

# ANNUAL REPORT

PLAZA CENTERS 2017



PLAZA CENTERS

# Contents

## Overview

|   |    |
|---|----|
| Who we are . . . . .                    | 1  |
| 2017 highlights . . . . .               | 2  |
| Business concept and strategy . . . . . | 6  |
| Debt restructuring . . . . .            | 8  |
| Our portfolio at a glance . . . . .     | 15 |
| Development focus . . . . .             | 16 |
| Current portfolio . . . . .             | 17 |

## Business review

|   |    |
|---|----|
| Chief Executive Officer's statement . . . . . | 18 |
| Operational review . . . . .                  | 20 |
| Financial review . . . . .                    | 22 |
| Valuation summary . . . . .                   | 26 |

## Management and governance

|  |    |
|--|----|
| Management structure . . . . .                     | 27 |
| Board of Directors and Senior management . . . . . | 28 |
| Directors' report . . . . .                        | 30 |
| Corporate governance . . . . .                     | 34 |
| Risk management . . . . .                          | 40 |
| Remuneration report . . . . .                      | 50 |
| Statement of the directors . . . . .               | 53 |

## Financial statements

|  |    |
|--|----|
| Independent auditors' report . . . . .                   | 54 |
| Consolidated statement of financial position . . . . .   | 58 |
| Consolidated statement of profit or loss . . . . .       | 59 |
| Consolidated statement of comprehensive income . . . . . | 60 |
| Consolidated statement of changes in equity . . . . .    | 61 |
| Consolidated statement of cash flow . . . . .            | 62 |
| Notes to the consolidated financial statements . . . . . | 64 |

## Company financial statements

|   |     |
|---|-----|
| Company balance sheet . . . . .                     | 116 |
| Equity and liabilities . . . . .                    | 117 |
| Company profit and loss account . . . . .           | 118 |
| Notes to the Company financial statements . . . . . | 119 |
| Other information . . . . .                         | 128 |
| Independent auditor's report . . . . .              | 129 |

## Additional information

|                             |     |
|-----------------------------|-----|
| Company's offices . . . . . | 134 |
| Advisors . . . . .          | 135 |

# Who we are

**We are a Central and Eastern European property developer focusing on western-style shopping and entertainment centers.**

The Plaza Centers Group was a property developer and investor with a focus on operations in Central and Eastern Europe (“CEE”) until the end of 2017. The Group has been present in the Central and Eastern Europe region since 1996 and was the first to develop western-style shopping and entertainment centers in Hungary. The Group has pioneered this concept throughout the CEE whilst building a strong track record of successfully developing, letting and selling shopping and entertainment centers. Since 2006, the Group has extended its area of operations beyond the CEE into India. In 2010, Plaza identified, with its joint venture partners, a window of opportunity for investment in the US as a result of the dislocation of the property market, specifically within the retail sector. In 2012, taking advantage of its qualities and experience in identifying opportunities, managing and exiting assets, gained over the years, the Group completed another significant sale of 49 US-based assets, mainly to a joint venture between Blackstone Real Estate and DDR Corp. In a transaction valued at US\$1.47 billion, which reflects a ROE for the Group of nearly 50% in a period of little over 18 months.

Plaza has implemented debt restructuring plan that was approved by the Dutch court on July 9, 2014 and became final in November 2014 by the completion of a successful rights offering, which provided Plaza with a €20 million capital injection and marked an important final step in the restructuring process followed by a third listing on the Tel Aviv Stock Exchange.

In line with the debt restructuring plan, Plaza repays 75% of proceeds from disposals to bondholders. An Amended Plan was agreed in November 2016 according to which, the Group agreed with its bondholders to amend the terms of the early repayment requirement under the original debt restructuring plan. During first three months 2017, the Company paid to its bondholders a total amount of NIS 191.7 million (EUR 49.2 million) as an early redemption. Upon such payments, the Company complied with the Early Prepayment Term (early redemption at the total sum of at least NIS 382,000,000) and thus obtained a deferral of one year for the remaining contractual obligations of the bonds. In January 2018, a settlement agreement was signed by and among the Company and the two Israeli Series of Bonds including among others: New repayment ratios, an increase in the level of the mandatory early repayments, new repayment schedule, a waiver of claims and to waive the request for publication of quarterly financial reports.

During 2017 and up to date, Plaza received net proceeds of €119.4 million from sales transactions and price adjustments. The focus of 2017 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.

The Company is an indirect subsidiary of Elbit Imaging Ltd. (“EI”), an Israeli public company whose shares are registered for trade on the Tel Aviv Stock Exchange in Israel and on the NASDAQ Global Select Market in the United States.

The Group has been present in real estate development in emerging markets for more than 22 years, initially pursuing shopping and entertainment center development projects in Hungary and subsequently expanding into Poland, the Czech Republic, Romania, Latvia, Greece, Serbia, Bulgaria and India. To date, the Group has developed, let and sold 34 shopping and entertainment centers in the CEE region and India, with an aggregate gross value of circa €1.55 billion. 21 of these centers were acquired by Klepierre, a leading player in the continental European shopping center property market, which owns shopping center in 57 cities and 16 countries, with a property portfolio value of €23.8 billion as of the year ending 2017. Four additional shopping and entertainment centers were sold to the Dawnay Day Group. One shopping center was sold in 2007 to Active Asset Investment Management (“AAIM”), a UK commercial property investment group. The transaction had a completion value totaling approximately €387 million, representing circa 20% of all real estate transactions completed in Hungary in 2007. Kragujevac Plaza was sold in 2014 to New Europe Property Investments plc (today “NEPI Rockcastle plc”) a commercial property investor and developer, listed on the Main Board of the Johannesburg Stock Exchange Limited (JSE) and Euronext Amsterdam.

In 2017 Plaza announced the successful completion of the sale of Belgrade Plaza shopping and entertainment centre to a subsidiary of BIG Shopping Centers Ltd, a publicly traded company in Tel Aviv Stock Exchange. Belgrade Plaza (Visnjicka) has been the largest development underway in Serbia. In addition Torun plaza mall in Poland was sold to a private investment fund, being the last operating asset.



Serbia

In 2018 the Company remains focused on completing the disposal of the assets identified for sale and on delivering on its commitments to its stakeholders.

Since 1 November 2006, Plaza Centers N.V.’s shares have been traded on the main board of the London Stock Exchange under the ticker “PLAZ”. From 19 October 2007, Plaza Centers N.V.’s shares are also traded on the main list of the Warsaw Stock Exchange under the ticker “PLZ”, making it the first property company to achieve this dual listing, and on the Tel Aviv Stock Exchange.



# 2017 highlights

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

### 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).

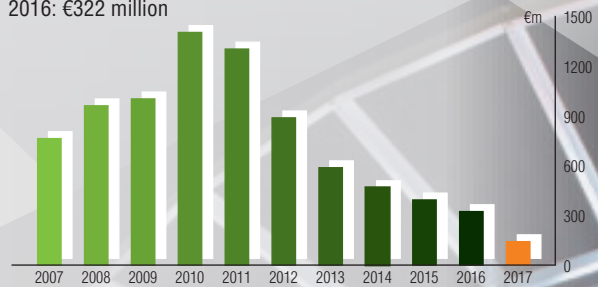
### Progress in portfolio rationalisation and financial highlights:

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.

### Total assets

**2017: €141 million**

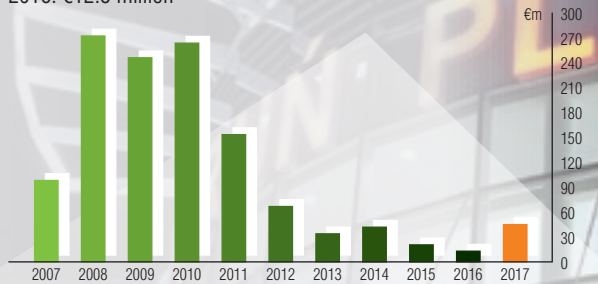
2016: €322 million



### Consolidated cash position\*

**2017: €44.8 million**

2016: €12.8 million



\* Including restricted bank deposits, short term deposits in 2016.

