

29 March 2018

PLAZA CENTERS N.V.

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FURTHER PORTFOLIO REPOSITIONING & DELEVERAGING

Plaza Centers N.V. ("Plaza" / "Company" / "Group") today announces its results for the year ended 31 December 2017.

Financial highlights:

- Reduction in total assets to €141 million as a result of the Company's portfolio repositioning and deleveraging strategy (31 December 2016: €322 million)
- Book value of the Company's Trading properties and investment in equity accounted investees decreased by €201 million to €93 million over the period, due to disposals (mainly Suwalki Plaza and Torun Plaza (in Poland) and Belgrade Plaza (in Serbia)) in line with the restructuring plan
- Consolidated cash position as at December 31, 2017 increased to €44.8 million (31 December 2016: €12.8 million including restricted bank deposits) and current cash position of circa €5.2 million
- Revenue from disposal of trading properties totalled €193 million (2016: €29 million) in line with the Company's extensive disposal program
- €15 million loss recorded at an operating level (December 31, 2016: €30.4) where a gain from selling trading properties and profit from operating active shopping centres was offset by write-down of trading properties and administrative expenses
- Losses decreased to €26.5 in million in 2017 from €46.5 million in 2016 as the write down of trading properties decreased by €29 million, while net finance expense were €10.6 and €15.4 million, respectively
- Basic and diluted loss per share of €3.87 (December 31, 2016: loss per share of €6.78)

Progress in portfolio rationalisation and financial highlights:

During 2017 and to the date of this announcement, Plaza received net proceeds of €119.4 million from sales transactions and price adjustments. The disposals form part of the Company's ongoing strategy to reduce the Company's debt.

Sale of Suwalki Plaza:

In January 2017, The Company sold its SPV holding Suwałki Plaza shopping and entertainment centre in Poland for €16.7 million. The purchaser was an investment fund which is connected to a former employee of the Company.

Out of the net proceeds, at least 75% were distributed to the Company's bondholders in March 2017, in line with the Company's stated amended restructuring plan.

Sale of Belgrade Plaza:

On January 26, 2017, the Company signed a binding share purchase agreement with BIG Shopping Centers Ltd., a publicly traded company listed in the TA 100 Index, for the sale of the SPV holding Belgrade Plaza shopping and entertainment centre.

The shopping centre, which was over 97% pre-let, opened on 20th of April 2017 and the Company had remained responsible for the development and leasing of the asset until the opening.

Upon completion of the transaction, the Company has received an initial payment of €31.7 million from the purchaser, and has since received a further €2 million following the opening and further payments are contingent upon certain operational targets and milestones being met. The Purchaser has provided a guarantee to secure these future payments.

The final agreed value of Belgrade Plaza, which comprises 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 estimates will be approximately €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 received a further payment of €13.35 million during September 2017 based on the SPA on account of the final proceed which will be calculated one year following the opening of the mall, subject to price adjustments in the next two years. As a result, the Company recorded a gain from the sale totalling circa €3.2 million. Expected future purchase price adjustments are not recognised.

At least 75% of the net proceeds received from the disposal were distributed to the Company's bondholders in March 2017, and following the receipt of any future additional payments, in line with the Company's stated Amended Plan, 78% will be paid to the bondholders.

Sale of office building in Hungary:

On February 16, 2017, the Company signed an agreement for the sale of its SPV holding in David House, an office building in Budapest, to private investors for a gross amount of €3.2 million.

Out of the net proceeds, at least 75% were distributed to the Company's bondholders in March 2017, in line with the Company's stated Amended Plan.

Sale of Shumen plaza project, Bulgaria:

On February 23, 2017, the Company announced that it had concluded the sale of a 26,057 sqm plot of land in Shumen, Bulgaria, for circa €1 million, which is slightly above book value. Of the net proceeds, at least 75% were distributed to the Company's bondholders in March 2017, in line with the Company's stated Amended Plan.

Compliance of the early prepayment term:

On March 15, 2017, the Company paid its bondholders a total amount of NIS 191.74 million (€49.2 million) as an early redemption and, accordingly, upon such payment the Company complied with the early redemption term with a 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.

Preliminary Sale Agreement of Plot in Lodz, Poland:

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 €1.2 million. As part of the agreement, the purchaser paid an immediate installment of EUR 0.035 million and the completion payment to make it totaling 10% of the sale price, comprising an immediate installment already paid of EUR 0.035 million followed by an installment of EUR 0.085 million shall be paid when the purchaser obtains environmental permit for investing in the access road to the plot. The remaining balance minus 50% of the sum invested in the road (up to maximum amount of EUR 0.12 million) will be paid once a building permit is obtained for development of the land which is expected to be granted till the end of 2018.

In line with the Company's stated amended restructuring plan, 78% of the net cash proceeds will be distributed to Plaza's bondholders.

New payment structure for the sale of project in Bangalore, India

On 16 June 2017, further to its announcement on 15 November 2016, that its jointly controlled subsidiary Elbit Plaza India Real Estate Holdings Limited (in which Plaza holds effectively a 50% stake with its joint venture partner, Elbit Imaging Ltd.) ("EPI") signed a revised agreement in relation to the sale of a 100% interest in a special purpose vehicle which holds a site in Bangalore, India, to a local investor (the "Purchaser"). The Purchaser and EPI agreed that the purchase price will be amended to INR 338 Crores (approximately €44.2 million) instead of the INR 321 Crores (approximately €42 million) agreed in the previous agreement. Refer to key highlight since the period end regarding the dispute with the purchaser followed by a further revised agreement.

Sale of Kielce Plaza, Poland:

On June 19, 2017, The Company announced that it has signed the final sale agreement for the disposal of its 2.47 hectare plot in the centre of Kielce, Poland, for €2.28 million (a down payment

of €0.47 million was received in 2016). In line with the Company's stated amended restructuring plan, 75% of the net cash proceeds was distributed to Plaza's bondholders.

Completed sale of Leszno plot in Poland:

In July 2017, The Company signed the final sale agreement for the disposal of a 1.8 hectare plot in the city of Leszno for €810,000.

In line with the Company's stated amended restructuring plan, 75% of the net cash proceeds from the disposal distributed to Plaza's bondholders.

Sale of plots in Timisoara and Constanta, Romania:

On 7 August, 2017 the Company completed the disposal of a plot totalling approximately 32,000 sqm in Timisoara, Romania, for €7.25 million. The Company also announced that it completed the sale of a plot totalling approximately 30,000 sqm in Constanta, Romania, for €1.3 million.

In line with the Company's stated amended restructuring plan, 75% of the net cash proceeds from both disposals were distributed to Plaza's bondholders.

Extension of long stop date regarding disposal of Piraeus plot in Greece

Following the preliminary agreement regarding the disposal of a plot in Piraeus, Greece, several amendments were signed during 2016-2017 the latest amendment deadline had expired on January 20, 2018. The last selling price of the share of the SPV holding the plot was set at EUR 3.545 million. In order to secure the prolonged validity of the initial agreement, the purchaser has paid advance payments in a total amount of EUR 0.3 million non-refundable to Plaza. The completion of the transactions is expected to be concluded in 2018 as an asset deal (instead of the original agreement of share deal) with a lower sale price of EUR 3.35 million.

Sale of land plot in Budapest, Hungary

On 2 October 2017 the Company concluded an agreement with an international investor, NEPI Rockcastle, on the termination of land use rights over a circa 21,788 sqm land plot adjoining Arena Plaza in Budapest, Hungary, registered to a subsidiary of the Company, Kerepesi 5 Irodaépület Kft ("K5"). The transaction also included the termination of the preliminary easement agreement, which provided K5 with certain easement rights over the plot. NEPI Rockcastle is the largest listed retail centre owner in CEE and recently acquired the Arena Plaza shopping centre from a third party.

As a result of the agreement, K5 received a net sum of €2.5 million. At least 75% of the net proceeds received from the disposal were distributed to the Company's bondholders.

Sale of Torun Plaza, Poland

On 21 November 2017 one of the Company's subsidiaries has completed the sale of Torun Plaza shopping and entertainment centre in Poland to a private investment fund.

The Company has received circa €28.3 million. This net cash is after the deduction of the bank loan (circa €43.3 million), and other working capital adjustments in accordance with the balance sheet of the SPV holding the Project. The above-mentioned sums do not include the earn-out payments in an amount of € 0.35 million, reduced by NAV adjustment of € 0.2 million. The Company recorded revenue of € 71.6 million from the disposal and a loss of circa €1.5 million (not including the earn-out payment mentioned).

78% of the net proceeds received from the disposal were distributed to the Company's bondholders during January 2018.

Sale of a plot in Belgrade, Serbia:

Following the sale of "MUP" plot in Belgrade, Serbia, the Company was entitled to an additional contingent consideration of €0.6 million once the purchaser successfully develops at least 69,000 sqm above ground. The consideration was received in September 2017 and is recorded as revenue from disposal of trading properties.

Of the net proceeds, at least 75% were distributed to the Company's bondholders in October 2017, in line with the Company's stated Amended Plan.

Sale of a plot in Lodz, Poland:

On September 28, 2016, the Company completed the sale of a 20,700 sqm plot of land in Lodz, Poland, to a residential developer, for €2.4 million in cash. Following this transaction, the Company owns a remaining 4,000 sqm site.

The Company received €1.44 million in 2016 in installments, and a final installment of €0.96 million was received in June 2017.

In line with the Company's stated restructuring plan, 75% of the net cash proceeds from the sale of the plot was distributed to the Company's bondholders.

Appointment of new auditor

On 29 June 2017, Plaza announced that, following the conclusion of a formal tender process led by the Company's Audit Committee, the Board of the Company approved the appointment of Kost Forer Gabbay & Kasierer, the largest accounting firm in Israel and a member of Ernst & Young Global, as its new IFRS auditor. In addition, the Company's general meeting of shareholders appointed on 20 February 2018, Baker Tilly Berk N.V. as the Dutch statutory auditor for the year 2017, who will audit the statutory annual accounts (comprising stand-alone accounts and consolidated (IFRS) accounts).

Standard & Poor's credit rating update

On September 28 2017 Standard & Poor's Maalot ("Maalot"), the Israeli credit rating agency which is a division of International Standard & Poor's, reduced its credit rating of Plaza's two series of Notes traded on Tel Aviv Stock Exchange from "iCCC" to "iCC" with negative outlook on a local Israeli scale.

Update regarding repayment to bondholders

On 21 December 2017 the Israeli Series A bondholders triggered the immediate repayment of the entire outstanding debt under the Series A trust deed. Further to its announcements of 4 October 2017 and 14 December 2017, with respect to the order of the Israeli court to allocate the mandatory repayment amounts according to the ratios set out in the Company's restructuring plan. On 27 December 2017 an initial agreement was reached among both Series of Israeli Bonds and the Company with respect to the allocation of funds between the 2 Series of Israeli Bonds, from that day onwards. On 11 January 2018 the agreement became final and the Series A Bondholders withdrew their request for immediate repayment.

At the date of this announcement, the board and management estimate that there are significant doubts regarding the Company's ability to serve its entire debt according to the current repayment schedule. Moreover, following the new payment structure agreed for the sale of the project in Bangalore, India, which is detailed below, it is expected that the Company will not be able to meet its entire contractual obligations in the upcoming 12 months.

Key highlights since the period end:

In January 2018, Maalot has discontinued tracking the Plaza's rating at the Company's request.

Dispute with the purchaser of a plot in India and a revised agreement

On 19 January 2018, further to its press release dated June 19, 2017 regarding the signing of a revised agreement for the sale of the 100% interest in an SPV (in which Plaza holds a 50% stake with its joint venture partner, Elbit Imaging Ltd.), that holds property in Bangalore, India, to a local investor (the "Agreement" and the "Purchaser" respectively), that, due to a proposed change (initiated by the Indian authorities) which could potentially impact the development of the land, the Purchaser has given notice that all remaining payments under the Agreement will be stopped until a mutually acceptable solution is reached.

On 21 February 2018 despite the notice by the Purchaser that remaining payments under the Agreement will be stopped, the Purchaser has paid the January installment totalling INR 5 Crores (circa €0.65 million).

To date, since the signing of the Agreement, the Purchaser has paid non-refundable advance payments totalling INR 45 Crores (circa € 5.9 million), out of the total consideration of INR 338 Crores (circa €44.2 million) due under the Agreement.

In March 2018, the Company signed a further revised agreement. The Purchaser and EPI have agreed that the total purchase price shall be increased to INR 350 Crores (approximately €45.8 million). By the end of March 2018, the Purchaser will pay EPI INR 10 Crores (approximately €1.3 million), in addition to the INR 45 Crores (approximately €5.9 million) already paid since the period end. Further to this, a total of INR 83 Crores (approximately €10.8 million) will be paid by the Purchaser in monthly installments until the final close of the transaction. The Final Closing is now expected to take place on 31 August 2019, when the final installment of circa INR 212 Crores (approximately €27.8 million) will be paid to EPI against the transfer of the outstanding share capital of the SPV.

If the Purchaser defaults before the Final Closing, EPI is entitled to forfeit certain amounts paid by the Purchaser as stipulated in the revised agreement. All other existing securities granted to EPI under the previous agreements will remain in place until the Final Closing.

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 8(6) and 27(d) of the financial statements. The Company is currently examining the motion with its legal advisors and intend to respond in due course.

Appointment of Acting CEO

Following the announcement that Dori Keren will step down from the Company at the end of March 2018, the Board appointed Avi Hakhamov, who has been with the Company for more than 11 years, as Acting CEO of the Company commencing 1 April 2018. Avi Hakhamov joined in 2006 as financial controller in the headquarters team of the Group and has been Acting CFO for the past two years. He has held past audit and professional advisory roles at accountancy firms, BDO, Arthur Andersen and KPMG Israel, and holds an MBA degree in Accounting and Business as well as being a certified public accountant in Israel.

Commenting on the results, CEO Dori Keren said:

“The focus of the last 12 months has very much been centred on our extensive disposal programme, as we continued with our efforts to decrease the Company’s debt and to meet the demands of the restructuring programme. While it has been challenging, I am pleased with the

progress we have made, having divested €183 million of assets (including an office building) during the course of the year.

“At end of March 2018, I am leaving Plaza Centers after 11.5 years, and I would like to wish the very best for the future.”

For further details, please contact:

Plaza

Dori Keren, CEO

+ 48 22 231 99 00

FTI Consulting

Dido Laurimore / Claire Turvey / Tom Gough

+44 (0)20 3727 1000

Notes to Editors

Plaza Centers N.V. (www.plazacenters.com) is listed on the Main Board of the London Stock Exchange, as of 19 October 2007, on the Warsaw Stock Exchange (LSE: “PLAZ”, WSE: “PLZ/PLAZACNTR”) and, on the Tel Aviv Stock Exchange. Plaza Centers N.V. is an indirect subsidiary of Elbit Imaging Ltd. (“EI”), an Israeli public company whose shares are traded on both the Tel Aviv Stock Exchange in Israel and on the NASDAQ Global Market in the United States. Plaza Centers has been active in real estate development in emerging markets for over 22 years.

