due to insurance claim in respect of loss of profit in its Koregaon Park shopping Center in Pune India, following the fire event there in June 2012. The refund was recorded as part of other income in the income statement.

**h. Termination of Joint venture agreement in Romania**

In June 2014, the Company terminated, following a mutual agreement, its joint venture agreement with an Israeli based Company ("Aura"). The seven assets companies held by the joint venture were splitted between the Company's 50.1% subsidiary ("Plaza Bas") and Aura, where Aura received full control (100%) over three of the asset companies, Plaza Bas received full control over the remaining four asset companies (including principally four trading property assets valued at EUR 5 million and two bank facilities with principal of EUR 9.7 million).

In addition, Aura paid in July 2014 an amount of EUR 0.6 million to the Company as part of the joint venture termination. The Company has performed valuation of the assets and liabilities it obtained in full following the termination, and as a result recorded a loss of EUR 4.1 million from this transaction, included as part of the Loss from disposal of equity accounted investees in these condensed consolidated interim statement of profit or loss.