### Sale of Suwalki Plaza:

In January 2017, The Company sold its SPV holding Suwalki 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.

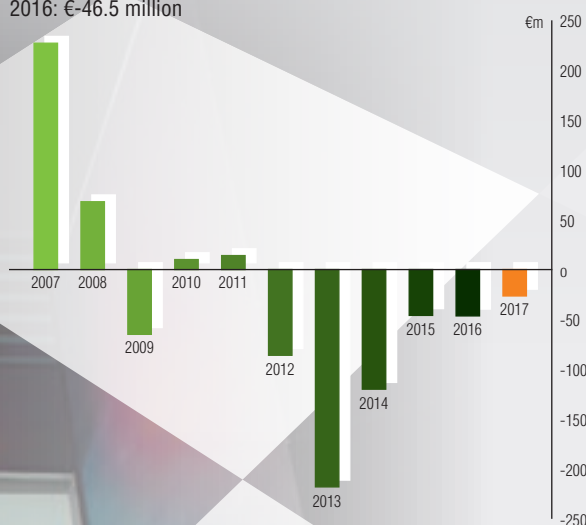
The shopping centre, which was over 97% pre-let, opened on 20th of April 2017 and the Company had remained responsible for the development and leasing of the asset until the opening.

Upon completion of the transaction, the Company has received an initial payment of €31.7 million from the purchaser, and has since

## Loss after tax

# 2017: €-26.5 million

2016: €-46.5 million



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.

# 2017 highlights

## **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, Kerespesi 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, following 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 Elbit Plaza India Real Estate (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 Elbit Plaza India Real Estate (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.



# Business Concept & Strategy

**Plaza business concept and strategy is to no longer develop commercial centers, but to solve existing bureaucratic or legal issues and dispose its real estate assets.**

## Maintain liquidity and debt management

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.

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.

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 Note 2(c) of the consolidated 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.

Plaza will continue to reduce corporate level debts by early repayments following sale of assets according to the Company's debt restructuring agreement.

## Objectives

### 1. Development:

Advancing related permits and approvals for the Casa Radio project in Bucharest, Romania and exploring opportunities for financing and/or partnerships for the development.

### 2. Sale of assets:

The Company remains focused on completing the disposal of the assets identified for sale and on delivering on its commitments to its stakeholders.





### 3. Debt:

Continuing to reduce corporate debt by early repayments following sale of assets according to the Company's debt restructuring agreement, following the one year deferral achieved on March 15, 2017, and subject to the settlement agreement signed by and among the Company and the two Israeli Series of Bonds in 2018.

### 4. General Expenses:

Continue with efficiency measures and cost reduction where possible and continuing strongest cost control initiatives e.g. reduction of manpower, cutting cost of suppliers, advisors etc.





# Debt restructuring

## General

On 14 November 2013, Plaza Centers announced that its Board of Directors had concluded that the Company would withhold payment on the upcoming maturities of its bonds and approach its creditors with a restructuring plan. The restructuring plan was approved on 26 June 2014 by the vast majority of the Company's creditors and, subsequently, approved by the Court on 9 July 2014, becoming an irrevocable decision on 21 July 2014. The Company announced the publication of a prospectus in respect of a rights offering on 16 October 2014. The shareholders approved the rights offering on 28 November 2014 which was followed on that date by the capital injection of €20 million by the existing shareholders. All conditions precedent of the restructuring plan were fulfilled.

The creditors included in the debt restructuring were the bondholders in Israel, the bondholders in Poland and the banks at asset level with a right of recourse to the parent company.

Plaza's ordinary shares were listed for trade on the Tel Aviv Stock Exchange with effect from 27 November 2014.

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 was 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.

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.

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").

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.

## Summary

A summary of the main terms of the restructuring plan are set out below:

- An injection of €20 million into the Company at a price per share of €0.0675 (the “equity contribution”).
- The Company issued to the holders of unsecured debt (i.e. outstanding debt under the Israeli Series A and B Notes and the Polish Notes) (“unsecured debt”) 13.21% of the Company’s shares (“post equity contribution”). Such shares issuance was distributed among the holders of unsecured debt pro rata to the relative share of each relevant creditor in the deferred debt (“deferred debt ratio”).
- Each principal payment under the debentures due in the years 2013, 2014 and 2015, pursuant to the original terms of the debentures, shall be deferred by exactly four and a half years and each principal payment due pursuant to the original terms of the debentures in subsequent years (i.e. 2016 and 2017) will be deferred by exactly one year. In the event that the Company does not succeed in prepaying an aggregate amount of at least €92 million (NIS 434 million) of the principal of the debentures, excluding linkage differentials within a period of two years ending 1 December 2016, then all principal payments under the debentures deferred in accordance with above, shall be advanced by one year (i.e. shall become due one year earlier).
- All unpaid interest accrued on the Israeli debentures and Polish debentures up to and including 31 December 2013 will be added to the principal and paid together with it.
- As of 1 January 2014, the annual interest rate of the unsecured debt increased by 1.5%.
- The Company paid to the holders of the unsecured debt an amount of €13.8 million in 2014 interest payments.
- The Company and all other companies of the Group, the current and former directors and officers of the Group, all direct and indirect shareholders of the Group were released from any and all liability under any applicable law other than with respect to claims or demands regarding which the grounds are fraud or malice or other ground for which a release is not permitted by law.
- The net cash flow to be received by the Company following an exit or the raising of new financial indebtedness, except if taken for the purpose of purchase, investment or development of real estate assets (“REA”) or refinancing of REAs after the full repayment of the asset’s related debt that was realised 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 the repayment of the accumulated interest until that date for all of the series (in the case of an exit which is not one of the four shopping centers, only 50% of the interest) and 75% of the remaining cash (following the interest payment) will be used for an early repayment of the near principal payments for each of the series of Notes (A, B, Polish) each in accordance with its deferred debt ratio. Such prepayment will be actual cash repayment and not in bond purchases. Refer to 2018 settlement agreement regarding an increase in the level of the mandatory early repayments from 75%.
- **Permitted disposals (provisions with respect to the four shopping malls)** – The Company will be allowed to sell the four shopping malls (Torun, Suwalki, Kragujevac and Riga) or to undertake a refinancing for any of these (hereinafter “disposal event”), subject to the cumulative net cash flow in the disposal event in respect of these four shopping malls being no less than €70 million. Should no disposal event occur for the four shopping malls together, the Company will be allowed to perform a special purpose disposal event only if, after execution of the special purpose disposal event, the surplus value of the shopping malls not sold (according to the valuation deducting the specific debt to banks) is no less than €70 million, deducting the net cash flows received from previous disposal events and deducting the net cash flow from the special purpose disposal event. All four shopping malls sold as of December 31, 2017 and €70 million threshold was met.
- **Restrictions on issuance of additional debentures** – The Company undertakes not to issue any additional debentures other than is expressly provided for in the restructuring plan.
- **Restrictions on amendments to the terms of the debentures** – The Company shall not be entitled to amend the terms of the debentures, 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 debentures holders of all other series of debentures issued by the Company by ordinary majority. Refer to 2018 settlement agreement.
- **Coverage ratio covenant (“CRC”)** – CRC is equal to asset value plus cash and cash equivalents less the Group’s bank liabilities secured by an encumbrance over any of the Group’s rights or assets or otherwise rank in priority ahead of the plan claims; and divided by the aggregate amount of remaining plan claims plus all other liabilities of the Group that rank pari passu with the plan claims and that are not subordinated debt. The calculation is based on known Group valuations reports and consolidated financial information available at each reporting period.

Minimum CRC deemed to be complied with by the Group is 118% in each reporting period.