Forward-looking statements

This press release may contain forward-looking statements with respect to Plaza Centers N.V. future (financial) performance and position. Such statements are based on current expectations, estimates and projections of Plaza Centers N.V. and information currently available to the company. Plaza Centers N.V. cautions readers that such statements involve certain risks and uncertainties that are difficult to predict and therefore it should be understood that many factors can cause actual performance and position to differ materially from these statements. Plaza Centers N.V. has no obligation to update the statements contained in this press release, unless required by law.

MANAGEMENT STATEMENT

During 2017 the management’s focus has almost entirely been on delivering the €183 million of disposals that we completed in the 12 months to 31 December, which produced €119 million in net proceeds. Our commitment to this process has substantially reduced our total assets from €322

million to €141 million as we progressed our efforts to meet the obligations of the restructuring programme and to our stakeholders.

The sale of key properties to reputable purchasers, including NEPI Rockcastle and BIG Shopping Centers is testament to the quality of these assets, such as Toruń Plaza, which was developed by the Company, and the high standard of the asset management under our ownership. Belgrade Plaza was sold prior to the completion of its construction.

As a result of this activity, our total portfolio now comprises nine assets in five countries, including two plots in Poland, one plot in Serbia, three plots in Romania, one plot in Greece and two plots in India (under JV with Elbit).

Over the coming months, the Company will maintain its focus on and commitment to the portfolio rationalisation and the deleveraging of the balance sheet.

Results

During the year, Plaza recorded a €26.5 million loss attributable to the shareholders of the Company. This is a 43% decrease compared to the losses reported in 2017 (loss of €46.5 million).

Revenue from the operating shopping centres was €8 million (2016: €15.6 million), with the reduction, due to the disposal of Suwalki Plaza in Poland in January 2017, and Torun Plaza in November 2017. Currently the Company holds no operating assets.

Total result of operations excluding the finance income and finance cost was loss of €14.9 million in 2017 and €30.4 in 2016. Losses were generated in both years mainly from write down of trading properties.

The consolidated cash position as at 31 December 2017 was €44.8 million (31 December 2016: €12.8 million) and the current cash position is circa €5.2 million.

Liquidity & Financing

Plaza ended the period with a consolidated cash position of €44.8 million, compared to €12.8 million at the end of 2016.

As at December 31 2017 the Group's outstanding obligation to bondholders is €123 million after all bank loans were repaid or disposed. The outstanding balance of the debt to bondholders was €82.2 million as of 29 March 2018.

In November 2016, the Group agreed with its bondholders to amend the terms of the early repayment requirement under the original debt restructuring plan (the "Restructuring Plan"). On

March 15, 2017, the Group repaid the required minimum early repayment to its bondholders and thus obtained a deferral of one year for the remaining contractual obligations of the bonds.

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 withdrew 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.

On January 31, 2018 the Company paid the bondholders a total amount of principal and interest of EUR 38.5 millions.

Information concerning the Group's obligations and commitments to make future payments under contracts such as debt agreements in the 15 months starting April 1, 2018 is aggregated in the following table:

Liquidity Requirements	Total Payment Due by period (in TEUR)	
	Within 1 year	Within 1-1.25 year
Bonds including current portion and interest(*)	23,700	36,700
General & administrative	3,100	600
Total liquidity requirements	26,800	37,300

Total Sources (**)	<u>16,300</u>	<u>4,400</u>
Total deficit	<u>(10,500)</u>	<u>(32,900)</u>

(*) An amount of Circa EUR 37.45 million was repaid (excluding interest) by the date of approval of these consolidated financial statements following the balance sheet date.

(**) The Company expects to increase the amount of its liquid balances during the 15 months starting April 1, 2018, by sale of plots of lands (including India) and others. Not including cash balances as of the date of signing the financial statements.

The board and management estimate that there are significant doubts regarding the Company's ability to serve its entire debt according to the current repayment schedule. Moreover, following the new payment structure agreed for the sale of the project in Bangalore, India, which is detailed below, it is expected that the Company will not be able to meet its entire contractual obligations in the upcoming 12 months.

As of December 31, 2017 the Company is not in compliance with Coverage Ratio Covenant ("CRC") as defined in the restructuring plan. This may entitle the bondholders to declare that all or a part of their respective (remaining) claims become immediately due and payable.

In respect of credit rating downgrade followed by withdraw of credit rating by Standard & Poor at the Company's request refer to Note 15 (e) to the financial statements.

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. As at the date of these financial statements the bondholders have not taken steps to assert their rights.

Strategy and Outlook

At this point in time, the Company remains focused on completing the disposal of the assets identified for sale and on delivering on its commitments to its stakeholders.

OPERATIONAL REVIEW

Over the course of the year to date, Plaza has continued to make good progress against its operational and strategic objectives. The status of the nine projects is outlined in the table below.

The Company's current assets are summarised in the table below:

Asset/Project	Location	Nature of asset	Plot Size sqm	Plaza's effective ownership %	Status (*)
Casa Radio	Bucharest, Romania	Mixed-use retail, hotel and leisure plus office scheme	467,000 (GBA including	75	In planning and permitting phase

			parking spaces)		
Lodz Plaza	Lodz, Poland	Retail & entertainment scheme	61,500	100	Designated for sale; Preliminary sale agreement for part of the plot
Lodz (Residential)	Lodz, Poland	Residential scheme	4,000	100	Under sale process; Circa 29,000 sqm was sold during 2015-2016
Csiki Plaza	Miercurea Ciuc, Romania	Retail & entertainment scheme	36,500	100	Designated for sale
Brasov	Brasov, Romania	Retail & entertainment scheme	67,000	100	Designated for sale
Krusevac	Krusevac, Serbia	Retail & entertainment scheme	19,930	100	Designated for sale
Piraeus Plaza	Athens, Greece	Retail/Offices	15,000	100	A binding sale agreement was signed, subject to certain conditions
Bangalore	Bangalore, India	Residential Scheme	218,500	25	Amended sale agreement in place
Chennai	Chennai, India	Residential Scheme	302,400	50	JDA was signed in August 2016

*Projects that are classified as “Under planning and permitting phase” also have potential to be sold as land.

Details of major activities by country are as follows:

Poland

Preliminary Sale Agreement of Plot in Lodz, Poland:

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 €1.2 million. As part of the agreement, the purchaser paid an immediate installment of EUR 0.035 million and the completion payment to make it totaling 10% of the sale price, comprising an immediate installment already paid of EUR 0.035 million followed by an installment of EUR 0.085 million shall be paid when the purchaser obtains environmental permit for investing in the access road to the plot. The remaining balance minus 50% of the sum invested in the road (up to maximum amount of EUR 0.12 million) will be paid once a building permit is obtained for development of the land which is expected to be granted till the end of 2018.

Romania

Plaza holds a 75% interest in a joint venture with the Government of Romania to develop Casa Radio (Dambovita), which is the largest development opportunity in central Bucharest. A 467,000 sqm complex, including a 90,000 sqm GLA shopping mall, leisure centre, offices, a hotel and a convention and conference hall, is planned for the site. The Company has obtained a PUD (Detailed Urban Permit) and a PUZ (Zonal Urban Plan) for the Dambovita Centre Multifunctional Complex.

Following the global financial crisis and to ensure that the development process was more aligned with the current market conditions, the Company initiated preliminary discussions with the Authorities (which are shareholders in the SPV and a party to the Public Private Partnership) regarding the future of the project. The Company has also officially notified the Authorities that it will be seeking to redefine some of the terms in the existing PPP contract, including the timetable, structure and project milestones.

Refer to the Company's financial statements section for additional information.

India

In 2008, Plaza formed a 50:50 joint venture with Elbit Imaging (the "JV") to develop large mixed-use projects in Bangalore, Chennai and Kochi. Under the terms of the agreement, Plaza acquired a 47.5% stake in Elbit Plaza India Real Estate Holdings Limited ("EPI"), which had existing stakes in mixed-use projects in India, in conjunction with local Indian partners.

The JV projects are as follows:

Bangalore

In June 2017, EPI signed a revised sale agreement with the former partner (the "Purchaser"), which amended the purchase price to INR 338 Crores (approximately €44.2 million), an increase on the INR 321 Crores (approximately €42 million) previously agreed. As part of the agreement, INR 110 Crores (approximately €14.4 million) was to be paid by the Purchaser in installments up to the Final Closing, set at September 1, 2018. Since the signing of the revised agreement, the Purchaser has paid non-refundable advance payments totalling INR 45 Crores (circa €5.9 million).

After the period end, in January 2018, the Purchaser notified EPI that, due to a proposed zoning change initiated by the Indian authorities which could potentially impact the development of the land, all remaining payments under the Agreement would be stopped until a mutually acceptable solution was reached on this matter. EPI rejected the Purchaser's claims, having no relevance to the existing Agreement, and commenced an evaluation of its legal options.

In March 2018, the Company signed a further revised agreement. The Purchaser and EPI have agreed that the total purchase price shall be increased to INR 350 Crores (approximately €45.8

million). By the end of March 2018, the Purchaser will pay EPI INR 10 Crores (approximately €1.3 million), in addition to the INR 45 Crores (approximately €5.9 million) already paid since the period end. Further to this, a total of INR 83 Crores (approximately €10.8 million) will be paid by the Purchaser in unequal monthly installments until the final close of the transaction. The Final Closing is now expected to take place on 31 August 2019, when the final installment of INR 212 Crores (approximately €27.8 million) will be paid to EPI against the transfer of the outstanding share capital of the SPV.

If the Purchaser defaults before the Final Closing, EPI is entitled to forfeit certain amounts paid by the Purchaser as stipulated in the revised agreement. All other existing securities granted to EPI under the previous agreements will remain in place until the Final Closing.

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 zones" due to their proximity to water reservoirs and water drains ("Order"). The restrictions are applicable to all construction projects.

The government of Karnataka has been directed to apply the above conditions to all construction projects in the city of Bangalore, including the Company's project which is adjacent to the Varthur Lake.

An appeal was filed before the Supreme Court of India against the Order. The Supreme Court has stayed the operation of certain portions of the Order. At this stage, it is difficult to predict the expected timing of a decision from the Supreme Court of India on the matter.

Chennai

On July 21, 2016 Chennai Project SPV signed a Joint Development Agreement with a local developer (respectively the "JDA" and the "Developer") 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.

Development will commence subject to the obtainment of the required governmental / municipal approvals and permits, and it is intended that 67% of the Property will be allocated for the sale of plotted developments (whereby a plot is sold with the infrastructure in place for the development of a residential unit by the end purchaser), while the remainder will comprise residential units fully constructed for sale.

The Chennai Project SPV will receive 73% of the total revenues from the plotted development and 40% of the total revenues from the sale of the fully constructed residential units. In order to secure its obligation, the Developer has paid a refundable deposit of INR 10 Crores (approximately €1.3 million) following the signing and registration of the JDA.

The JDA may be terminated in the event that the required governmental approvals for the construction of an access road to the Property are not received within 12 months of the execution date of the JDA. As at the date of this announcement, the required approvals have not yet been obtained within the target period, but the agreement remains in place. Should the agreement be terminated, the Developer will be entitled to the refund of amounts paid as a Refundable Deposit, as well as any other costs associated with the access road project or the title over the Property. The JDA may also be terminated by the Chennai Project SPV, inter alia, if the Developer has not completed certain development milestones and / or has breached the terms of the JDA . As a result, the SPV's financial statements include a provision for INR 30 Crores (€3.9 million) for cost reimbursement, including the INR 10 Crores (€1.3 million) advanced payment received.

FINANCIAL REVIEW

Results

Losses for the period amounted to €26.5 million in 2017, reflecting basic and diluted losses per share of €3.87, a 43% reduction on the 2016 loss of €6.78 per share.

Revenue for the period derived from the disposal of trading properties amounted to €193 million, compared to €29 million in 2016, the increase being largely attributable to the sales of Suwalki Plaza and Torun Plaza in Poland in January and November respectively, and the disposal of Belgrade Plaza in Serbia in January.

Due to these disposals, operating income from the shopping and entertainment centres has decreased to €5.7 million in 2017 from €10.7 million in 2016.

The write down of trading properties reduced from €40.8 million in 2016 to €11.5 million in 2017. The 2017 write down is mainly attributable to Casa Radio (€9.7 million, net) and Lodz Plaza (€1.2 million) projects.

During the year, administrative expenses decreased to €6.1 million (2016: €6.5 million) and further reductions are targeted for 2018. The decrease was offset by an increase in audit and other related costs due to the 2016 re-audit and replacement of the IFRS financial statements auditors and the cost of the new settlement agreement.

Finance income in 2017 was €0.6 million (2016: €18.6 million). A gain of €17.6 million was recorded in 2016 due to settlement of loans connected to a plot in Brasov, Romania and Zgorzelec Plaza.

Finance costs decreased considerably to €11 million in 2017, from €34 million in 2016. The main components were:

- FOREX (NIS-EUR) – the effect on the debentures totalled €1.1 million (2016 – €5.5 million).
- Interest expenses booked on bank loans and debentures totalled €10.7 million (2016: €17.3 million).
- €0.7 million recorded as non-cash income, associated with the amortisation of the discount on debentures (2016: €13.7 million expense).
- In 2017 no financial costs were capitalized (2016: €5.1 million).

Balance sheet and cash flow

The balance sheet as at 31 December 2017 showed total assets of circa €141 million compared to total assets of €322 million at the end of 2016, largely as a result of the implementation of the debt reduction strategy through asset disposal.

The consolidated cash position as at 31 December 2017 increased to €44.8 million (31 December 2016: €12.8 million) mainly due the sale of Torun Plaza in November.

The value of the Company's trading properties decreased from €263.7 million as at 31 December 2016 to €73.5 million at the end of 31 December 2017, following the disposals of Suwalki Plaza, Belgrade Plaza and Torun Plaza, and the circa €10 million impairment against the Casa Radio project in Romania.

Investments in equity accounted investee companies has decreased to €19.5 million (31 December 2016: €30 million) mainly as a result of impairment of the two projects in India in an amount of € 5.4 million (31 December 2016: € 11.6 million).

Due the sale of Belgrade Plaza, trade payables has decreased from €7.4 million to €0.6 million.

There were no bank loan borrowings as of 31 December 2017 due to the sale of Torun Plaza, Suwalki Plaza and Belgrade Plaza (31 December 2016: €82.3 million).

Aside from bank financing, Plaza has a balance sheet liability (including accrued interest) of €117 million (with an adjusted par value of circa €123 million) from issuing bonds on the Tel Aviv Stock Exchange and to Polish institutional investors. These bonds are presented at amortised cost under current liabilities.

Provision was created with respect to the obligation connected to Casa Radio project (Bucharest Romania) in the amount of €12.8 million (2016: €13.2 million) for the construction of the Public Authority Building.

Disclosure in accordance with Regulation 10(B)14 of the Israeli Securities Regulations (periodic and immediate reports), 5730-1970

1. General Background

According to the abovementioned regulation, upon existence of warning signs as defined in the regulation, the Company is obliged to attach to its report's projected cash flow for a period of two years, commencing from the date of approval of the reports ("Projected Cash Flow").

The Material uncertainty related to going concern was included in the independent auditors' report and in view of the management's plans for asset disposals and also in respect of material uncertainty related to Casa Radio project, as described in Notes 2, 8 of these Financial Statements in this press release.

With such warning signs, the Company is required to provide projected cash flow for the period of 24 months following the reporting period, and also provide explanations on differences between previously disclosed estimated projected cash flows with actual cash flows.

2. Projected cash flow

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 (€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 (€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 (which is equal to 0.25% from the Company's outstanding debt under the bonds at that time). The consent Fee shall be paid to the Company's bondholders on a pro rata basis. During 2017, the Company paid to its bondholders a total amount of NIS 191.74 million (€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 January 2018, a settlement agreement was signed by and among the Company and the two Israeli Series of Bonds (refer to section “Liquidity and financing”).

The materialisation, occurrence consummation and execution of the events and transactions and of the Assumptions on which the projected cash flow is based, including with respect to the proceeds and timing thereof, although probable, are not certain and are subject to factors beyond the Company's control as well as to the consents and approvals of third parties and certain risks factors. Therefore, delays in the realisation of the Company's assets and investments or realisation at a lower price than expected by the Company, as well as any other deviation from the Company's Assumptions (such as additional expenses due to suspension of trading, delay in submitting the statutory reports etc.), could have an adverse effect on the Company's cash flow and the Company's ability to service its indebtedness in a timely manner.

	2018	2019
Cash - Opening Balance	44.8	-4.6
Proceeds from selling of trading properties ⁽¹⁾	13.6	43.3
Total Sources	58.4	38.7
Debentures - principal	53.9	64.1
Debentures - interest	5.7	4.3
Compensation to Bondholders	0.2	1.5
Operational expenses	3.2	2.0
Total Uses	63.0	71.9
Cash - Closing Balance	-4.6	-33.2

1. Comprised from the sale of plots: Piraeus, Lodz Residential, Lodz Plaza, Krusevac, Mirecurea Ciuc, Brasov, Chennai and Bangalore (Company's share 50%), 50% of Casa Radio and additional installment for Torun Plaza, Riga Plaza and Belgrade Plaza.

2. Assuming EUR/NIS rate of 4.2 and EUR/PLN rate of 4.16. The repayment schedule takes into consideration that in the case of a disposal of an asset, 78% of the proceeds are used for the early prepayment of the Unsecured Debt in accordance with the terms of the settlement agreement signed in January 2018.

Below is a summary table of the comparison between forecasted and actual cash flow, with explanations on the differences published for the year ending 31 December 2017.

In € millions		2017 Forecast	2017 Actual
Cash - Opening Balance		2.5	2.5
Proceeds from selling trading properties*		115.3	119.4
Cash flows from operating Activities(1)		6.7	1.7
Total Sources		122.0	121.1
Debentures – principal(2)		88.8	62.1
Debentures - interest		10	9.5
Bank loans - principal		1.4	0.9
Bank loans - interest		1.7	0.5
Operational expenses(3)		5	5.8
Total Uses		106.8	78.8
Cash - Closing Balance		17.7	44.8
Income / Financing costs from Shopping Centres		-3.2	-
Release from Shopping Centres		1.5	-
Cash - Closing Balance		15.9	44.8

* Including advanced payments for the sale of assets

(1) The NOI from Torun Plaza is included in the proceeds from the sale.

(2) The payment was made in January 2018 following the settlement agreement with the bondholders

(3) Increase as a result of unexpected audit and other related costs due to the 2016 re-audit and replacement of the IFRS financial statements auditors and the cost of the new settlement agreement.

Dori Keren

CEO

29 March 2018

PLAZA CENTERS N.V.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

IN 000 EUR

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PLAZA CENTERS N.V.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION IN '000 EUR

	Note	December 31,	
		2017	2016
ASSETS			
Cash and cash equivalents	4	44,844	5,646
Restricted bank deposits	5	-	7,174
Trade receivables	6	-	6,645
Other receivables	7a	670	1,614
Prepayments	7b	131	624
Total current assets		<u>45,645</u>	<u>21,703</u>
Trading properties	2, 8	73,569	263,695
Equity - accounted investees	10	19,530	30,160
Property and equipment	9	178	2,400
Related parties receivables	28	1,753	1,720
Long term receivables	10	-	699
Prepayments	7c	-	1,747
Total non-current assets		<u>95,030</u>	<u>300,421</u>
Total assets		<u><u>140,675</u></u>	<u><u>322,124</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest bearing loans from banks	11	-	82,275
Bonds at amortized cost	15	116,914	178,370
Trade payables	12	584	7,443
Related parties' liabilities	13	87	206
Derivatives		-	453
Other liabilities	14	1,878	2,906
Total current liabilities		<u>119,463</u>	<u>271,653</u>
Provisions	8(5)	12,849	13,244
Deferred taxes	16	-	116
Long term payables		-	488
Total non-current liabilities		<u>12,849</u>	<u>13,848</u>
Share capital	17	6,856	6,856
Translation reserve	17	(28,800)	(27,103)
Other reserves		(19,983)	(19,983)
Share based payment reserve	17	35,376	35,376
Share premium	17	282,596	282,596
Retained losses		(267,682)	(241,119)
Total equity		<u>8,363</u>	<u>36,623</u>
Total equity and liabilities		<u>140,675</u>	<u>322,124</u>

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

March 29 , 2018

**Date of approval of the
financial statements**

Dori Keren
Chief Executive Officer

David Dekel
**Director and Chairman of the
Audit Committee**

PLAZA CENTERS N.V.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS IN '000 EUR

	<u>Note</u>	<u>Year ended December 31,</u>	
		<u>2017</u>	<u>2016</u>
Revenues and gains			
Revenue from disposal of trading properties	8(5)(a-j)	192,958	29,395
Total revenues		<u>192,958</u>	<u>29,395</u>
Gains and other			
Rental income	20	7,908	15,611
Share in results of equity-accounted investees, net of tax	10	-	4,274
Other income	23	757	375
Total gains		<u>8,665</u>	<u>20,260</u>
Total revenues and gains		<u>201,623</u>	<u>49,655</u>
Expenses and losses			
Cost of Trading properties disposed	8(5)(a-j)	(188,868)	(25,883)
Cost of operations	21	(2,231)	(4,886)
Write-down of Trading Properties	8	(11,487)	(40,810)
Share in results of equity-accounted investees, net of tax	10	(7,177)	-
Administrative expenses	22	(6,146)	(6,506)
Other expenses	23	(657)	(1,922)
		<u>(216,566)</u>	<u>(80,007)</u>
Finance income	24	577	18,642
Finance costs	24	(11,196)	(34,096)
		<u>(227,185)</u>	<u>(95,461)</u>
Loss before income tax		<u>(25,562)</u>	<u>(45,806)</u>
Income Tax expense	25	(1,001)	(711)
Loss for the year		<u>(26,563)</u>	<u>(46,517)</u>
Loss attributable to:			
Equity holders of the Company		<u>(26,563)</u>	<u>(46,517)</u>
Earnings per share			
Basic and diluted loss per share (EUR)	18	<u>(3.87)</u>	<u>(6.78)</u>

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

PLAZA CENTERS N.V.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IN '000 EUR

	Year ended December 31,	
	2017	2016
Loss for the year	(26,563)	(46,517)
Other comprehensive income		
<u>Items that are or may be reclassified to profit or loss:</u>		
Foreign currency translation differences - foreign operations (Equity accounted investees)	(1,697)	272
Other comprehensive loss for the year, net of income tax	(1,697)	272
Total comprehensive loss for the year	(28,260)	(46,245)
Total comprehensive loss attributable to:		
Equity holders of the Company:	(28,260)	(46,202)
Non-controlling interests	-	(43)
Total comprehensive loss for the year	(28,260)	(46,245)

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

PLAZA CENTERS N.V.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN '000 EUR

	Attributable to the equity owners of the Company								
	Share capital	Share Premium	Share based payment reserves	Translation Reserve	Capital reserve from acquisition of non-controlling interests	Retained losses	Total	Non-controlling interests	Total
Balance at January 1, 2016	6,856	282,596	35,376	(27,418)	(20,706)	(194,602)	82,102	766	82,868
Transaction with Non-controlling interests	-	-	-	-	723	-	723	(723)	-
Comprehensive income for the year									
Net loss for the year	-	-	-	-	-	(46,517)	(46,517)	-	(46,517)
Foreign currency translation differences	-	-	-	315	-	-	315	(43)	272
Total comprehensive loss for the year	-	-	-	315	-	(46,517)	(46,202)	(43)	(46,245)
Balance at December 31, 2016	6,856	282,596	35,376	(27,103)	(19,983)	(241,119)	36,623	-	36,623
Comprehensive income for the year									
Net loss for the year	-	-	-	-	-	(26,563)	(26,563)	-	(26,563)
Foreign currency translation differences	-	-	-	(1,697)	-	-	(1,697)	-	(1,697)
Total comprehensive loss for the year	-	-	-	(1,697)	-	(26,563)	(28,260)	-	(28,260)
Balance at December 31, 2017	6,856	282,596	35,376	(28,800)	(19,983)	(267,682)	8,363	-	8,363

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

PLAZA CENTERS N.V.

CONSOLIDATED STATEMENT OF CASH FLOWS IN '000 EUR

	Note	Year ended December 31,	
		2017	2016
Cash flows from operating activities			
Loss for the year		(26,563)	(46,517)
<u>Adjustments necessary to reflect cash flows used in operating activities</u>			
Depreciation and impairment of property and equipment	9	18	67
Net finance costs	24	10,619	15,454
Share of loss (gain) of equity-accounted investees, net of tax	10	7,177	(4,274)
Gain from sale of subsidiaries		(2,900)	(3,512)
Income tax expense	25	1,001	711
		<u>(10,648)</u>	<u>(38,071)</u>
<u>Changes in:</u>			
Trade receivables		(3,102)	277
Other receivables		2,914	(1,438)
Provision		(395)	1,667
Trading properties	8	23,694	17,560
Trade payables		(500)	5,327
Other liabilities, related parties liabilities and provisions		<u>(1,586)</u>	<u>144</u>
		<u>21,025</u>	<u>23,537</u>
Interest received		-	34
Interest paid		(10,739)	(15,801)
Taxes paid		<u>(41)</u>	<u>(189)</u>
Net cash used in operating activities		<u>(403)</u>	<u>(30,490)</u>
Cash from investing activities			
Proceeds from sale of property and equipment		3,127	16
Proceeds from sale of subsidiaries (Appendix A)		89,814	22,046
Changes in restricted cash		3,189	(2,588)
Distribution received from Equity Accounted Investees		<u>2,560</u>	<u>19,337</u>
Net cash provided by investing activities		<u>98,690</u>	<u>38,811</u>
Cash from financing activities			
Proceeds from hedging activities through sale of forwards		-	630
Proceeds from bank loans	11	4,029	11,530
Acquisition of bank loan		-	(1,300)
Repayment of debentures	15	(62,179)	(24,656)
Repayment of interest bearing loans from banks	11	<u>(939)</u>	<u>(4,532)</u>
Net cash used in financing activities		<u>(59,089)</u>	<u>(18,328)</u>
Increase (decrease) in cash and cash equivalents during the year		39,198	(10,007)
Effect of movement in exchange rate fluctuations on cash held		-	(6)
Cash and cash equivalents as at January 1st		<u>5,646</u>	<u>15,659</u>
Cash and cash equivalents as at December 31st		<u><u>44,844</u></u>	<u><u>5,646</u></u>
Non-cash movements			
Receivable due to sale of plot		<u>-</u>	<u>4,449</u>

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

PLAZA CENTERS N.V.

CONSOLIDATED STATEMENT OF CASH FLOWS IN '000 EUR

	Year ended December 31,	
	2017	2016
Appendix A - Proceeds from sale of investments in previously consolidated subsidiaries:		
The subsidiaries assets and liabilities at date of sale:		
Working capital (excluding cash and cash equivalents)	6,307	(5,701)
Trading Properties	166,432	24,430
Bank loans	(85,365)	-
Gain from sale of subsidiaries	2,440	3,317
	<u>89,814</u>	<u>22,046</u>

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

NOTE 1:- PRINCIPAL ACTIVITIES AND OWNERSHIP

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 Prins Hendrikkade 48-S, 1012 AC, 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 is Elbit Ultrasound (Luxembourg) B.V. / S.à r.l. ("EUL"), which holds 44.9% of the Company's shares, as at the end of the reporting period (December 31, 2016 - 44.9%). The Company regards Elbit Imaging Limited ("EI") as the ultimate parent company (refer to Note 28 for more details). For the list of the Group entities, refer to Note 32.

NOTE 2:- BASIS OF PREPARATION

a. Statement of compliance:

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

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. At the date of approving these financial statements the Company had not yet submitted consolidated financial statements for the year ended December 31, 2017 in accordance with the Netherlands Civil Code.

The consolidated financial statements were authorized for issue by the Board of Directors on March 29, 2018.

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.

PLAZA CENTERS N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- BASIS OF PREPARATION (Cont.)

c. Going concern and liquidity position of the Company:

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.

The Group's primary need for liquidity is to repay its debts and fund general corporate purposes. The Group has incurred losses and experienced negative operating cash flows for the past several years, and accordingly, it has taken a number of actions to continue to support its operations and meet its obligations.

As at December 31, 2017 the Group's outstanding obligations to bondholders are EUR 123.2 million.

In November 2016, the Group agreed with its bondholders to amend the terms of the early repayment requirement under the original debt restructuring plan (the "Restructuring Plan"). On March 15, 2017, the Group repaid the required minimum early repayment to its bondholders and thus obtained a deferral of one year for the remaining contractual obligations of the bonds. In January 2018, a settlement agreement was signed by and among the Company and the two Israeli Series of Bonds including a new repayment schedule (refer to Note 15 (b) (3)).

Information concerning the Group's obligations and commitments to make future payments under contracts such as debt agreements in the 15 months starting April 1, 2018 is aggregated in the following tables.

Liquidity Requirements	Total Payment Due by period (in TEUR)	
	Within 1 year	Within 1-1.25 year
Bonds including current portion and interest(*)	23,700	36,700
General & administrative	3,100	600
Total liquidity requirements	26,800	37,300
Total Sources (**)	16,300	4,400
Total deficit	(10,500)	(32,900)

(*) An amount of Circa EUR 37.45 million was repaid (excluding interest) by the date of approval of these consolidated financial statements following the balance sheet date.