- **Minimum cash reserve covenant (“MCRC”)** – The cash reserves of the Company have 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 debentures holders 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. Investments in new or existing REA of the group shall not be permitted if following such investment the cash reserves are less than the minimum cash reserve and minimum CRC is not met.
- **Negative pledge on REA of the Company** – The Company undertakes that until the debentures 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.
- **Negative pledge on the REA of subsidiaries** – The subsidiaries shall undertake that until the debentures has been repaid in full, none of them will create any encumbrance on any of REA except certain cases.
- **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 debentures debt (as of 30 November 2014) has been repaid in full, except in certain events, mainly:
  - the new FI is incurred for the purpose of investing in the development of a real estate asset;
  - the new FI is incurred by a subsidiary for the purpose of purchasing a new REA by such a subsidiary, provided that following such a purchase the cash reserve is not less than the MCRC;
  - at least 75% of the net cash flow resulting from the incurrence of new FI is used for a mandatory early repayment of the Notes.
- **Dividend policy** – Plaza shall not make any dividend distributions, unless (i) at least 75% of the unpaid principal balance of the debentures (€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.

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 debentures 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 debentures – were reduced to 68.24% from 70.44% following the cancellation of the treasury bonds. The ratio has been changed for Series B debentures in order to maintain a distribution ratio between the three series.

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.

# Debt restructuring

## History of corporate debt raisings and bond repayments by the Company

The Company raised debt in Israel by issuing marketable bonds and in Poland by private issuance as of March 31, 2018:

|  | Series A<br>Israeli Bonds, NIS | Series B<br>Israeli Bonds, NIS | Polish Bonds<br>EURO |
|--|--------------------------------|--------------------------------|----------------------|
| Bond raising   | 401,850,451                    | 1,483,126,346                  | 15,085,058*          |
| Interest accrued and capitalised 31/12/2013                                  | 6,652,927                      | 16,055,759                     | 665,575              |
| Directly purchased by Plaza - Removed from the cycle                         | <b>(8,253,378)</b>             | <b>(108,993,111)</b>           | -                    |
| Bond raising, net  | 400,249,999                    | 1,390,188,994                  | 15,750,633           |
| Principal payments over the years (until 31/03/2018)                         | (315,598,775)                  | (1,321,764,843)                | (12,064,306)         |
| Interest payments over the years (until 31/03/2018)                          | <b>(161,044,151)</b>           | <b>(469,181,026)</b>           | <b>(6,910,385)</b>   |
| Total payments   | (476,642,926)                  | (1,790,945,869)                | (18,974,691)         |
| <b>Total payments over the years as percentage of total raising, net (%)</b> | <b>119.09%</b>                 | <b>128.83%</b>                 | <b>120.5%</b>        |

\* 60,000,000 PLN

## Activities Following Approval of Restructuring Plan

### Sales of assets since approval of the Restructuring Plan

In line with the Company's stated restructuring plan, 75%\* of the net cash proceeds from Plaza's asset sales are distributed to the Company's bondholders as an early principal repayment.

- Improving Performance: Continuing improvement of the occupancy levels and NOI of Torun Plaza, extending leases and establishing performance.
- September 2014: Completed the sale of a 31,500 sqm plot in Targu Mures, Romania, generating cash proceeds of €3.5 million. Completed the sale of Kragujevac Plaza Shopping and Entertainment centre in Kragujevac, Serbia for a total consideration of €38.6 million. The net cash proceeds from the sale were €12.2 million.
- December 2014: Completed the sale of a 41,000 sqm plot in Hunedoara, Romania generating cash proceeds of €1.2 million.
- February 2015: Completed the sale of part of a residential plot in Lodz, Poland for €0.5 million.
- May 2015: Completed the sale of Koregaon Park Plaza Shopping and Entertainment Centre located in Pune, India for circa €35 million. The net cash proceeds from the sale, circa €7.4 million, were put towards Plaza's future investments and used for general corporate purposes. The mall was underperforming and created negative NOI, and circa €14 million of its bank loan was with recourse to the parent company. Completed the sale of a 17,000 sqm plot in Brasov, Romania generating cash proceeds of €0.33 million.
- June 2015: Completed the sale of a 46,500 sqm plot in Iasi, Romania generating cash proceeds of €7.3 million.
- September 2015: Completed the sale of an office building in Bucharest, Romania (823 sqm GLA) for €1.1 million.
- December 2015: Completed the transaction to waive the Company's leasing rights to the Cina property in Bucharest, Romania, which has been sold by its owner. The gross proceeds from the transaction were circa €2.7 million.
- January 2016: Completed the sale of a 5,200 sqm residential plot in Lodz, Poland for €0.7 million.
- March 2016: Completed the sale of Liberec Plaza Shopping and Entertainment Centre in Liberec, Czech Republic for €9.5 million. Following net asset value adjustments the company received net €9.37 million. €8.5 million of the proceeds from the sale was paid to a wholly owned subsidiary of Plaza on account of the bank loan of Liberec Plaza it managed to buy in September 2015 for €8.5 million.

\* Following 2018 settlement agreement raised to 78%.

- March 2016: Completed the sale of a 23,880 sqm plot in Slatina, Romania generating cash proceeds of €0.66 million.
- March 2016: Signed a binding pre-agreement to sell the plot in Piraeus, near Athens, Greece for €3.4 million. The long stop date of this transaction has been extended a few times and the sum was updated to €3.35 million. Plaza received €0.3 million non-refundable deposit; Currently Pending for the sale of the Plot.
- June 2016: Completed the sale of the wholly owned subsidiary, which holds the “MUP” plot and related real estate in Belgrade, Serbia, for €15.75 million, which was paid in a few instalments. An additional Contingent consideration of EUR 0.6 million received in 2017 once the purchaser successfully developed at least 69,000 sqm above ground.
- July 2016: Completed the sale of an 18,400 sqm plot in a suburb of Ploiesti, Romania for €280,000.
- September 2016: Completed the sale of a 20,700 sqm plot of a residential plot in Lodz, Poland, to a residential developer, for €2.4 million which had been received in few installments including H1- 2017.
- September 2016: Completed the sale of Riga Plaza shopping and entertainment centre in Riga, Latvia to a global investment fund. The agreement reflects a value for the business of circa €93.4 million.
- September 2016: Signed a preliminary sale agreement for the disposal of a 1.8 hectare plot in the centre of Leszno, Poland for €810,000. In June 2017, a final sale agreement signed and proceed received.
- September 2016: Completed the sale of the shares in Zgorzelec Plaza. A Share Purchase Agreement has been signed with an Appointed Shareholder nominated by the Bank, after which the remainder of the DRA process was completed, including delivery of the Release Letters to the Company, and removing a mortgage over the asset of the Company in Leszno, Poland (valued at €0.8 million), as described in the announcement on 30 June 2016.
- Plaza recognised an accounting profit of circa €9.2 million, stemming from the release of €23.0 million of the outstanding (and partially recourse) loan (including accrued interest thereof), against an outstanding asset valued at €12.7 million.
- February 2017: Completed the sale of Suwałki Plaza shopping and entertainment center for € 43.1 million. The Company has received circa €16.5 million net cash, after the repayment of the bank loan (circa €26.4 million), and other working capital adjustments.
- February 2017: Completed sale of David House office building in Hungary for € 3.2 million.
- February 2017: Completed sale of Shumen Plaza plot in Bulgaria for € 1 million.
- March 2017: Completed the sale of the Belgrade Plaza shopping and entertainment centre. 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). Belgrade plaza is the 34th shopping centre built by Plaza and its second scheme in Serbia.
- June 2017: 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.
- June 2017: Completed the sale agreement for the disposal of a 2.47 hectare plot in the centre of Kielce, Poland, for €2.28 million. Plaza received a down payment of €465,000 when the preliminary sale agreement was signed in October 2016. Now that the final agreement has been signed, the remaining €1,815,000 has been paid.
- June 2017: In June 2017, Elbit Plaza India Real estate (EPI) signed a revised sale agreement with the former partner (the “Purchaser”) which was further amended 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

# Debt restructuring

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.