(**) The Company expects to increase the amount of its liquid balances during the 15 months starting April 1, 2018, by sale of plots of lands (including India) and others. Not including cash balances as of the date of signing the financial statements.

The board and management estimate that there are significant doubts regarding the Company's ability to serve its entire debt according to the current repayment schedule. Moreover, following the new payment structure for the sale of the project in Bangalore, India, it is expected that the Company will not be able to meet its entire contractual obligations in the following 12 months.

NOTE 2:- BASIS OF PREPARATION (Cont.)

Management acknowledges that the above expected cash flows are based on forward-looking plans and estimations which rely on the information known to management at the time of the approval of these financial statements. The materialization of the above forecast is not certain and is subject to factors beyond the Company's control. Therefore, delays in the realization of the Group's assets and investments or realization at lower price than expected by management could have an adverse effect on the Group's liquidity position and its ability to meet its contractual obligations on a timely manner.

Management further acknowledges that the Company is exposed to foreign currency risk derived from borrowings denominated in currency other than the functional currency of the Group, more specifically a further devaluation of the EUR against the NIS can significantly increase the remaining contractual obligation to bondholders.

As of December 31, 2017 the Company is not in compliance with Coverage Ratio Covenant ("CRC") as defined in the restructuring plan. This may entitle the bondholders to declare that all or a part of their respective (remaining) claims become immediately due and payable.

The Company's financial statements as of December 31, 2016 include an auditor's opinion with emphasis of matter to going concern uncertainty as well as auditor's review report on interim financial statements as of June 30, 2017 include the same. As a result, there is a risk that the bondholders could argue that there exists a substantial suspicion with respect to the Company's ability to repay its obligations that entitles them to immediate repayment.

In addition, based on trust deeds in case of material deterioration in the Company's business and substantial suspicion exists that the Company will not be able to repay the bonds on time, the bondholders may declare immediate repayment of bonds.

In respect of credit rating downgrade followed by withdraw of credit rating by Standard & Poor at the Company's request refer to Note 15 (e) to these consolidated financial statements.

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. As at the date of these financial statements the bondholders have not taken steps to assert their rights.

A 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- BASIS OF PREPARATION (Cont.)

d. 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.

e. 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 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 8 - 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:

- Notes 8 - key assumptions used in determining the net realisable value of trading properties;
- Note 8, 27 - recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

Functional 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 tenants, potential buyers and suppliers, determine its financing activities and budgets and assesses its currency exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 2:- BASIS OF PREPARATION (Cont.)

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.

NOTE 3: - MEASUREMENT OF FAIR VALUES

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 categorised 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 26 - Financial instruments

NOTE 4: - CASH AND CASH EQUIVALENTS

Bank deposits and cash denominated in	December 31,	
	2017	2016
EUR - bank balances	11,654	2,309
Romanian Lei (RON)	-	93
United States Dollar (USD) - bank balances	586	143
New Israeli Shekel (NIS)	32,039	45
Polish Zlotys (PLN)	418	2,293
Other currencies	147	763
	<u>44,844</u>	<u>5,646</u>

*) The balances are not bearing interest.

The Group's sensitivity analysis for financial assets and liabilities are disclosed in Note 26.

PLAZA CENTERS N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5: - RESTRICTED BANK DEPOSITS

	December 31,	
	2017	2016
Short term restricted bank deposits		
In EUR	-	6,626
In PLN	-	548
Total short term	-	7,174

NOTE 6 - TRADE RECEIVABLES

	December 31,	
	2017	2016
Trade receivables (1)	-	7,429
Less - Allowance for doubtful debts	-	(784)
	-	6,645

(1) 2016 - Includes EUR 5.6 million from sale of plots

NOTE 7:- OTHER ACCOUNTS RECEIVABLES, PREPAYMENTS AND ADVANCES

a. Other receivables:

	December 31,	
	2017	2016
VAT and tax receivables	133	1,392
Others	537	222
	670	1,614

b. Prepayments and advances:

Advanced payments to suppliers	-	98
Prepaid expenses	131	526
	131	624

c. Non-current Prepayments:

Prepaid expenses (Belgrade Plaza)	-	1,747
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PLAZA CENTERS N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8: - TRADING PROPERTIES

	December 31,	
	2017	2016
Balance as at 1 January	263,695	317,758
Construction costs and other (1),(2)	1,514	26,041
Write-down of trading properties, net (3)	(11,487)	(42,477)
Trading properties disposed (5)	(180,153)	(37,626)
	73,569	263,695
Balance as at 31 December	73,569	263,695
Trading properties under development (4)	-	55,998
Trading properties designated for sale	73,569	207,697
Total	73,569	263,695

- (1) 2017 and 2016 - mainly due to construction activities in Serbia.
(2) Includes EUR 0 million of non-specific borrowing costs capitalized, using a capitalization rate of 13% in 2017 (in 2016 - EUR 5.1 million).
(3) Breakdown of write-downs of trading properties is presented in the table below.

<u>Project name (location)</u>	year ended December 31,	
	2017	2016
Helios Plaza (Athens, Greece)	-	740
Krusevac (Krusevac, Serbia)	400	200
Lodz Plaza (Lodz, Poland)	1,200	400
Kielce (Kielce, Poland)	-	1,100
Casa radio (Bucharest, Romania)	10,095	33,908
Constanta (Constanta, Romania)	-	852
Ciuc (Ciuc, Romania)	-	950
Timisoara (Timisoara, Romania)	-	2,600
Arena Plaza extension (Budapest, Hungary)	-	927
Other, aggregated	187	800
	11,882	42,477
Change in provision in respect to PAB (*)	(395)	(1,667)
Total write-downs	11,487	40,810

(*) See also (6)(e) below.

PLAZA CENTERS N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8: - TRADING PROPERTIES (Cont.)

The 2017 write-downs were caused mainly due to the following factors:

- EUR 1.2 million of write-down in Lodz Plaza project, Poland, which reflects a discount rate of 30% on the market value under special assumption that the marketing period is limited to 12-15 months.
- EUR 9.7 million of write-down (net of change in provision in respect to PAB) in Casa Radio project, Romania due to the following: a slight increase in construction cost, a slight decrease in financing interest rate, prolongation of lead-in period in half a year and an increase in the discount factor for restricted marketing period from 25% to 35%. As compared to 2016, deals take longer to exchange as the level of due diligence and scrutiny is heightened domestically and internationally. As a consequence a restricted marketing period would have a marked impact on the realizable value as a greater discount would be sought by a purchaser.

For detailed information with respect to valuation techniques and main assumptions, refer also to (7) in this Note.

(4) 2016 - Including Belgrade Plaza (Visnjicka) in Serbia

(5) Sale of assets in the reporting period:

a. Sale agreement of Suwalki Plaza:

In January 2017, the Company sold its SPV holding Suwałki Plaza shopping and entertainment center in Poland to an investment fund for EUR 16.7 million and recorded a gain of EUR 0.8 million. The purchaser is an investment fund which is connected to a former employee of the Company. The received consideration is after the deduction of the bank loan (circa EUR 26.4 million).

As a result, the Company recorded revenue of EUR 43.1 million from the disposal.

Out of the net proceeds, at least 75% were distributed to the Company's bondholders in March 2017, in line with the Company's stated amended restructuring Plan.

b. Sale of Belgrade Plaza:

On January 26, 2017, the Company signed a binding share purchase agreement with BIG Shopping Centers Ltd., a publicly traded company listed in the TA 100 Index, for the sale of the SPV holding Belgrade Plaza shopping and entertainment center.

Upon completion of the transaction, the Company received an initial payment of EUR 31.7 million from the purchaser, further EUR 2 million has been received following the opening, further payment of EUR 13.35 million has been received during September 2017 and additional payments are contingent upon certain operational targets and milestones being met. The Purchaser has provided a guarantee to secure these future payments. The received consideration is after the deduction of the bank loan (circa EUR 15.4 million).

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 estimates in the range of EUR 6.2-6.5 million per annum.

PLAZA CENTERS N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8:- TRADING PROPERTIES (Cont.)

Further instalments 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 recorded a gain from the sale in amount of circa EUR 3.2 million. Expected future purchase price adjustments are not included.

As a result, the Company recorded revenue of EUR 62.5 million from the disposal. At least 75% of the net proceeds received from the disposal were distributed to the Company's bondholders during 2017, and following the receipt of any future additional payments, in line with the Company's stated Amended Plan, 78% will be paid to the bondholders.

c. Sale of Shumen plaza project, Bulgaria:

On February 23, 2017, the Company announced that it had concluded the sale of a 26,057 sqm plot of land in Shumen, Bulgaria for circa EUR 1 million, which is slightly above book value and recorded a gain of 0.2 EUR million.

The Company recorded revenue of EUR 1 million from the disposal.

Of the net proceeds, at least 75% were distributed to the Company's bondholders in March 2017, in line with the Company's stated Amended Plan.

d. Preliminary Sale of Plot in Lodz, Poland:

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 €1.2 million. As part of the agreement, the purchaser paid an immediate instalment of EUR 0.035 million and the completion payment to make it totalling 10% of the sale price, comprising an immediate instalment already paid of EUR 0.035 million followed by an instalment of EUR 0.085 million shall be paid when the purchaser obtains environmental permit for investing in the access road to the plot. The remaining balance minus 50% of the sum invested in the road (up to maximum amount of EUR 0.12 million) will be paid once a building permit is obtained for development of the land which is expected to be granted till the end of 2018. In line with the Company's stated amended restructuring plan, 78% of the net cash proceeds will be distributed to the bondholders.

e. Final agreement for sale of Kielce Plaza, Poland:

On June 19, 2017, The Company announced that it has signed the final sale agreement for the disposal of its 2.47-hectare plot in the centre of Kielce, Poland, for EUR 2.28 million. The Company received a down payment of EUR 0.465 million when the preliminary sale agreement was signed at 2016 and the remaining EUR 1.815 million has been paid to the Company during June 2017.

The Company recorded revenue of EUR 2.2 million from the disposal and a gain of EUR 1.3 million.

In line with the Company's stated amended restructuring plan, 75% of the net cash proceeds were distributed to Plaza's bondholders.

f. Completed sale of Plot in Leszno, Poland:

In July 2017, the Company has signed the final sale agreement for the disposal of a 1.8-hectare plot in the city of Leszno for EUR 0.81 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8:- TRADING PROPERTIES (Cont.)

The Company recorded revenue of EUR 0.81 million from the disposal. In line with the Company's stated amended restructuring plan, 75% of the net cash proceeds from the disposal will be distributed to Plaza's bondholders.

g. Sale of plots in Timisoara and Constanta, Romania:

On 7 August, 2017 the Company has completed the disposal of a plot totaling approximately 32,000 sqm in Timisoara, Romania, for EUR 7.25 million, which was recorded as revenue from disposal.

The Company also announced that it has completed the sale of a plot totaling approximately 30,000 sqm in Constanta, Romania, for EUR 1.3 million.

The Company recorded revenue of EUR 1.3 million from the sale of the property.

In line with the Company's stated amended restructuring plan, 75% of the net cash proceeds from both disposals were distributed to Plaza's bondholders.

h. Land Plot in Budapest, Hungary:

On October 2, 2017 the Company announces that it has concluded an agreement with an international investor, NEPI Rockcastle, on the termination of land use rights over a circa 21,788 sqm land plot adjoining Arena Plaza in Budapest, Hungary, registered to a subsidiary of the Company, Kerepesi 5 Irodaépület Kft ("K5"). The transaction also includes the termination of the preliminary easement agreement, which provided K5 with certain easement rights over the plot. As a result of the agreement, K5 received a net sum of EUR 2.5 million.

The Company recorded revenue of EUR 2.5 million from the disposal.

At least 78% of the net proceeds received from the disposal were distributed to the Company's bondholders during January 2018.

i. Sale of Torun Plaza:

On 21 November, 2017 one of the Company's subsidiaries has completed the sale of Torun Plaza shopping and entertainment center in Poland to a private investment fund.

The Company has received circa EUR 28.3 million. This net cash is after the deduction of the bank loan (circa EUR 43.3 million), and other working capital adjustments in accordance with the balance sheet of the SPV holding the Project. The above-mentioned sums do not include the earn-out payments in an amount of EUR 0.35 million, reduced by NAV adjustment of EUR 0.2 million. The Company recorded revenue of EUR 71.6 million from the disposal and a loss of circa EUR 1.5 million (not including the earn-out payment mentioned).

At least 78% of the net proceeds received from the disposal were distributed to the Company's bondholders during January 2018.

j. Disposal of plot in Belgrade, Serbia

Following the sale of "MUP" plot in Belgrade, Serbia, the Company was entitled to an additional contingent consideration of EUR 0.6 million once the purchaser successfully develops at least 69,000 sqm above ground. The consideration was received in September 2017 and is recorded as revenue from disposal of trading properties.

NOTE 8:- TRADING PROPERTIES (Cont.)

k. Update on disposal of land plot in Greece

Following the preliminary agreement regarding the disposal of a plot in Piraeus, Greece, several amendments were signed during 2016-2017 the latest amendment deadline had expired on January 20, 2018. The last selling price of the share of the SPV holding the plot was set at EUR 3.54 million. In order to secure the prolonged validity of the initial agreement, the purchaser has paid advance payments in a total amount of EUR 0.3 million non-refundable to Plaza. The completion of the transactions is expected to be concluded in 2018 as an asset deal (instead of the original agreement of share deal) with a lower sale price of EUR 3.35 million.

(6) Casa radio note:

(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 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%).

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 (37 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8:- TRADING PROPERTIES (Cont.)

- (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 the 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.

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 at year end (€ 50.4 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 believe that, in the case of termination, the Company has a strong case to claim compensation for damages.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8 - TRADING PROPERTIES (Cont.)

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.

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

(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 is 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. The Company, during this process has been verbally informed by the Romania Authorities that it has received immunity from certain potential criminal charges and received further verbal assurance that the mentioned investigation should have no effect on the Company's existing legal rights to the Project and the PPP Agreement. As the investigation by the Romanian Authorities is still on-going, the Company is unable to comment further on any details related to this matter. Management is currently unable to estimate any monetary sanctions in respect to the potential irregularities, consequently no provision has been recorded in connection with these matters.

Elbit, the Company's 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8:- TRADING PROPERTIES (Cont.)

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.

(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 12.8 million in respect of the construction of the PAB (December 31, 2016: EUR 13.2 million). During 2017, the Company recorded income in total amount of EUR 0.4 million from change in PAB provision as part of write down of trading properties (in 2016 - EUR 1.7 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.

(7) 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, 2017, amounted to EUR 171.8 million or 70% percent of outstanding trading properties original cost (December 31, 2016 - EUR 170 million or 39% of gross trading property balance). 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, 2017, 91.3% of the value of trading properties was based on valuations done by the independent third-party valuation service (2016 – 81.2%).