- July 2017: Completed the final sale agreement for the disposal of a 1.8 hectare plot in Leszno, Poland for €810,000
- August 2017: Signed an agreement for the disposal of a plot totalling approximately 32,000 sqm in Timisoara, Romania, for €7.25 million and proceed were received.
- August 2017: Completed the sale of a plot totalling approximately 30,000 sqm in Constanta, Romania, for €1.3 million
- October 2017: Signed 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., K5 received a net sum of EUR 2.5 million.
- November 2017: 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 0.15 million, to be received in 2018.

## Bank Loans- Refinancing and Discounts

As part of the Company’s plan to reduce its leverage, the following actions were taken:

- February 2014: Following the sale of its airplane for US\$1.9 million, the Company reached a settlement with the airplane financing bank for a reduced repayment of US\$1.1 million (out of the outstanding balance of US\$1.9 million). The settlement generated a gain of US\$0.81 million (€0.6 million) in the Company’s books.
- May 2015: The Company concluded the sale of Koregaon Park Plaza in Pune, India, which eliminated a recourse component of the loan of circa €14 million (the recourse would have matured 4 years from the restructuring approval – July 2018).
- June 2015: The Company concluded the sale of an SPV holding a plot comprising a c. 1,200 sqm plot in Ploiesti, Romania for a total consideration of €240,000. The proceeds were used to repay an outstanding bank loan and no proceeds were obtained by the Group. A waiver was obtained for the remainder of the unpaid bank loan facility, totaling €1.4 million, and the Company therefore recorded a gain, included as finance income in its consolidated financial statements.
- September 2015: A subsidiary of the Company has won a tender to buy the loan of the wholly owned holding and operating company for Liberec Plaza shopping and entertainment centre in the Czech Republic. Plaza has agreed to buy the €20.4 million bank loan (which was provided by two commercial banks) for €8.5 million, reflecting a discount of 58%. The Company recorded a profit on the discount (circa €12 million) in its consolidated financial statements for the second half of 2015. The Liberec loan was a full recourse loan (the recourse would have matured 4 years from the restructuring approval – July 2018).
- September 2016: Completed the sale of the shares in Zgorzelec Plaza. A Share Purchase Agreement has been signed with an Appointed Shareholder nominated by the Bank, after which the remainder of the DRA process was completed, including delivery of the Release Letters to the Company, and removing a mortgage over the asset of the Company in Leszno, Poland (valued at €0.8 million), as described in the announcement on 30 June 2016. Plaza recognised an accounting profit of circa €9.2 million, stemming from the release of €23.0 million of the outstanding (and partially recourse) loan (including accrued interest thereof), against an outstanding asset valued at €12.7 million.
- December 2016: PC Enterprises (a subsidiary of the Company) has acquired a bank loan of circa €10 million, which was held against the Company’s plot in Romania, for a total consideration of €1.35 million. The transaction represents a discount of over 86.5% on the bank loan amount and the Lender has transferred all collateral associated with the project related to the loan to Plaza, while also releasing the Company from its recourse loan. As part of the terms of the transaction, the Lender has been granted a purchase option for a term of three years, to acquire the plot for €1.1 million.



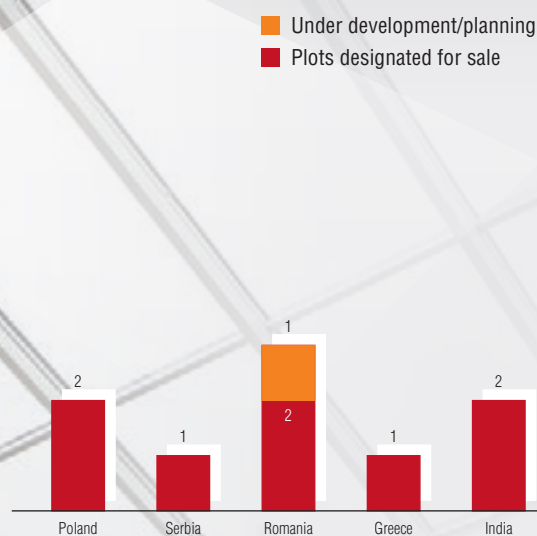


# Our portfolio at a glance

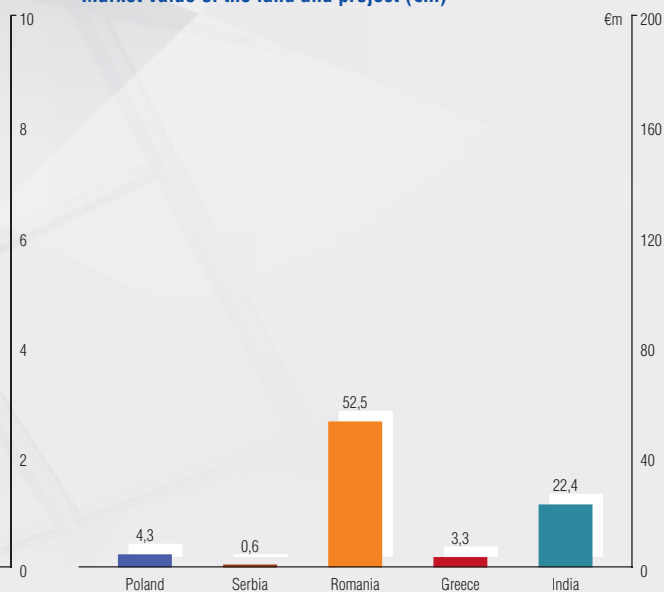


Total of 9 assets located across CEE region and in India as of balance sheet date.

Portfolio composition – by country



Market value of the land and project (€m)



| Project                             | Market value on completion (€m) <sup>1</sup> | Market value of the land and the project (€m) <sup>1</sup> |
|-------------------------------------|--|--|
| Casa Radio                          | 633.9  | 50.4   |
| India                               | -  | 22.4   |
| Other pipeline projects             | -  | 10.3   |
| <b>Total as at 31 December 2017</b> | <b>633.9</b>                                 | <b>83.1</b>  |

<sup>1</sup> External valuations by Jones Lang LaSalle were conducted for: Casa Radio and Lodz mall. The rest of the assets were valued by the Company's management. Value on completion was calculated only for Casa Radio which was valued externally using the residual valuation method.

## Group NAV at 31 December 2017

| Net Financial Debt**         | EUR Million (78) |
|------------------------------|------------------|
| Asset values                 |                  |
| Operating assets             | -                |
| Development Assets*          | -                |
| Pipeline assets              | 80.2             |
| <b>Total</b>                 | <b>80.2</b>      |
| Other assets and liabilities | 0.3              |
| <b>NAV</b>                   | <b>2.5</b>       |

\* Including 100% of Casa Radio due to the material shareholders' loans.

\*\* Excluding discount on Bonds in amount of €6.2 million.



# Development focus

In 2018 the Group continues to advance permits and approvals for the Casa Radio project in Bucharest, Romania and explore opportunities for the development of the project.

## Casa Radio

Romania

467,000 sqm GLA



Casa Radio will include a 90,000 sqm GLA shopping mall and indoor leisure center, approximately 127,000 sqm GBA of offices, hotel complex with conference center, Public Authority Building and underground car parking spaces.