The trading property Casa Radio was valued using the Residual technique and Lodz Plaza plot was valued using the comparable method. A description of each approach is discussed below. The remaining properties were valued by reference to existing or preliminary sale agreements.

NOTE 8:- TRADING PROPERTIES (Cont.)

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. The main features included in each valuation are:

(1) Comparable method:

Valuation by comparison is essentially objective in that it is based on an analysis of the price achieved for sites with broadly similar development characteristics. Valuation by comparison is generally used if evidence of actual sales can be found and analysed on a common unit basis, such as site area, developable area or habitable room.

Where comparable development cannot be identified in the immediate area of the subject site or when sales information is not clearly available through common channels of information (internet, newspapers, trade journals, periodic market research) it is necessary to look further out for suitable comparable and to make necessary adjustments to the price in order to account for dissimilarities between the comparable development and the subject site. Such adjustments include, but not limited to:

- Adjustment due to the time of the transaction. Market conditions at the time of the sales transaction of a comparable property may differ from those on the valuation date of the property being valued. Factors that impact market conditions include rapidly appreciating or depreciating property values, changes in tax laws, building restrictions or moratoriums, fluctuations in supply and demand, or any combination or forces working in concert to alter market conditions from one date to another.
- Adjustment due to asking price and condition of payment. The special motivations of the parties to the transaction in many situations can affect the prices paid and even render some transactions as non-market. Examples of special conditions of sale include a higher price paid by a buyer because the parcel has synergistic, or marriage value; a lower price paid because a seller was in a hurry to conclude the sale; a financial, business, or family relationship between the parties involved in the transaction, unusual tax considerations; lack of exposure of the property in the (open) market; or the prospect of lengthy litigation proceedings.
- Adjustment because of size, shape, contiguous and surface area. Where the physical characteristics of a comparable property vary from those of the subject property, each of the differences is considered, and the adjustment is made for the impact of each of these differences on value.
- Adjustment because of location. The locations of the comparable sale properties and the subject property are compared to ascertain whether location and the immediate environment are influencing the prices paid. The better location a property is located in the more it is worth per square meter; and conversely the worse location a property is in the less it is worth per square meter. An adjustment is made to reflect such differences based on the valuers' professional experience. Extreme location differences may indicate that a transaction is not truly comparable and are disqualified.

NOTE 8:- TRADING PROPERTIES (Cont.)

(2) Residual method:

The residual method, in contrast, relies on an approach that is a combination of comparison and cost and it requires making a number of assumptions - any of which can affect the outcome in varying degrees. Having established the development potential a residual valuation can be expressed as a simple equation: (value of completed development) - (development costs + developers profit+ financing cost) = land value. Each element of this equation is discussed in the following paragraphs.

- Value of completed development:

The value of the completed development is the market value of the proposed development assessed on the special assumption that the development is complete as at the date of valuation in the market conditions prevailing at that date.

- Development costs:

The development costs include planning and design costs, construction costs, site related costs, holding costs, finance costs and contingencies.

Larger schemes such as Casa radio in Romania is phased over time. In such case the phasing is reflected in the cash flows as deferral of some of costs to a date when it might be reasonable to expect them to be incurred. Similarly, not all proceeds occur simultaneously.

- Developer's profit:

The nature of the development determines the selection of the profit margin, or rate of return and the percentage to be adopted varies for each case. The developers profit is expressed as a percentage of the Gross Development Value (GDV).

- Exit Yield represents the capital value of the property at the end of the period of analysis (exit value) expressed in percentage terms. The exit value is the net amount which an entity expects to obtain for an asset at the end of the period of analysis after deducting the expected costs of disposal. Usually the estimation is done through analyzing market evidence and then adjustments are made with regards to the individual property.

(3) Fair value under the assumption of restricted marketing period – due to the financial condition of the Company, the fair value of two properties was based on the assumption of marketing period restricted to a period which is lower than the normal one, but in any case not shorter than six months. In this case the valuator, using commercial judgement, assumes a significant discount rate attributable to the fair value of the property. This conclusion is based on advice from brokers who are actively participating in sale transactions with comparable assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8:- TRADING PROPERTIES (Cont.)

(8) Significant estimates:

The following table shows the valuation techniques used in measuring the net realizable value of the main trading property:

<u>Group of assets</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between key unobservable inputs and fair value measurement</u>
Casa radio	Residual method: The valuation model considers the net present value (based on an NPV factor) based on the estimated value of the project upon completion less the estimated development cost including a provision for the profit for the potential development; Restricted marketing period	<ul style="list-style-type: none"> • Estimated weighted average monthly rental prices per sqm is EUR 26 for the mall, EUR 16 for offices and 14.2 for Hotel/Conference Center (2016: EUR 26 for the mall, EUR 16 for offices, EUR 14.2 for Hotel/Conference Center); • The Estimated Exit Yield is 8.75% for the mall, 9.25 % for the office component and 10.25% for Hotel/Conference center including additional 1.5% yield to cover for several risks related to the complexity and large scale of the project (2016 - the same) • The construction hard costs of the project are 760 EUR/sqm for the mall; 1,098 EUR/sqm for Hotel; 751 EUR/sqm for the offices; 370 EUR/sqm for parking (2016: 780 EUR/sqm for the mall; 740 EUR/sqm for the offices; 1,010 EUR/sqm for Hotel, 370 EUR/sqm for parking); • The development finance rate is 5.25% (2016:5.5%); • The scheme would compose the following components: (i) retail; (ii) offices; (iii) hotel & conference center; • Developers profit -15% (2015: 15%); • Discount to Market Value - 35% (2016: 25%); • Start of construction in 3.5 years (2016: 3 years). 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • the estimated rental prices per sqm were higher (lower); • the estimated yield rates were lower (higher); • The construction cost of the project were lower (higher); • The developer's profit provision for the project were lower (higher); • The development finance provision for the project were lower (higher); • The estimated completion of the project were shorter (longer); • The occupancy of the mall were higher (lower); • The characteristics of the project would be changed; • The discount to market value would decrease (increase)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8:- TRADING PROPERTIES (Cont.)

The following table provides sensitivity analysis on value of certain projects (in thousands of EUR), assuming the following changes in key inputs used in valuations:

	Increase in exit yields (base points)					Delay in construction commencement day (months)				
	0	+15bps	+25bps	+40bps	+50bps	0	+6	+12	+18	+24
Casa Radio	50,440	46,475	43,940	40,235	37,895	50,440	49,140	47,840	46,670	45,500

	Construction costs for all phases					Rental income for all the phases				
	-10%	-5%	0	+5%	+10%	-10%	-5%	0	+5%	+10%
Casa Radio	68,695	59,670	50,440	41,145	31,850	26,780	38,610	50,440	62,205	73,970

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8:- TRADING PROPERTIES (Cont.)

(9) 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, 2017 (MEUR)	Carrying amount December 31, 2016 (MEUR)
Suwalki Plaza	Poland	2006	100	Ownership	Operating shopping center (starting Q2 2010)	20,000 GLA (*)	SOLD	39.9
Torun Plaza	Poland	2007	100	Ownership	Operating shopping center (starting Q4 2011)	40,000 GLA (*)	SOLD	68.9
Lodz residential	Poland	2001	100	Ownership/ Perpetual usufruct	Planning permit valid	4,000	0.4	0.5
Lodz plaza	Poland	2009	100	Perpetual usufruct	Planning permit pending	61,500	3.9	5.1
Kielce Plaza	Poland	2008	100	Perpetual usufruct	Planning permit valid	25,000	SOLD	2.2
Leszno Plaza	Poland	2008	100	Perpetual usufruct	Planning permit valid	18,000	SOLD	0.8
Casa radio	Romania	2007	75	Remained Lease period 37 years	Detailed Zoning Plan ("PUD") valid	467,000 GBA (**)	(***) 63.2	(***)73.2
Timisoara Plaza	Romania	2007	100	Ownership	Building permit valid	31,860	SOLD	7.0
Constanta Plaza	Romania	2009	100	Ownership	Existing building	24,300	SOLD	1.3
Miercurea Ciuc Plaza	Romania	2007	100	Ownership	No valid permit (Building Permit expired)	36,500	1.0	1.0
Belgrade Plaza visnjicka	Serbia	2007	100	Ownership	Building Permit obtained - Under construction	32,000 GLA (*)	SOLD	55.9
Shumen Plaza	Bulgaria	2007	100	Ownership	Planning permit valid	26,000	SOLD	0.8
Arena Plaza Extension	Hungary	2005	100	Perpetual Land use rights	-	22,000	SOLD	1.5
Piraeus Plaza	Greece	2002	100	Ownership	-	15,000	3.3	3.3
Other plots, grouped						(****)	1.7	2.2
Total							73.5	263.6

(*) Gross Lettable area (sqm)

(**) Gross Building area (sqm)

(***) Represents gross value including commitment for PAB construction, which is presented as non-current provision in amount of EUR 12.8 million as of December 31, 2017.

(****) An indirectly subsidiary of Plaza Centers, holding Brasov plot in Romania, granted to that previous financing bank of the project the right to purchase the property under conditions of an option pact for 3 years starting December 6, 2016 for an amount of EUR 1.1 million free of encumbrances. The option pact is registered with the land book of the property.

PLAZA CENTERS N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 9:- PROPERTY AND EQUIPMENT

	Land and buildings (*)	Equipment	Fixtures and fittings	Total
<u>Cost</u>				
Balance at January 1, 2016	4,102	3,327	1,195	8,624
Additions	-	19	-	19
Disposals	-	(293)	-	(293)
Balance at December 31, 2016	4,102	3,053	1,195	8,350
Additions	-	1	-	1
Disposals	(4,102)	(568)	-	(4,670)
Balance at December 31, 2017	-	2,486	1,195	3,681
<u>Accumulated depreciation and impairment</u>				
Balance at January 1, 2016	1,850	3,223	1,071	6,144
Depreciation	-	72	-	72
Disposals	-	(266)	-	(266)
Balance at December 31, 2016	1,850	3,029	1,071	5,950
Depreciation	-	14	-	14
Disposals	(1,850)	(611)	-	(2,461)
Balance at December 31, 2017	-	2,432	1,071	3,503
<u>Net carrying amounts</u>				
At December 31, 2017	-	54	124	178
At December 31, 2016	2,252	24	124	2,400

(*) Sale of office building in Hungary:

On February 16, 2017, the Company signed an agreement for the sale of its SPV holding David House office building in Budapest to private investors for a gross amount of EUR 3.2 million and recorded a gain of circa EUR 0.46 million included in other income.

Out of the net proceeds, at least 75% were distributed to the Company's bondholders in March 2017, in line with the Company's stated Amended Plan.

PLAZA CENTERS N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 10:- EQUITY ACCOUNTED INVESTEEES

- a. The Group has the following interest (directly and indirectly) in the below joint ventures, as at December 31, 2017 and 2016:

Company name	Country	Activity	Interest of holding (percentage) as at December 31,	
			2017	2016
Elbit Plaza USA II LP (**)	USA	Inactive	-	50%
Elbit Plaza India Real Estate Holdings Ltd. ("EPI") (*)	Cyprus	Mixed-use large-scale projects	47.5%	47.5%
SIA Diksna ("Diksna")	Latvia	Operating shopping center sold in 2016	-	50%

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 EI and the Company, the holders of the remaining 95% each account for 50% of the results of EPI.

(**) Liquidated during 2017.

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

	<u>2017</u>	<u>2016</u>
Balance as at 1 January	30,160	44,906
Distribution received from equity-accounted investees, net (3)	(1,441)	(18,638)
Share in results of equity-accounted investees, net of tax (1)	(7,177)	4,274
Effect of movements in exchange rates	(1,697)	317
Dissolving of Equity accounted investee	(315)	-
Classification to long term receivables	-	(699)
Balance as at 31 December (2)	<u>19,530</u>	<u>30,160</u>

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

<u>Project name (holding company name)</u>	<u>Year ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Bangalore (held by EPI) (*)	(4,408)	(5,466)
Chennai (held by EPI) (*)	(988)	(6,114)
	<u>(5,396)</u>	<u>(11,580)</u>

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

PLAZA CENTERS N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 10:- EQUITY ACCOUNTED INVESTEEES (Cont.)

- (2) Other investment in equity accounted investees is through certain equity instruments to cover negative equity position considered part of the Group's net investment in the investees.
- (3) Repayment of loan granted to 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:

	2017	2016
Current assets (*)	2,794	1,602
Trading properties-non current	45,060	59,120
Other current liabilities	(8,794)	(1,036)
Net assets (100%)	39,060	59,686
Group share of net asset (50%) (**)	19,530	29,843
Carrying amount of interest in joint venture	19,530	29,843

(*) Including cash and cash equivalents in the amount of EUR 2,592 million;

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

	2017	2016
Write-downs of trading properties	(10,792)	(23,160)
Other income (expenses)	(3,562)	30,134
Total net profit (loss) and comprehensive income (100%)	(14,354)	6,974
Group share of Profit (loss) and comprehensive income (50%)	(7,177)	3,487
Total results from investees	(7,177)	3,487

(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, 2017, 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 3,210 million (approximately EUR 42 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.

NOTE 10:- 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 8.3 acres (the "Additional Property") which has been mortgaged by the Partner in favour 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 favour of the SPV. 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.

New payment structure for sale of Project in Bangalore, India:

In June 2017, EPI signed a revised sale agreement with the former partner (the "Purchaser").

The Purchaser and EPI have agreed that the purchase price will be amended to INR 338 Crores (approximately Euro 44.2 million) instead of the INR 321 Crores (approximately Euro 42 million) agreed in the previous agreement. As part of the agreement, INR 110 Crores (approximately Euro 14.4 million) will be paid by the Purchaser in instalments until the Final Closing. The Final Closing will take place on September 1, 2018, when the final instalment of INR 228 Crores (approximately Euro 29.8 million) will be paid to EPI.

If the Purchaser defaults before the Final Closing, EPI is entitled to forfeit certain amounts paid by the Purchaser as stipulated in the revised agreement. All other existing securities granted to EPI under the previous agreement will remain in place until the Final Closing.

In January 2018, the Purchaser has notified EPI that due to a proposed zoning change (initiated by the Indian authorities) which could potentially impact the development of the land, all remaining payments under the Agreement will be stopped until a mutually acceptable solution is reached on this matter. EPI has rejected the Purchaser's claims, having no relevance to the existing Agreement, and started to evaluate its legal options.

Since the signing of the revised agreement, the Purchaser has paid non-refundable advance payments totaling INR 45 Crores (circa € 5.9 million).

NOTE 10:- EQUITY ACCOUNTED INVESTEEES (Cont.)

In March 2018, the Company signed an amended revised agreement as follows: The Purchaser and EPI have agreed that the total purchase price shall be increased to INR 350 Crores (approximately €45.8 million). Following the signing of the revised agreement and by the end of the current month, the Purchaser shall pay EPI additional INR 10 Crores (approximately €1.3 million) further to the INR 45 Crores (approximately €5.9 million) that were already paid during the recent year. Additional INR 83 Crores (approximately €10.8 million) will be paid by the Purchaser in unequal monthly installments until the Final Closing. The Final Closing will take place on 31 August 2019 when the final installment of circa INR 212 Crores (approximately €27.8 million) will be paid to EPI against the transfer of the outstanding share capital of the SPV.

If the Purchaser defaults before the Final Closing, EPI is entitled to forfeit certain amounts paid by the Purchaser as stipulated in the revised agreement. All other existing securities granted to EPI under the previous agreements will remain in place until the Final Closing.

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 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. The Supreme Court has stayed the operation of certain portions of the Order. At this stage, it is difficult to predict the amount of time that the Supreme Court of India will take to decide on the matter.

Net realizable value measurement of Bangalore project

As for December 31, 2017 and 2016 the Group measured the net realizable value of the project.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 10:- EQUITY ACCOUNTED INVESTEEES (Cont.)

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 risk related to NGT order described above, 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. The decrease in the value during 2017 is attributable mainly to the proposed change in zoning regulations. The local authorities have proposed a revised master plan for Bangalore under which it is proposed to change certain regulations pertaining to zoning of the plot which if given effect might adversely affect the development prospects on the plot. The Company being aggrieved by the proposed change was entitled to and has filed the necessary objections with the concerned authorities 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 parameters have been considered to arrive at the land value of the subject property:

<u>Parameter</u>	<u>Premium (Discount)</u>
Accessibility	10%
FSI permissible	10%
Location and Neighborhood profile	5%
Contiguous Land Parcel	-15%
Size	-10%
Negotiation (Trans/Quote)	-15%
Total Premium/Discount	-15%
Discount on account of NGT order and presence of Drain	-20%
Presence of minority shareholder	-20%
Discount on account of possible change in zoning (open space/parks)	-25%

(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 74.7 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 EPI 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 forfeited the Local Partner's 20% holdings in the Chennai Project SPV. Accordingly, EPI has 100% of the equity and voting rights in the Chennai Project SPV.

NOTE 10 -EQUITY ACCOUNTED INVESTEES (Cont.)

On July 21, 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.

Development will commence subject to the obtainment of the required governmental/ municipal approvals and permits, and it is intended that 67% of the Property will be allocated for the sale of plotted developments (whereby a plot is sold with the infrastructure in place for the development of a residential unit by the end purchaser), while the remainder will comprise residential units fully constructed for sale.

The Chennai Project SPV will receive 73% of the total revenues from the plotted development and 40% of the total revenues from the sale of the fully constructed residential units.

In order to secure its obligation, the Developer paid a refundable deposit of INR 10 Crores (approximately EUR 1.3 million) following the signing and registration of the JDA.

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 months period from the execution date of the JDA. The required approvals have not yet been obtained at the target date, but none of the parties has cancelled the agreement at this juncture. Upon such termination, the Developer shall be entitled to the refund of the relevant amounts paid as Refundable Deposit and any other cost related to such access road or the title over the Property. The JDA may also be terminated by the Chennai Project SPV, inter alia, if the Developer has not obtained certain development milestone and/or breached the terms of the JDA. Due to this fact, the financial statements of the SPV include a provision in an amount of INR 30 Crores (EUR 3.9 million) for cost reimbursement, including INR 10 Crores (EUR 1.3 million) advanced payment received.

Net realizable value measurement of Chennai project

The valuation of the property is based on the comparable method.

PLAZA CENTERS N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 10 - EQUITY ACCOUNTED INVESTEEES (Cont.)

The following parameters have been considered to arrive at the land value of the subject property:

<u>Parameter</u>	<u>Premium (Discount)</u>
Accessibility	-12.5%
Discount for shape and contiguity	-20%
Location and Neighborhood profile	-5%
Size	-10%
Negotiation	-5%
Conversion	5%
Topography	-5%
Additional cost to be incurred at the site due to illegal excavation	-5%
Total	-58%

NOTE 11:- INTEREST BEARING LOANS FROM BANKS

Breakdown, terms and conditions of outstanding loans were as follows:

	Nominal	Currency	Year of maturity	December 31,	
				2017	2016
	interest rate			Carrying amount	
Torun project secured bank loan (*)	3M Euribor+3%	EUR	2017	-	44,249
Suwalki project secured bank loan (*)	3M Euribor+1.65%	EUR	2020	-	26,497
Belgrade Plaza bank loan (*)	3M EURIBOR+5%	EUR	2032	-	11,529
				-	
Total interest-bearing liabilities					82,275
				-	
Less current maturities					(82,275)

(*) Following the sale of the Company's subsidiaries, the loans were derecognized (refer to Notes 8(5)(a), 8(5)(b), 8(5)(i)).

NOTE 12:- TRADE PAYABLES

	Currency	December 31,	
		2017	2016
Construction related payables		39	6,352
Other trade payables	Mainly in PLN, EUR	545	1,091
		<u>584</u>	<u>7,443</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 13:- RELATED PARTIES PAYABLES

	<u>Currency</u>	<u>December 31,</u>	
		<u>2017</u>	<u>2016</u>
EI Group- ultimate parent company - expenses recharged	EUR, USD	86	155
Other related parties in EI group	EUR	1	51
		<u>87</u>	<u>206</u>

For payments (including share based payments) to related parties and related party receivables refer to Note 28.

NOTE 14:- OTHER LIABILITIES

<u>Short term</u>	<u>Currency</u>	<u>December 31,</u>	
		<u>2017</u>	<u>2016</u>
Obligations to tenants	EUR	-	1,095
Government institutions and fees		106	480
Salaries and related expenses		62	243
Accrued expenses		35	82
Other (1)		1,675	1,006
Total		<u>1,878</u>	<u>2,906</u>

(1) 2017- Including EUR 325 thousands prepayments in regards to plot sale in Greece, provision for audit costs in an amount of EUR 324 thousands and provision for liability in an amount of EUR 1,015 thousands (refer to Note 27f). 2016 - Including payable due to refundable deposit received regarding the sale of Kielce in an amount of EUR 453 thousand and due to Belgrade (MUP) in an amount of EUR 250 thousand.

NOTE 15:- BONDS

a. Composition:

	<u>Effective interest rate</u>	<u>Contractual interest rate</u>	<u>Principal final maturity</u>	<u>Adjusted par value</u>	<u>Carrying amounts as at December 31 2017</u>
Series A Bonds	9.47%	CPI+6%	2020	47,911	45,963
Series B Bonds	13.48%	CPI+6.9%	2019	70,150	65,832
Polish Bonds	10.46%	6M WIBOR+6%	2018	5,099	5,119
				<u>123,160</u>	<u>116,914</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 15:- BONDS (Cont.)

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

2018	24,175
2019	84,568
2020	<u>14,417</u>
	<u>123,160</u>

- (1) Pursuant to the Company's Restructuring Plan, the Company will assign 75% of the net proceeds received from the sale or refinancing of any of its assets as early repayment.
- (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 15: - BONDS (Cont.)

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.
 - (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.
- (3) 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 €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.

NOTE 15: - BONDS (Cont.)

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.

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.

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.

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

- (4) 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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 15: - BONDS (Cont.)

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.

d. Covenants:

The bonds' covenants are detailed in Note 27 (b).

In respect of the Coverage Ratio Covenant ("CRC"), as defined in the restructuring plan, as at December 31, 2017 the CRC was 103%, in comparison with 118% minimum ratio required. As a result of covenants breach, the Company classified its bonds in the total amount of EUR 116,914 thousands as current liabilities in the financial statements as of 31 December 2017.

e. Credit rating:

On September 28, 2017 Standard & Poor's Maalot ("Maalot"), the Israeli credit rating agency which is a division of International Standard & Poor's, has reduced its credit rating of Plaza's two series of Notes traded on Tel Aviv Stock Exchange from "ilCCC" to "ilCC" with negative outlook on a local Israeli scale. In January 2018, Maalot has discontinued tracking Plaza's rating at the Company's request.

NOTE 16:- RECOGNIZED DEFERRED TAX ASSETS (LIABILITIES)

Deferred taxes recognized are attributable to the following items:

<u>Assets/(liabilities) 2017</u>	<u>December 31,</u> <u>2016</u>	<u>Recognized in</u> <u>Profit or loss</u> <u>2017</u>	<u>Out of</u> <u>Consolidation</u>	<u>December 31,</u> <u>2017</u>
Property, equipment and other assets	(116)	55	61	-
Bonds	(2,024)	463	-	(1,561)
Tax value of loss carry-forwards recognized (*)	2,024	(463)	-	1,561
Deferred tax asset (liability), net	(116)	55	61	-

<u>Assets/(liabilities) 2016</u>	<u>December 31,</u> <u>2015</u>	<u>Recognized in</u> <u>Profit or loss</u> <u>2016</u>	<u>December 31,</u> <u>2016</u>
Property, equipment and other assets	406	(522)	(116)
Bonds	(3,794)	1,770	(2,024)
Tax value of loss carry-forwards recognized (*)	3,794	(1,770)	2,024
Deferred tax asset (liability), net	406	(522)	(116)

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 16:- RECOGNIZED DEFERRED TAX ASSETS (LIABILITIES) (Cont.)

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of tax losses in a total amount of EUR 111,043 thousand (2016: EUR 119,346 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, 2017, the expiry date status of tax losses to be carried forward is as follows:

Total tax losses carried forward	2018	2019	2020	2021	2022	After 2022
112,604	789	6,262	11,434	13,306	25,294	55,519

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.

NOTE 17:- EQUITY

	December 31,	
	2017	2016
Remarks	Number of shares	
Authorized ordinary shares of par value EUR 1 each	10,000,000	10,000,000
Issued and fully paid	6,855,603	6,855,603

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, 2017 (2016 - EUR 35,376 thousand).

Translation reserve

The translation reserve comprises, as of December 31, 2017, all foreign currency differences 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.

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NOTE 18 - EARNINGS PER SHARE

The calculation of basic earnings per share ("EPS") at December 31, 2017 was based on the loss attributable to ordinary shareholders of EUR 26,563 thousand (2016: loss of EUR 46,517 thousand) and a weighted average number of ordinary shares outstanding of 6,856 thousand (2016: 6,856 thousand).

The following number of shares and par values are adjusted to reflect the share consolidation as detailed on Note 17:

Weighted average number of ordinary shares (for both EPS and EPS from continuing operations)

In thousands of shares with a EUR 1 par value	December 31,	
	2017	2016
Issued ordinary shares at 1 January	6,856	6,856
Weighted average number of ordinary shares at 31 December	6,856	6,856

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,	
	2017	2016
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	6,856	6,856

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.

NOTE 19:- 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:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 19:- EMPLOYEE SHARE OPTION PLAN (Cont.)

Grant date / employees entitled	Number of options	Contractual life of options (1)
<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	18,585	15 years
Total granted in 2006	150,765	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)	8,450	10 years
Total share options Granted	235,520	

- (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:

	Weighted average exercise price (*)	Number of options	Weighted average exercise price	Number of options
	2017		2016	
	GBP		GBP	
Outstanding at the beginning of the year	43	235,520	43	237,970
Forfeited during the period - back to pool (**)		-	36	(2,450)
Outstanding at the end of the year	43	<u>235,520</u>	43	<u>235,520</u>
Exercisable at the end of the year		<u>235,520</u>		<u>235,520</u>

- (*) The options outstanding at 31 December 2017 have an exercise price in the range of GBP 28 to GBP 54 (app. EUR 31.5 – EUR 60.8), and have weighted average remaining contractual life of four years.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 19: - EMPLOYEE SHARE OPTION PLAN (Cont.)

(**) The total accumulated share-based payment costs due to options exercise and forfeiture were 13,824 thousand as of December 31, 2017 and December 31, 2016.

The maximum number of shares issuable upon exercise of all outstanding options as of the end of the reporting period is 356,780. The estimated fair value of the services received were measured based on a binomial lattice model.

During 2017 and 2016 there were no employee costs for the share options granted.

NOTE 20:- RENTAL INCOME

	Year ended December 31	
	2017	2016
Rental income from operating shopping centers (1)	7,562	15,287
Other income	346	324
Total	7,908	15,611

(1) 2017 – including two shopping centers (2016 - three shopping centers).

NOTE 21 - COST OF OPERATIONS

	Year ended December 31	
	2017	2016
Operating shopping centers (1)	1,588	3,816
Other cost of operations (2)	643	1,070
Total	2,231	4,886

(1) Refer to Note 20 above.

(2) 2017 and 2016 - Attributed to small scale costs on plots held by the Group.

NOTE 22 - ADMINISTRATIVE EXPENSES

	Year ended December 31	
	2017	2016
Salaries and related expenses	2,870	3,141
Professional services	2,644	2,694
Offices and office rent	199	187
Travelling and accommodation	160	240
Depreciation and amortization	14	20
Others	259	224
Total	6,146	6,506

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 23 - OTHER INCOME AND OTHER EXPENSES

	Year ended December 31	
	2017	2016
Other income (1)	757	375
Total other income	757	375
Other expenses	657	1,922
Total other expenses	657	(1,922)

(1) Including EUR 460 thousands due to sale of an office building in Budapest (refer to Note 9).

NOTE 24 - FINANCE INCOME AND FINANCE COSTS

	Year ended December 31	
	2017	2016
Recognized in profit or loss		
Gain from settlement of bank debt	-	17,661
Finance income from hedging activities through sale of forwards	-	630
Interest income on bank deposits	22	4
Interest from loans to related parties	221	347
Other finance income	334	-
Finance income	577	18,642
Interest expense on Bonds	(8,627)	(27,416)
Interest expense on bank loans	(1,339)	(3,619)
Foreign currency losses on Bonds	(1,186)	(7,536)
Other finance expenses	(44)	(646)
Finance expenses capitalized to trading properties under development	-	5,121
Finance costs	(11,196)	(34,096)
Net finance costs	(10,619)	(15,454)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 25:- INCOME TAXES

Amounts recognized in profit or loss:

	Year ended December 31	
	2017	2016
Adjustment in respect of previous years taxes (refer to note 27(f))	(1,056)	-
Tax benefit (deferred tax expense) (refer to Note 16)	55	(522)
Total	(1,001)	(711)
Deferred tax (expense) benefit:		
Origination and reversal of time differences	55	(522)
Reconciliation of effective tax rate:		
	2017	2016
Dutch statutory income tax rate	25%	25%
Loss from continuing operations before income taxes	(25,562)	(45,806)
Tax benefit at the Dutch statutory income tax rate	(6,390)	(11,452)
Recognition of previously unrecognized tax losses	(229)	(680)
Effect of tax rates in foreign jurisdictions	862	2,332
Adjustment in respect of previous years taxes	1,056	-
Current year tax loss and other timing differences for which no deferred taxes are created (1)	3,070	10,500
Non-deductible expenses (exempt income)	2,632	11
Tax Expense	1,001	711

(1) 2017 and 2016 - Mainly due to write-down of trading property not recognized for tax purposes.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 25:- INCOME TAXES (Cont.)