# Current portfolio



| Asset/Project             | Location                | Nature of asset                                 | Size sqm (GLA)                                 | Plaza's effective ownership % | Status                            |
|---------------------------|-------------------------|---|--|-------------------------------|-----------------------------------|
| <b>Development Assets</b> |                         |   |  |                               |                                   |
| Casa Radio                | Bucharest, Romania      | Mixed-use retail and leisure plus office scheme | 467,000 (GBA including parking spaces)         | 75                            | In planning and permitting phase  |
| <b>Pipeline Projects</b>  |                         |   |  |                               |                                   |
| Lodz Plaza                | Lodz, Poland            | Retail & entertainment scheme                   | 61,500   | 100                           | Designated for sale               |
| Lodz (Residential)        | Lodz, Poland            | Residential scheme                              | 4,017 (remaining following three transactions) | 100                           | Designated for sale               |
| 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                           | Preliminary sale agreement signed |
| Bangalore                 | Bangalore, India        | Residential Scheme                              | 218,500  | 25                            | Designated for sale               |
| Chennai                   | Chennai, India          | Residential Scheme                              | 302,400  | 50                            | JDA signed                        |





# Chief Executive Officer's statement

## 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 Torun 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.

**Avi Hakhamov**  
Acting CEO



## 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<br>(in TEUR) |                 |
|---|--|-----------------|
|   | Within 1 year                            | 1-1.25 years    |
| Bonds including current portion and interest* | 23,700                                   | 36,700          |
| General & administrative                      | 3,100                                    | 600             |
| Total liquidity requirements                  | 26,800                                   | 37,300          |
| <b>Total Sources**</b>                        | <b>16,300</b>                            | <b>4,400</b>    |
| <b>Total deficit</b>                          | <b>(10,500)</b>                          | <b>(32,900)</b> |

\* 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 & 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.

**Avi Hakhamov**  
Acting CEO  
26 April 2018



# 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 parking spaces) | 75                            | In planning and permitting phase                                     |
| 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 (Dambovitza), 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 Dambovitza 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.

| In € millions  | 2018        | 2019         |
|--|-------------|--------------|
| <b>Cash - Opening Balance</b>  | <b>44.8</b> | <b>-4.6</b>  |
| Proceeds from selling trading and investment properties <sup>1</sup> | 13.6        | 43.3         |
| <b>Total sources:</b>  | <b>58.4</b> | <b>38.7</b>  |
| 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          |
| <b>Total uses:</b>   | <b>63.0</b> | <b>71.9</b>  |
| <b>Cash - Closing Balance</b>  | <b>-4.6</b> | <b>-33.2</b> |

<sup>1</sup> 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.

<sup>2</sup> 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                                     | Forecast 2017 | Actual 2017  |
|---|---------------|--------------|
| <b>Cash – Opening Balance</b>                     | <b>2.5</b>    | <b>2.5</b>   |
| Proceeds from selling trading properties*         | 115.3         | 119.4        |
| Cash flows from operating Activities <sup>1</sup> | 6.7           | 1.7          |
| <b>Total sources:</b>                             | <b>122.0</b>  | <b>121.1</b> |
| Debentures – principal <sup>2</sup>               | 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 <sup>3</sup>                 | 5             | 5.8          |
| <b>Total Uses</b>                                 | <b>106.8</b>  | <b>78.8</b>  |
| Cash – Closing Balance                            | 17.7          | 44.8         |
| Income / Financing costs from Shopping Centres    | -3.2          | -            |
| Release from Shopping Centres                     | 1.5           | -            |
| <b>Cash – Closing Balance</b>                     | <b>15.9</b>   | <b>2.5</b>   |

\* 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.

**Avi Hakhamov**

Acting CEO

26 April 2018



# Financial review





# Valuation Summary

as at 31 December 2017 (in EUR)

| Country      | Project name          | Company's share | Market value of land and project 31 December 2016 (EUR M) | Market value of land and project 31 December 2017 (EUR M) | Market value upon completion 31 December 2016 (EUR M) | Market value upon completion 31 December 2017 (EUR M) |
|--------------|-----------------------|-----------------|---|---|---|---|
| Hungary      | Arena Plaza Extension | 100%            | 2.5   | SOLD  | 74.2  | SOLD  |
|              | David House           | 100%            | 3.2***  | SOLD  | 3.2   | SOLD  |
| Poland       | Torun                 | 100%            | 76.3  | SOLD  | 76.3  | SOLD  |
|              | Suwalki               | 100%            | 42.3***   | SOLD  | 42.3  | SOLD  |
|              | Lodz                  | 100%            | 5.1   | 3.9   | comparable*   | comparable*   |
|              | Lodz Residential      | 100%            | 0.5**   | 0.4**   | N/A   | N/A   |
|              | Kielce                | 100%            | 2.2**   | SOLD  | N/A   | SOLD  |
| Romania      | Casa Radio            | 75%             | 60.1  | 50.4  | 633.9   | 633.9   |
|              | Timisoara             | 100%            | 7.6   | SOLD  | comparable*   | SOLD  |
|              | Ciuc                  | 100%            | 1.6   | 1.0**   | 12.1  | N/A   |
|              | Constanta             | 100%            | 2.0   | SOLD  | 6.4   | SOLD  |
|              | Brasov                | 100%            | 1.1**   | 1.1**   | N/A   | N/A   |
| Greece       | Helios                | 100%            | 3.3**   | 3.3**   | N/A   | N/A   |
| India        | Varthur               | 50%             | 19.1  | 13.6  | comparable*   | comparable*   |
|              | Chennai               | 50%             | 10.4  | 8.8   | 10.4  | comparable*   |
| Bulgaria     | Shumen                | 100%            | 1.0***  | SOLD  | 1.0   | SOLD  |
| Serbia       | Belgrade              | 100%            | 72.1  | SOLD  | 90.4  | SOLD  |
|              | Krusevac              | 100%            | 1.1**   | 0.6**   | N/A   | N/A   |
| <b>TOTAL</b> |                       |                 | <b>311.5</b>  | <b>83.1</b>   | <b>950.2</b>  | <b>633.9</b>  |

All values represent the Company's share, except of Casa Radio project, which represents 100% due to material shareholders loan. All external valuation for 2017 were conducted by Jones Lang LaSalle, except of the Indian projects, which were valued by Cushman and Wakefield.

\* Asset was valued with the comparative sales price method; no value at completion was estimated.

\*\* Management estimation.

\*\*\* Asset was sold in 2017 – value of 2016 represents sale price.

# Management structure



## Plaza Centers' Board



- Oversight of company strategy and all project development decisions
- Wide-ranging property development expertise
- Review and approval of business plan and budgets
- Active management and monitoring of development risks

## Senior Management



- Experienced property development professionals with global property development expertise
- Responsible for sourcing development projects
- Development of business plans
- Overseeing the management of development projects

## Local Country Management



- Extensive local experience
- Cultivating connections within market to source opportunities
- Day-to-day management of local operations and developments

\* Resigned on September 12, 2017.  
 \*\* Resigned on March 31, 2018.  
 \*\*\* Resigned on January 30, 2018  
 \*\*\*\* Starting April 1st 2018, Acting CEO.  
 \*\*\*\*\* Until June 30th, 2017.



# Board of Directors and Senior management

## Chairman

### **Mr. Ron Hadassi, Non-executive director (male, 53, Israeli)**

Mr. Ron Hadassi has broad experience in leading real estate firms. Mr. Hadassi currently is the senior manager of Bronfman-Fisher Group, engaged in industry, real estate, finance and retail and holds various positions within the Bronfman-Fisher Group. He also serves on the Board of Directors of the controlling shareholder and Carmel Winery and he is the chairman of Elbit Medical Technologies Ltd. Mr. Hadassi holds a BA in economics, political science, an LLB and an MBA from the Tel Aviv University. Mr. Hadassi was appointed as an executive director on 8 July 2014 and elected as chairman and non-executive director on 28 November 2014 and re-elected on 30 June, 2016. Mr. Hadassi may periodically be re-elected by the Annual General Meeting pursuant to article 23.6 of the Articles, provided that Mr. Hadassi has expressed his availability for a subsequent term of office.