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").

Poland

Companies resident in Poland are subject to corporate income tax at the general rate of 19%. (capital gains bear the same tax rate). Tax losses may be carried forward for five years, with only 50% of the loss is deductible in each tax year. Withholding tax on Dividend is at a rate of 19%, however, the tax rate may be reduced under the European Union regulations or Double Tax Treaties outstanding.

NOTE 26: - 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 26:- FINANCIAL INSTRUMENTS (Cont.)

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. Credit evaluations were performed on all customers requiring credit over a certain amount. The Group required collateral in the form of mainly deposit equal to three months of rent from tenants of shopping centers (collected deposits from tenants totalled EUR 0 million and EUR 0.6 million as at December 31, 2017 and 2016, respectively).

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).

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 and in Poland) that are denominated in a currency other than the functional currency of the respective Group companies. The currencies in which these transactions primarily are denominated are the NIS or PLN.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 26:- FINANCIAL INSTRUMENTS (Cont.)

Interest Rate Risk (including inflation):

The Group's interest rate risk arises mainly from short and long term borrowing (as well as Bonds). Borrowings issued at variable interest rate expose the Group to variability in cash flows. Borrowings issued at fixed interest rate expose the Group to changes in fair value, if the interest is changing. In certain case, the Group uses IRS to minimize the exposure to interest risk by fixing the interest rate. Regarding interest rate risk hedging of the Bonds and bank facilities, refer to Note 11. As the Israeli inflation risk is diminishing to a level that management believes is acceptable (Israeli CPI 2017 0.4%; 2016 -0.9%), the Company has stopped using hedging of CPI risk in 2012.

Shareholders' equity management:

Refer to Note 18 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.

Credit risk:

The carrying amount of financial assets represents the maximum credit exposure. The vast majority of financial assets are not passed due, and the management believes that the unimpaired amounts that are past due by more than 60 days are still collectible in full, based on historic payment behavior and analysis of customer credit risk. The maximum exposure to credit risk at the reporting date was:

	Note	Credit quality	Carrying amount as at December 31,	
			2017	2016
Cash and cash equivalents	4	Mainly Baa3	44,844	5,646
Restricted bank deposits- short term	5	Mainly BBB+	-	7,174
Trade receivables, net	6	N/A	525	6,645
Related party receivables	30	N/A	1,753	1,720
Long term receivables	10	N/A	-	699
Total			47,122	21,884

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 26 - FINANCIAL INSTRUMENTS (Cont.)

As of December 31, 2017, and 2016, all debtors without credit quality have a relationship of less than five years with the Group. At 31 December 2017, the aging of trade and other receivables that were not impaired was as follows:

	Carrying amount	
	December 31	
	2017	2016
Neither past due nor impaired (*)	-	5,592
Past due 1-90 days	288	231
Past due 91-120 days	237	1,043
Total	525	6,866

(*) 2016 - debtors due to sale of plots in Serbia and Poland.

The maximum exposure to credit risk for the abovementioned table at the reporting date by type of debtor was as follows:

	Carrying amount	
	December 31	
	2017	2016
Banks and financial institutions	44,844	12,820
Tenants	-	970
Receivables for sold plots	-	5,675
Related party receivable	1,753	1,720
Other	525	699
Total	47,122	21,884

Liquidity risk

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

December 31, 2017

	Carrying amount	Contractual cash flows	6 months or less (*)	6-12	1-2years	2-5 years	More than 5 years
				Months (**)			
<u>Non-derivative financial liabilities</u>							
Secured bank loans	-	-	-	-	-	-	-
Bonds issued (*)	116,914	(133,322)	(37,153)	(25,725)	(70,444)	-	-
Trade and other payables	190	(190)	(190)	-	-	-	-
Related parties	87	(87)	(87)	-	-	-	-
	117,191	(133,599)	(37,430)	(25,725)	(70,444)	-	-

(*) Refer to Note 15(3)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 26:- FINANCIAL INSTRUMENTS (Cont.)

December 31, 2016

	Carrying amount	Contractual cash flows	6 months or less (*)	6-12 Months (**)	1-2years	2-5 years	More than 5 years
<u>Derivative financial liabilities</u>							
IRS Derivatives	453	(1,257)	(634)	(623)	-	-	-
<u>Non-derivative financial liabilities</u>							
Secured bank loans	82,275	(88,600)	(1,904)	(46,225)	(2,454)	(25,925)	(12,061)
Bonds issued (*), (**)	178,370	(212,602)	(51,835)	(4,665)	(140,898)	(15,204)	-
Trade and other payables	10,837	(10,837)	(10,349)	-	(488)	-	-
Related parties	206	(206)	(206)	-	-	-	-
	<u>272,141</u>	<u>(313,502)</u>	<u>(64,928)</u>	<u>(51,513)</u>	<u>(143,840)</u>	<u>(41,129)</u>	<u>(12,061)</u>

(*) This Note assumes the minimum contractual payments on the bonds to achieve the deferral.

(**) Out of the total remaining amount of EUR 51.2 amount of EUR 2.7 million in respect of Belgrade Plaza and EUR 4.4 million of Suwalki were assigned to the purchasers of the shopping centers and trade and other payables in the amount of EUR 1.1 million to be revolved.

Currency risk:

The Company's main currency risk is in respect of its NIS denominated bonds. Following the discontinuance and full settlement of all currency options effective October 2015, the Company is exposed to changes in EUR/NIS rate.

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

	Average rate		Reporting date	
	2017	2016	Spot rate 2017	2016
EUR				
NIS 1	0.246	0.235	0.241	0.247

PLN denominated bonds - A change of 7 percent in EUR/PLN rates at the reporting date would have increased/(decreased) profit or loss by EUR 0.4 million, as a result of having issued PLN linked bonds.

NIS denominated bonds - A change of 6 percent in EUR/NIS rates at the reporting date would have increased/(decreased) profit or loss by EUR 6.7 million, as a result of having issued NIS linked bonds.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 26: - FINANCIAL INSTRUMENTS (Cont.)

Interest rate risk

Profile

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

	Carrying amount	
	2017	2016
Fixed rate instruments	-	12,820
Financial assets		
Variable rate instruments		
Bonds	(116,914)	(178,370)
Other financial liabilities	-	(82,275)

NIS Bonds

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 2016) 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.

		Profit (loss) effect	
For the year ended December 31,	Carrying amount of bonds	CPI increase effect	CPI decrease effect
2017	111,796	(3,354)	3,354
2016	162,722	(5,034)	5,034

Fair values:

Fair values measurement versus carrying amounts:

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

PLAZA CENTERS N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 26: - FINANCIAL INSTRUMENTS (Cont.)

For the Israeli bonds presented at amortized cost, the fair value would be the market quote of the relevant Israeli bond, had they been measured at fair value.

	Carrying amount		Fair value	
	2017	2016	2017	2016
<u>Statement of financial position</u>				
Bonds at amortized cost - Polish bonds	5,119	10,561	4,022 (*)	9,964
Bonds A at amortized cost - Israeli bonds	45,963	61,505	30,493 (*)	50,727
Bonds B at amortized cost - Israeli bonds	65,832	106,303	49,536 (*)	90,008

(*) The fair value is based on Level 1 in fair value hierarchy.

NOTE 27:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Contingent liabilities and commitments to related parties:

1. The Company entered into an indemnity agreements 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.
2. 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 1 November 1, 2017. 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.

b. Contingent liabilities and Commitments to others:

1. As part of the completion of the restructuring plan (refer also to note 15), 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 15 for recent amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 27:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

- 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, 2017 the calculated CRC is 103.3% (also refer to note 15 (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 investments 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 Polish bonds terms, and the Bondholders shall be entitled to declare that all or a part of their respective (remaining) claims become immediately due and payable.

- 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 maintained as of December 31, 2017.
- 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 27:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

- (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, 2017.
 - (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 subsection (i) above. 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 an 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 27:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

(ii) 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 as described in note 18 are met.

i) 75% mandatory early repayment - Refer to note 16 and to other sections in this note.

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. The Company's management estimates that no significant costs will be borne thereby, in respect of these indemnifications.

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 1.9 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.

c. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 27:- CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

- d. Certain issues with respect to an agreement from 2011:

The Company has been 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 is currently discussing this matter with its Sponsor and the UKLA and 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 has 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 8 (6)(d) in this respect, with respect to Elbit's settlement with the SEC.

As of the date of the approval of the financial statements and at this preliminary stage, the Company, based on legal advice received, cannot estimate the potential consequences for the Company as a result of this matter and no provision is recorded in the books for any amounts which the Company may incur as a result of these issues.

- f. Contingent liability due to Tax

In respect of a subsidiary which holds a plot in the Europe region, certain tax aspects have been raised in respect to the past. The management decided, following a thorough analysis and based on its tax advisor's estimations, to record a provision in amount of EUR 1.1 million for potential losses which are recorded in other losses in the profit or loss financial statements. In respect of a potential real estate tax claim, the group has been advised by its external advisors that notwithstanding the overall ambiguities of the applicable framework and its implementation that could result to a possible tax dispute there are good chances of success in case of litigation since the shares of the subsidiary are ultimately held by entities which shares are admitted for trading in regulated Stock Exchanges and therefore the substantial requirements for the tax exemption are met. Accordingly, no provision for any liability has been made in these financial statements.

Controlling shareholder

As for December 31, 2017 and 2016, EI held approximately 44.9% of PC's share capital; Davidson Kempner Capital Management LLC ("DK") held approximately 26.3% of the Company's share capital and the rest is widely spread in the public. EI is of the opinion that based on the absolute size of its holdings, the relative size of the other shareholdings and due to the fact that the company's directors are appointed by a regular majority of the Company's general meeting of shareholders, EI have a sufficiently dominant voting interest to meet the power criterion, therefore EI has de facto control over the company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 28: - 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.

Kochi project advanced payment settlement

In November 2013, the Company exercised the corporate guarantee in the amount of EUR 4.3 million including interest thereon up till such date (the "Reimbursement Payment") provided by EI to the Company in the framework of the Indian JV Agreement on the ground of EI's failed to finalize and conclude the transfer of the Kochi Project Rights to the Indian JV Vehicle. Due to uncertainty concerning the recovery of the receivable, the Company has impaired the Reimbursement Payment in its 2013 financial statements.

In June 2015, the Company reached an agreement with EI, based on the mentioned JV

Agreement and its ancillary documents (including corporate guarantee issued by EI in favour of the Company), following which EI was obliged to repay the Reimbursement amount in few instalments until mid-2018. As a result of the agreement reached, the Company recorded a gain of EUR 4.6 million in 2015. The Group's liabilities towards EI in the amount of EUR 0.8 million were offset from this balance, with repayment of EUR 1 million performed in late September 2015, and EUR 1.2 million offset in December 2016 following Elbit assuming the Company's liability to Klepierre (thus balance as of December 31, 2017 is EUR 1.75 million (including accrued interest on remaining balance).

Trading transactions

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

	Year ended	
	December 31,	
	2017	2016
Income		
Interest on balances with EI	47	79
Costs and expenses		
Recharges - EI	23.6	49
Compensation to key management personnel (2)	615	650
Performance linked benefits - management	302	226
Compensation to board members (1), (2)	370	420
Lease agreement for office in Bucharest	13	30

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

- (1) 2017 – four board members (out of which one non-executive director resigned in September); 2016 - five board members (out of which one non-executive director resigned in June).
- (2) There was no change in the number of Company share options granted to key personnel in 2017. There are no other benefits granted to directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 28: - RELATED PARTY TRANSACTIONS (Cont.)

As of December 31, 2017, the Company identified York Capital Management Global Advisors, LLC ("York") and 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. York is the main shareholder in EI, holding 19.8% of the outstanding shares of EI, and also has a direct holding of 3.6% in the Company's shares. There were no transactions with DK or York in the reporting period and there are no outstanding balances with DK or York.

York is holding, as of December 31, 2017, 9.6% out of the total Israeli bonds debt of the Company. Interest paid on Bonds held by York at year-end were circa EUR 0.5 million.

NOTE 29:- EVENTS AFTER THE REPORTING PERIOD

a) Settlement agreement with the Bondholders

In January 2018, a settlement agreement has been reached and approved (and all the conditions precedent in the agreement fulfilled) between the holders of two Series of Israeli Bonds and the Company regarding the allocation of funds, to be repaid by the Company, across the Israeli Bonds Series. As a result, the agreement the Series A Bondholders shall withdraw their request for immediate repayment. In regards to Settlement agreement principles refer to Note 15 (3)

b) Retirement of Chief Executive Officer

On 11 January, 2018 the Company announced that the CEO, Dori Keren will retire from his position at the end of March 2018.

c) Ceasing of rating by S&P

On 18 January, 2018 S&P Maalot announced that it ceases updating the rating of the Company's bonds following the Company's request.

d) Dispute with the purchaser of a Plot in India.

In January 2018, the Purchaser of the 100% interest in an SPV (in which Plaza holds a 50% stake with its joint venture partner, Elbit Imaging Ltd.), that holds property in Bangalore, India, (the "**Agreement**" and the "**Purchaser**" respectively), has given notice that all remaining payments under the Agreement will be stopped until a mutually acceptable solution is reached due to a proposed change (initiated by the Indian authorities) which could potentially impact the development of the land. In February, despite the notice above, the Purchaser has paid the January instalment in the amount of INR 5 Crores (circa €0.65 million). To date, since the signing of the Agreement, the Purchaser has paid non-refundable advance payments totalling INR 45 Crores (circa € 5.9 million), out of the total consideration of INR 338 Crores (circa €44.2 million) due under the Agreement.

The Company continues to reject the Purchaser's claims and is constantly evaluating its options and considering its legal rights (refer also to Note 10 (b) (1))

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 29:- EVENTS AFTER THE REPORTING PERIOD

- e) 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 8(6) and 27(d). The Company is currently examining the motion with its legal advisors and intend to respond in due course.

NOTE 30:- BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date

Derivative financial instruments	Fair value
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NOTE 31:- SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

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

NOTE 31:- SIGNIFICANT ACCOUNTING POLICIES

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. Non-controlling interests:

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

4. 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.

5. 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.

b. 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 31:- 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.

However, foreign currency differences arising from the translation of available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss) are recognised in other comprehensive income.

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.

c. Financial instruments:

1. Non-derivative financial assets and financial liabilities - recognition and de-recognition:

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

NOTE 31:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Refer to note 27 for the list of Non-derivative financial assets and financial liabilities.