## Executive director

### **Mr. Nadav Livni, (male, 44, British)**

Mr. Nadav Livni is the founder of The Hillview Group, an independent privately owned merchant bank based in London. Since 2006, The Hillview Group has expertly managed over \$3.5 billion of strategic capital market transactions across Central and Eastern Europe, Russia, Africa and USA. Mr. Livni previously worked at Deutsche Bank, Goldman Sachs and KPMG. He also serves on the board of El. Mr. Livni is a qualified chartered accountant, holds a Bachelor of Commerce (honours in economics), a Master of Science (finance), and is a guest speaker on the topics of private equity and real estate investment at London Business School. Mr. Livni was appointed as a non-executive director on 8 July 2014 and elected as an executive director on 28 November 2014 and re-elected on 30 June, 2016. Mr. Livni may periodically be re-elected by the Annual General Meeting pursuant to article 23.6 of the Articles, provided that Mr. Livni has expressed his availability for a subsequent term of office.

## Independent non-executive directors

### **Mr. Marco Habib Wichers (male, 59, Dutch)\***

Mr. Marco Habib Wichers is currently the chief executive officer of Branco Europe B.V. Between 1994 and 2013 he acted as the CEO of AMGEA Holding B.V. Between 1988 and 1995, he acted as the CEO of Branco International Inc. New York (a manufacturing company) and between 1983 and 1995 he acted as the CEO and owner of Cravat Club, Inc. New York (a manufacturing company). Mr. Wichers holds a degree in economics and marketing from the International University of Hospitality Management. Mr. Wichers was appointed as non-executive director on 1 November 2006. In November 2011, he was appointed as chairman of the Board. The General Meeting appointed Mr. Wichers as non-executive director, in accordance with the Dutch Act on Management and Supervision (Wet bestuur en toezicht) on 20 November 2012. Mr. Wichers has been re-elected in accordance with article 23.6 of the Articles, by the General Meeting on 8 July 2014. Mr. Wichers may periodically be re-elected by the Annual General Meeting pursuant to article 23.6 of the Articles, provided that Mr. Wichers has expressed his availability for a subsequent term of office.

### **Mr. David Dekel (male, 53, Dutch)**

Mr. David Dekel is currently a non-executive director at Nanette Real Estate Group N.V., a residential developer, operating in Central Europe. He is the founder and chief executive officer of Endeavour Enterprises N.V. from Amsterdam, the Netherlands and has several other managerial functions. Mr. Dekel holds a BBA from the Delta University in Utrecht, the Netherlands and an MBA from the University of Teesside (the Hague extension) in the Hague, the Netherlands. Mr. Dekel was appointed as a non-executive director on 8 July 2014. Mr. Dekel may periodically be re-elected by the Annual General Meeting pursuant to article 23.6 of the Articles, provided that Mr. Dekel has expressed his availability for a subsequent term of office.

\* Mr. Wichers resigned his positing as a non-executive director on 12 June 2017 becoming effective on 12 September 2017.

## Senior management

### **Mr. Dori Keren (48) BA, MBA, BB in Accounting Chief Executive Officer\***

Mr. Dori Keren joined Plaza Centers in 2006 as financial director of Poland and Latvia and was appointed Poland country director in 2013. From April 2016 Mr. Keren serves as Acting CEO of the Company. Prior joining to Plaza Centers Mr. Keren worked in Israel for 10 years in variety of financial jobs in positions which accompany business activity as economist, financial controller and CFO.

Mr. Keren holds BA in Economics and Political Sciences from the Tel Aviv University, an MBA degree from the Ben-Gurion University, and BB Post Degree in Accounting from College of Management Academic Studies.

### **Mr. Uzi Eli (42) LLB, Attorney at Law (Isr), MBA General Counsel and Compliance Officer**

Mr. Uzi Eli joined the Company as general counsel and compliance officer in 2007. Prior to joining the Company, he practised law in two leading commercial law firms in Israel. His main practice concentrated in commercial and corporate law, providing ongoing legal services to corporate clients (mainly hi-tech and bio-tech companies and venture capital funds) in all aspects of corporate governance, and representation in various transactions, such as financing and M&A transactions and other wide varieties of licensing and technology transactions. Mr. Eli holds a LLB degree and an MBA degree from the College of Management Academic Studies and he is an attorney at law.

### **Mr. Luc Ronsmans (67) MBA, The Netherlands and Romania Country Director\*\***

Mr. Luc Ronsmans joined the Europe Israel Group in 1999. Located in Amsterdam and Bucharest, he acts as manager for European operations for both the company and its group affiliates. Prior to joining the Europe Israel Group, Mr. Ronsmans was active in the banking sector, holding managerial positions with Manufacturers Hanover Bank, Continental Bank (Chigaco), AnHyp Bank and Bank Naggelmachers in Belgium.

### **Mr. Rabia Shihab (39) BA, CPA, Czech Republic, Serbia Country Director**

Mr. Rabia Shihab joined Plaza Centers in June 2008 as financial director of Romania and Bulgaria. From November 2011, he has been serving as the financial director of Serbia and the Czech Republic. On March 2014, he was additionally appointed as the country manager. Prior joining Plaza Centers, he served as financial controller for Tefron Ltd. Mr. Shihab holds Bachelor degree of economics from the Hebrew University of Jerusalem.

### **Ms. Monika Alicka (33) MA, CEE Leasing Director**

Ms. Alicka joined the company in 2013 as Leasing Manager of Plaza Centers Poland.

Since 2015 she was additionally acting as Leasing Director Serbia responsible for the leasing process of Belgrade Plaza Shopping Center. In September 2016 she was appointed CEE Leasing Director for the Plaza Centers Group. Ms. Alicka holds a Master's Degree in Law & Administration from the University of Gdansk.

\* Resigned on 31 March 2018.  
Effective 1 April 2018 Mr. Avi Hakhamov (44) MBA, CPA (Isr.)  
was appointed as Acting CEO.

\*\* Effective till 30 June 2017.



# Directors' report

## Principal activities and review of business

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

Since then, it has expanded its CEE operations into Poland, the Czech Republic, Latvia, Romania, Serbia, Bulgaria and Greece. In addition, the Group has extended its area of operations beyond the CEE into India and the US. The Group has been present in real estate development in emerging markets for over 22 years. To date, the Group has developed, let and opened 34 shopping and entertainment centers of which 34 were sold with an aggregate gross value of circa €1.55 billion. 21 of these centers were acquired by Klepierre, one of the largest shopping center owners/operators in Europe. Four additional shopping and entertainment centers were sold to the Dawnay Day Group, one of the UK's leading institutional property investors at that time. One shopping center (Arena Plaza in Budapest, Hungary) was sold to Active Asset Investment Management ("AAIM"), a UK commercial property investment group representing circa 20% of all real estate transactions completed in Hungary in 2007, and one shopping center (Kragujevac Plaza in Serbia) was sold in 2014 to New Europe Property Investments plc ("NEPI"), a publicly traded commercial property investor and developer in Eastern Europe. In 2015 Plaza sold its Indian mall located in Pune and in March 2016 its mall in Liberec, Czech Republic, in March 2017 Plaza announced the successful completion of the sale of Belgrade Plaza shopping and entertainment centre to a subsidiary of BIG Shopping Centers Ltd, a publicly traded company in Tel Aviv Stock Exchange. Belgrade Plaza (Visnjicka) has been the largest development underway in Serbia and in November 2017 plaza completed the sale of its last operating mall – Torun Plaza in Poland to a private investment fund.

For a more detailed status of Plaza's main focus in 2017 and current activities and projects, the directors refer to the Executive Officer's statement on pages 18 to 19 as well as to the following chapters: Overview, Business Review and Management and Governance.

For an overview of events after the reporting period refer to note 29 to the consolidated financial statements.

## Portfolio progress

The Company currently has a land bank of 9 plots, across the CEE and in India.

During 2017 and up to date, 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. 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.

## Going Concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet the mandatory repayment terms of the banking facilities and debentures, and other working capital requirements, as disclosed in notes 2c and 15 of the consolidated financial statements.