2. Non-derivative financial assets - measurement:

Cash and cash equivalents and restricted bank deposits

In the consolidated statement of cash flows, cash and cash equivalents includes bank deposits deposited for periods which do not exceed three months. Restricted bank deposits are deposit restricted due to bank facilities and derivatives entered into.

Loans and receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. The collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off in the period in which they are identified. Doubtful receivables are impaired when there is objective evidence that the Group will not collect all amounts due. These types of assets are discussed in Note 6, 7a and 7b.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss

(3) Non-derivative financial liabilities:

Other non-derivative financial liabilities

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method. The Group has the following non-derivative financial liabilities: interest bearing loans, bonds (refer to note 15), trade payables, related parties and other liabilities at amortized cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 31:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period to the net carrying amount of the financial liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial liability (for example, prepayment, call and similar options). The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

When the Group revises its estimates of payments, it adjusts the carrying amount of the financial liability to reflect actual and revised estimated cash flows. The Group recalculates the carrying amount by computing the present value of estimated future cash flows at the financial liability's original effective interest rate. The adjustment is recognised in profit or loss as a financial expense.

4. Derivative financial instruments:

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivatives are recognised initially at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

d. 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.

e. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 31:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditure and borrowing costs are being incurred. Capitalization of borrowing costs may continue until the asset is substantially ready for its intended use (i.e. upon issuance of certificate of occupancy).

In certain cases, where the construction phase is suspended for an unplanned period expected to exceed 25% of the total scheduled time for construction, cessation of the capitalisation of borrowing cost will apply, until construction phase is resumed.

Non-specific borrowing costs are capitalised to such qualifying asset, by applying a capitalization rate to the expenditures on such asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowing made specifically for the purpose of obtaining a qualifying asset.

The amount of borrowing costs capitalized during the period does not exceed the amount of borrowing costs incurred during that period.

f. Property and equipment:

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses (refer to Note 31(g)). If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised in profit or loss. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 31:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The estimated useful lives of property for current and comparative periods and equipment are as follows:

	<u>Years</u>
Land - owned	0
Office buildings	25-50
Equipment, fixture and fittings	10-15
Other (*)	3-18

(*) Consists mainly of motor vehicles, equipment, computers, peripheral equipment, etc.

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

g. Impairment:

1. Non-derivative financial assets:

Financial assets not classified as at fair value through profit or loss, including interest on loan to equity accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets

Financial assets measured at amortized cost:

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 31:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off.

If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

2. Non - financial assets and interests in equity accounted investees:

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than trading property and deferred tax assets) and interests in equity accounted investees to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGU").

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is never reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

h. 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.

Construction costs

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 31:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

The expense relating to any provision is presented in the income statement net of any reimbursement.

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.

i. Revenue and other income:

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.

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.

Rental income

The Group leases real estate to its customers under leases that are classified as operating leases. Rental income from trading property is recognized in profit or loss on a straight-line basis over the term of the lease. Lease origination fees and internal direct lease origination costs are deferred and amortized over the related lease term. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

The leases generally provide for rent escalations throughout the lease term. For these leases, the revenue is recognized on a straight-line basis so as to produce a constant periodic rent over the term of the lease. The leases may also provide for contingent rent based on a percentage of the lessee's gross sales or contingent rent indexed to further increases in the Consumer Price Index ("CPI").

Where rentals that are contingent upon reaching a certain percentage of the lessee's gross sales, the Group recognizes rental revenue when the factor on which the contingent lease payment is based actually occurs. Rental revenues for lease escalations indexed to future increases in the CPI are recognized only after the changes in the index have occurred.

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 31:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- 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.

- j. Operating lease payments:

Payments made under operating leases (in respect of plots of land under usufruct) are recognized in profit or loss on a straight-line basis over the term of the lease but are capitalized in relation to land used for the development of trading properties during the construction period (similar to borrowing costs).

- k. 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. For the Group's policy regarding capitalization of borrowing costs refer to Note 31(e).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 31:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. Income tax:

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

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.

n. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 31: - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 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. As of the end of the reporting period share-based payments which may be settled in cash are options granted to only one person and can be cash settled at the option of the holder.

o. Standards issued but not yet effective:

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- ***IFRS 9 Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects an increase in the loss allowance resulting in a negative impact on equity as discussed below. In addition, the Group will implement changes in classification of certain financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 31:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Loans are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analyzed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

In addition, on adoption of IFRS 9, effective interest rate calculated on Company's bonds at amortized costs, will be adjusted as necessary in order to reflect the change in accounting policy related to modification of trust deeds terms. In summary, the impact of IFRS 9 adoption is expected to be, as follows:

Impact on equity (increase/(decrease)) as of 31 December 2017:

	Adjustments	€000
<i>Liabilities and shareholders' equity</i>		
Bonds at amortized cost		(1,385)
<i>Total liabilities</i>		(1,385)
<i>Net impact on equity, Including</i>		(1,385)
Retained earnings		(1,385)

- ***IFRS 15 Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard on the required effective date using a modified retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2017.

1. Sale of goods

For contracts with customers in which the sale of trading property is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Group's revenue and profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the trading property. In preparing to adopt IFRS 15, the Group is considering the following:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 31:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

a) Variable consideration

One contract with a buyer provide a final agreed value depends on sustainable NOI following 12 months of operation of the mall, followed by re-examined NOI again after 24 and 36 months of operation which may lead to an upward price adjustment. Currently, the Group recognizes revenue from the sale of trading property measured at the fair value of the consideration received or receivable. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15 and will be required to be estimated at contract inception and updated thereafter.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group does not expect that application of the constraint will result in more revenue being deferred than undercurrent IFRS.

b) Warranty obligations

The Group generally provides for warranties for general repairs and does not provide extended warranties in its contracts with buyers. As such, most existing warranties will be assurance-type warranties under IFRS 15, which will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with its current practice.

c) Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosures requirements will not be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. In addition, as required by IFRS 15, the Group will disaggregate revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. In 2017 the Group continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 31:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- **IFRS 16, "Leases":**

IFRS 16 was issued in January 2016 and it replaces 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. IFRS 16 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 similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements. Since the Company's lease contracts are not significant, the Company estimates that the adoption of the new Standard will not have a material impact on the Company's assets and liabilities. However, at this stage, the Company is unable to quantify the impact on the financial statements.

- **IFRIC Interpretation 23 Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;

NOTE 31:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

PLAZA CENTERS N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 32:- LIST OF GROUP ENTITIES

As of December 31, 2017, the Company owns the following companies (all are 100% held subsidiaries at the end of the reporting period presented unless otherwise indicated):

HUNGARY	ACTIVITY	REMARKS
Directly wholly owned		
HOM Ingatlanfejlesztési és Vezetési Kft.	Management company	
Plaza Centers Establishment B.V.	Holding company	
Szombathely 2002 Ingatlanhasznosító és Vagyongazdálkodási Kft.	Inactive	
Tatabánya Plaza Ingatlanfejlesztési Kft.	Inactive	
Plasi Invest 2007 kft.	Inactive	
Indirectly or jointly owned		
Kerepesi 5 Irodapark Ingatlanfejlesztő Kft.	Holder of land usage rights	100% held by Plaza Centers Establishment B.V. Arena Plaza Extension project – October 2017 concluded an agreement on the termination of land use rights
POLAND		
Directly wholly owned		
Lodz Centrum Plaza Sp. z o.o.	Owns plot of land	Lodz (Residential) project
Wloclawek Plaza Sp. z o.o.	Mixed-use project	Lodz Plaza project
O2 Fitness Club Sp. z o.o.	Inactive	O2 Fitness Club project; Company under liquidation in 2018
Kielce Plaza Sp. z o.o.	Inactive	Kielce Plaza project- Sold June 2017; Company under liquidation in 2018
Leszno Plaza Sp. z o.o.	Inactive	Leszno Plaza project - Sold July 2017; Company under liquidation in 2018
EDMC Sp. z o.o.	Inactive	Company under liquidation in 2018
Plaza Centers (Poland) Sp. z o.o.	Management company	Company under liquidation in 2018
Bytom Plaza Sp. z o.o. w likwidacji	Inactive	Company under liquidation
Gdansk Centrum Plaza Sp. z o.o. w likwidacji	Inactive	Company under liquidation
Gorzow Wielkopolski Plaza Sp. z o.o. w likwidacji	Inactive	Company under liquidation
Jelenia Gora Plaza Sp. z o.o. w likwidacji	Inactive	Company under liquidation
Katowice Plaza Sp. z o.o. w likwidacji	Inactive	Company under liquidation
Szczecin Plaza Sp. z o.o.	Inactive	
Legnica Plaza Spółka z ograniczoną odpowiedzialnością I S.K.A.	Inactive	Company under liquidation in 2018
Plock Plaza Sp. z o.o. w likwidacji	Inactive	Company under liquidation
Olsztyn Plaza Sp. z o.o. w likwidacji	Inactive	Company under liquidation
Radom Plaza Sp.z.o.o.	Inactive	Under liquidation
Indirectly or jointly owned		
Torun Centrum Plaza Sp. z o.o.w likwidacji	Inactive	100% held by Plaza Centers Administrations B.V.; Company under liquidation
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.	Inactive	50% held by Plaza Centers N.V. 50% held by P.L.A.Z.A B.V.
Fantasy Park Sp. z o.o. w likwidacji	Inactive	100% held by Mulan B.V.; Company under liquidation
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 Bytom Sp. z o.o. w likwidacji	Inactive	100% held by Mulan B.V.; Company under liquidation
Fantasy Park Poznań Sp. z o.o. w upadłości likwidacyjnej	Inactive	100% held by Mulan B.V.; Company under liquidation
Fantasy Park Kraków Sp. z o.o.	Inactive	100% held by Mulan B.V.; Company under liquidation

PLAZA CENTERS N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 32:- LIST OF GROUP ENTITIES (Cont.)

	ACTIVITY	REMARKS
LATVIA		
<u>Indirectly or jointly owned</u>		
Diksna SIA	Operating shopping center - Sold 2016	Equity accounted investee, 50% held by Plaza Centers N.V.; 50% held by JV partner Riga Plaza project.
ROMANIA		
<u>Directly wholly owned</u>		
S.C. North Gate Plaza S.R.L.	Shopping center project	Csiki Plaza (Miercurea Ciuc) project
S.C Plaza Centers Management Romania s.r.l	Inactive	Liquidated in 2018
<u>Indirectly or jointly owned</u>		
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		
<u>Directly wholly owned</u>		
Plaza Centers (Estates) B.V.	Holding company	
Plaza Centers Management D.O.O.	Management company	Krusevac Plaza project
Plaza Centers Holding B.V.	Inactive	
Plaza Centers (Ventures) B.V.	Inactive	
CZECH REPUBLIC		
<u>Directly wholly owned</u>		
Plaza Centers Czech Republic S.R.O.	Inactive	
BULGARIA		
<u>Directly wholly owned</u>		
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
GREECE		
<u>Directly wholly owned</u>		
Helios Plaza S.A.	Shopping center project	Pireas Plaza project
CYPRUS - UKRAINE		
<u>Directly wholly owned</u>		
Tanoli Enterprises Ltd.	Inactive	
PC Ukraine Holdings Ltd.	Inactive	
Plaza Centers Ukraine Ltd.	Inactive	100% held by PC Ukraine Holdings Ltd.

PLAZA CENTERS N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 32:- 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 Polish Operations B.V.	Holding company	
Plaza Centers administrations b.v.	Inactive	100% held by Plaza Centers Polish Operations B.V.
Plaza Centers Management B.V.	Holding company	
Plaza Centers Connections B.V.	Inactive	
Dambovita Centers Holding B.V.	Holding company	100% held by Plaza Centers N.V.
Plaza Centers Engagements B.V.	Inactive	
Plaza Bas B.V.	Holding company	50.1% held by Plaza Centers N.V.
Plaza Centers Foundations B.V.	Inactive	
Plaza Centers Logistic B.V.	Inactive	
S.S.S. Project Management B.V.	Inactive	
Obuda B.V	Inactive	
Plaza Cenetr Establishment B.V.		
Plaza Centers (Estates) B.V.	Holding company	
Plaza Centers Holding B.V.	Inactive	
Plaza Centers Investments B.V.	Inactive	100% held by Obuda B.V.
Plaza Centers (Ventures) B.V.	Inactive	
CYPRUS - INDIA		
Directly wholly owned		
PC India Holdings Public Company Ltd.	Holding company	
Indirectly or jointly owned		
Permindo Ltd.	Holding company	100% held by PC India Holdings Public Company Ltd.
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. Chennai (SipCot) project
Aayas Trade Services Pvt. Ltd.	Mixed-use project	99.9% held by Elbit Plaza India Real Estate Holdings Ltd. Bangalore project
UNITED STATES OF AMERICA		
Indirectly or jointly owned		
Elbit Plaza USA II LP (EPUS II)	Holding company	Equity accounted investee: 50% held by Plaza Centers N.V. 50% held by Elbit Imaging Ltd. Company under liquidation
EPN REIT II	Inactive	100% held by Elbit Plaza USA II LP (EPUS II) Company under liquidation

PLAZA CENTERS N.V.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 32:- LIST OF GROUP ENTITIES (Cont.)

ENTITIES DISPOSED OR DISSOLVED IN 2016 AND 2017		
	ACTIVITY	REMARKS
HUNGARY		
Plaza House Ingotlanfejlesztési Kft.	Office building	David House - Sold 02/2017
POLAND		
Suwalki Plaza Sp. z o.o.	Operating shopping center	100% held by Plaza Centers Polish Operations B.V. Suwalki Plaza project - Sold 01/2017
Legnica Plaza - Sp. z o.o.	General Partner	General Partner of Legnica Plaza Spolka z ograniczona odpowiedzialnoscia S.K.A and Legnica Plaza Spolka z ograniczona odpowiedzialnoscia 1 S.K.A - Sold 10/2017
Legnica Plaza Spolka z ograniczona odpowiedzialnoscia S.K.A.	Operating shopping center	100% held by Bydgoszcz Plaza Sp. z o.o. Torun Plaza project – Sold 10/2017
Bydgoszcz Plaza Sp. z o.o.	Holding company	100% held by Plaza Centers Polish Operations B.V. - Sold 10/2017
Fantasy Park Poland Sp. z o.o.	Inactive	Liquidated 01/2017
ROMANIA		
S.C. Elite Plaza S.R.L.	Shopping center project	Timisoara Plaza project - sold August 2017; Company dissolved
S.C. North Eastern Plaza S.R.L.	Shopping center project	Constanta Plaza project - sold August 2017; Company dissolved
S.C. Palazzo Ducale S.R.L.	Inactive	Company dissolved
SERBIA		
Accent D.O.O.	Inactive	Company dissolved
Leisure Group D.O.O.	Shopping center project	100% held by Plaza Centers (Estates) B.V. Belgrade Plaza (Visnjicka) project - Sold 02/2017