The Board of Directors has analysed the following major risks associated with the preparation of the financial statements included in the annual report:

1. Extensive review and assessment of the real estate valuation process, together with senior management and the external valuers of the Company as of 31 December 2017, which is the base for important disclosures included in the Company's 2017 financial reports.
2. Extensive review and assessment of the features of the debt restructuring plan as amended in November 2016 and the settlement agreement signed by and among the Company and the two Israeli Series of Bonds ("Settlement Agreement") in January 2018 regarding early prepayment requirements, including prospective cash outflow, covenants and comply with these elements, and especially the planned repayment of minimum early repayment to its bondholders in order to obtain a deferral of one year for the remaining contractual obligations of the debentures, the breach of certain financial covenants in 2017, the initial agreement in December 2017 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 followed by final agreement on January 2018, and the significant doubts regarding the Company's ability to serve its entire debt according to the current repayment schedule.
3. Exposure 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.
4. 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 IFRS 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.

Based on and considering the above assessments, done for the period of 15 months following the signature of these reports, the Board of Directors 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.

## Dividends

The Company shall not make any dividend distributions, unless (i) at least 75% of the unpaid principal balance of the debentures (€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 €20 million occurs, then after one year following the date of the additional capital injection, no restrictions other than those under restructuring plan as specified on page 9 and the

applicable law shall apply to dividend distributions in an aggregate amount up to 50% of such additional capital injection.

## Directors' interests

The directors have no interests in the shares of the Company, other than the directors' share options as given on page 50 of this report.

## Directors and appointments

The following served as directors of the Company at 31 December 2017:

**Ron Hadassi**, Chairman, Non-executive director  
**Nadav Livni**, Executive director  
**David Dekel**, Independent non-executive director  
**Marco Wichers\***, Independent non-executive director

The general meeting of shareholders is the corporate body authorised to appoint and dismiss the directors. All directors in function, unless they are retiring, submit themselves for re-election every three years, pursuant to the rotation scheme for directors as laid down in article 15.3 of the Articles of Association. The general meeting of shareholders is entitled to suspend and dismiss directors by a simple majority vote.

## Substantial shareholdings

As of the balance sheet date, Davidson Kempner Capital LLC\*\* held approximately 26.3% and York Capital Management Global Advisors held approximately 3.59% of the entire issued share capital of the Company. Other than that and except as disclosed under "directors' interests" above, the Company is not aware of any additional interests amounting to 3% or more in the Company's shares besides that of its parent company Elbit Imaging Ltd.

## Employee involvement

The Company has employees and other persons providing similar services. At the end of 2017 the Group had 18 employees and other persons providing similar services. The management expects further changes in the development of the number of employees due to reduction of activities.

\* Until 12 September 2017.

\*\* Based on the latest disclosed positions made by Davidson Kempner Capital Management LLC ("DK"). Burlington Loan Management Limited holds 23.89%, and DK holds 2.4% directly.

## Annual General Meeting (AGM)

The annual general meeting of shareholders is held every year within six months from the end of the financial year in order to discuss and approve the annual report and adopt (vaststellen) the Dutch statutory annual accounts, discharge of the directors from their liability for the conduct of business in the preceding year and any other issues mentioned below.

The main powers of the general meeting of shareholders relate to the appointment of members of the Board, the adoption of the annual financial statements, declaration of dividend, release the Board's members from liability and amendments to the Articles of Association.

The annual general meeting of shareholders was held at the Company's registered address in the Netherlands on 31 July 2017.

In this AGM, inter alia, the following resolutions were proposed to the shareholders:

- (i) Report by the board of managing directors of the Company (the "Board") of the 2016 financial year and consideration of the Company's Dutch statutory annual accounts and the annual report for the year ended 31 December 2016.
- (ii) Report on remuneration in the year ended 31 December 2016.
- (iii) Proposal to adopt (vaststellen) the Company's Dutch statutory annual accounts for the financial year ended 31 December 2016.
- (iv) Proposal to not distribute any dividend in respect of the year ended 31 December 2016.
- (v) Proposal to discharge the directors of the Company from their liability for the conduct of business for the financial year ended 31 December 2016.
- (vi) Proposal to appoint Grant Thornton Accountants en Adviseurs B.V. as the external auditor for the 2017 financial year.
- (vi) Proposal to reappoint as a non-executive director, Mr. David Dekel, who is retiring by rotation and may be reappointed under Article 23 paragraphs 6 and 9 of the Articles of Association.

All proposed resolutions were passed.

## Article 10 of Directive 2004/25

With regard to the information referred to in the resolution of Article 10 of the EC Directive pertaining to a takeover bid which is required to be provided according to the Dutch law, the following can be reported:

- There are no special restrictions on the transfer of the shares of the Company.
- There are no special statutory rights related to the shares of the Company.
- There are no restrictions on the voting rights on the Company's shares.
- Information on significant shareholding can be found above.
- There are no agreements between the shareholders which are known to the Company and may result in restrictions on the transfer of securities and/or voting rights.
- The applicable provisions regarding the appointment and dismissal of members of the Board and amendments to the Articles of Association are set forth above.
- The power of the Board regarding the issue of shares and the exclusion of pre-emption rights and the repurchase of shares in the Company can be found above.
- There are no significant agreements to which the Company is a party and which take effect alter or terminate upon a change of control of the Company following a takeover bid.
- There are no agreements between the Company and its Board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.
- Other information can be found in the notes to the financial statements (please see note 17 – Equity).

## Forecast

The focus of the last 12 months has very much been centered 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, Plaza is pleased with the progress made, having divested €183 million of assets (including an office building) during the course of the year.

During 2017 and to date, 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.

# Directors' report

Over the coming months, the Company will maintain its focus on and commitment to the portfolio rationalization seeking potential buyers for selected assets which have become less fit for development by us and the deleveraging of the balance sheet.

Plaza's focus is in completion of preliminary signed assets' sale agreements, unlocking the value of land through developments where possible, reducing debt levels, continue to handle reducing costs, and delivering on behalf of bondholders and shareholders.

On the debt side, Plaza will continue to reduce corporate debt by early repayments following sale of assets according to the Company's debt restructuring agreement, following the one-year deferral achieved on March 15, 2017 and the settlement agreement signed on January 2018 with Israeli bondholders. For important information in regards to Plaza's negative cash flow projections please refer to Note 2(c) in the consolidated financial statements.

Plaza will Continue with efficiency measures and cost reduction where possible. The general and administrative expenses for 2018 shall be reduced to circa €3.1 million and starting 1 April 2018 a new phase starts which is forecasted to have G&A per annum of circa €2.6 million continuing strongest cost control initiatives e.g. reduction of manpower, cutting cost of suppliers, advisors etc (excluding non-recurring items).

The number of the Group's employees changed significantly over recent years and following the approval of the restructuring plan as amended on November 2016, material changes occurred. Manpower as reduced from 62 employees and board members in 2016 to 11 employees and board members as at April 2018. During 2017 Plaza has closed its offices in Serbia, decrease board members from four to three, releasing senior positions – General council (outsourcing), Romania country's manager and leasing Manager, Cee leasing director, reducing Hungarian team from 11 to 3 persons and centralization of IT systems and outsourcing bookkeeping.

In 2018 further reductions of headcount implemented and moving to smaller and cheaper offices in the Netherlands and Romania and Closing the offices in Poland are planned.



# Corporate governance

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

## Compliance

During 2017, the new Dutch Corporate Governance Code of 8 December 2016 (the "Dutch Corporate Governance Code") came into effect in the Netherlands. For the full text of this code, reference is made to [www.commissiecorporategovernance.nl](http://www.commissiecorporategovernance.nl).

The Dutch Corporate Governance Code aims to create a solid and transparent system of checks and balances at Dutch listed companies and to regulate relationships between the Board and the (general meeting of) shareholders. The Dutch Corporate Governance Code has a statutory basis in the Dutch Civil Code (Burgerlijk Wetboek). The Company is rendering account in this report vis-à-vis its compliance with the Dutch Corporate Governance Code, which like the previous code is based on the principle of 'apply or explain'.

The information required under the Code can be found in various sections of this report for 2017.

The Company complies with most of the principles and best practice provisions of the Dutch Corporate Governance Code, with the exception of the Best Practice Provisions set out below. The limited number of Best Practice Provisions not complied with, are considered not to be in the interests of the Company and its stakeholder or are not practically feasible to implement.

The Board is committed to high standards of Corporate Governance. In order to maintain the trust of the Company's shareholders and other stakeholders. The Company has a one-tier board (as provided for in the Dutch Civil Code and the Dutch Corporate Governance Code.

Where possible, taking the aforesaid into consideration, the Company also complies with the provisions of the UK Corporate Governance Code, with the exception of the provisions set out below.

## The deviations from the Dutch Corporate Governance Code in 2017

- Principle 1.3. deals with the internal audit function. The Company does not have an internal auditor itself, as part of the Elbit Imaging Group the Company has a Quality Control Regulator,

who, in practice, functions as the "internal audit function" within the meaning of the Corporate Governance Code though, as, to the letter of the Corporate Governance Code, the Company does not have an internal audit function, Best Practice Provisions 1.3.1 up to and including 1.3.5 have not been complied with in 2017.

- Best Practice Provision 1.5.2. stipulates that inter alios, the internal auditor and the external auditor shall attend meetings of the audit committee. As the Company does not have an internal audit function in place, this Best Practice Provision cannot apply to it. From August 2017 onwards until February 2018, the Company did not have an external auditor.
- Principle 1.7 deals with the performance of the external auditor's work. Whereas until August 2017, the Company had an external auditor, from August 2017 there was no external auditor in place and therefore, during that period, Best Practice Provisions 1.7.1 up to and including 1.7.6 have not been complied with.
- Best Practice Provision 2.1.5. stipulates that a diversity policy shall be in place. Such diversity policy is not in place given the fact that, due to the current status of the Company, it is not envisaged that new employees or members of the Board will be attracted. For that reason, the topic of diversity has not been addressed in this Annual Report.
- Best Practice Provision 2.1.7 applies to a one-tier board. Until 12 September 2017, the Board comprised of one executive director (Mr. Nadav Livni) and three non-executive directors (Messrs. Ron Hadassi, David Dekel and Marco Habib Wichers) out of whom Messrs. Wichers and Dekel were considered to be independent. Mr. Marco Habib Wichers stepped down on 12 September 2017, after which event the Board comprises one executive director and two non-executive directors, out of whom one non-executive director (Mr. David Dekel) is to be considered independent. Therefore, from 31 July 2017 onwards, the Company does not comply with Best Practice Provision 2.1.7. Given the fact that at this moment, there is no long-term scenario for the Company, engaging new managing directors is not an issue.
- Best Practice Provision 2.1.10 stipulates (in conjunction with Best Practice Provision 5.1.5) that the management report shall contain an explanation as to the independence requirements for directors, as set forth in the Dutch Corporate Governance Code. Strictly speaking, in this Annual Report, there is no separate paragraph in respect of the independence of directors, though this section "Corporate Governance" contains, in the explanation re Best Practice Provision 2.1.7 and Best Practice Provision 5.1.3., statements re the independence of directors.

- Best Practice Provision 2.2.8 stipulates that the management report shall contain information re the evaluation of the performance of committees and board members. Given the limited number of directors in function during 2017, a formal approach of evaluation has not been deemed appropriate; the members of the Board cooperate on a continuous basis.
- Best Practice Provision 2.3.5 contains requirement re the report of committees. Given the limited composition of the management board, in 2017, the Company did not have a remuneration committee or a nomination committee in place.
- Principle 3.1. contains provisions addressed to the remuneration committee. Given the limited number of managing directors with the Company, in 2017 no remuneration committee was in place. Remuneration issues are decided upon by the full Board, pursuant to the remuneration policy and the Articles of Association.
- Best Practice Provision 3.1.2. vii stipulates that share options granted cannot be exercised during the first three years after they have been awarded. The current share incentive schemes of the Company do not restrict the exercise of options to a lockup period of three years. The reason therefore is that the Company and the Elbit group share the same remuneration policy and the Company's Share Option Schemes were drafted in accordance with Elbit's Share Option Scheme, in order to maintain the incentive for all employees of the Elbit group based upon the same principles. It should be noted however that, in 2017, no options were granted or exercised.
- Best Practice Provision 5.1.1. – in respect of the independent directors, reference is made to the explanation with Best Practice Provision 2.1.7.
- Best Practice Provision 5.1.3. stipulates that the chairman of the Board shall be independent within the meaning of the Dutch Corporate Governance Code. Mr. Ron Hadassi, acting chairman, is not to be considered independent as Mr. Hadassi also functions as chairman of the board of directors of the Company's major shareholder Elbit Imaging Ltd.
- Best Practice Provision 5.1.5. requires an additional explanation in respect of a number of Best Practice Provisions. The Company deviated in 2017 from Best Practice Provisions 2.1.10, 2.2.8 and 2.3.5, the explanations in respect of which have been set forth above.

## Deviations from the UK Code on Corporate Governance

The Company did not comply with the following provisions of the UK Code on Corporate Governance in the year ended 31 December 2017:

- Code Provision A.2.1 states that the division of responsibilities between the Chairman and Chief Executive should be clearly established, set out in writing and agreed by the Board. Whilst the Company does not possess such a document, it believes that the division of responsibilities between the Chairman and Chief Executive is sufficiently clear.
- Code Provision A.4.2 states that the Chairman should hold meetings with the non-executive directors without the ex-ecutive directors present and, led by the Senior Independent Director, the non-executive directors should meet without the Chairman present at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate. Given the limited number of members of the Board currently in function, appropriate compliance with this provision is not feasible.
- Code Provision B.6.1 states that the Board should refer in the annual report as to how performance evaluation of the Board, its committees and its individual directors has been conducted. The Company has not had committees in place in 2017.
- Code Provision B.6.3 states that the non-executive directors, led by the Senior Independent Director, should be responsible for performance evaluation of the Chairman, taking into account the views of executive directors. In 2017, the Chairman and the non-executive directors did not meet separately. However, at every Board meeting, an assessment is made by each Board member of his own performance and that of other members. The Board is of the view that this course of action provides an appropriate mechanism for the evaluation of the performance of Board members.
- Code Provision C.2.3 states that the Board should, at least annually, conduct a review of the effectiveness of the Company's risk management and internal control systems and should report to shareholders that they have done so. The Board did not conduct a review of the effectiveness of the Company's risk management and internal control systems in the year under review. However, the Board has established a process for identifying and managing the risks faced by the Company and both the Audit Committee and the executive director regularly consider the effectiveness of the Company's internal controls and risk management procedures as part of the on-going management of the Company. The Board

confirms that any appropriate actions either have been or are being taken to address any weaknesses in these areas.

- Code Provision C.3.6 states (amongst other things) that, where there is no internal audit function, the Audit Committee should consider annually whether there is a need for an internal audit function and make a recommendation to the Board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report. Although the Company does not have an internal auditor, the Company has access to a quality control regulator who, in practice, functions as an internal auditor.
- Code Provision E.2.3 states that the Chairman should arrange for the Chairman of the Audit, Remuneration and Nomination Committees to be available to answer questions at the Annual General Meeting of Shareholders and for all directors to attend. In 2017, the Company did not have a remuneration committee and a nomination committee. Mr. Dekel, Chairman of the Audit Committee attended at the general meetings of the shareholders.

## Compliance with WSE Corporate Governance Rules

The Code of Best Practice for WSE-Listed Companies (the “WSE Corporate Governance Rules”) applies to companies listed on the WSE, irrespective of whether such companies are Polish Incorporated. The WSE Corporate Governance Rules consist of general recommendations related to best practice for listed companies (Part I) and best practice provisions relating to management boards, supervisory board members and shareholders (Parts II to IV). The WSE Corporate Governance Rules impose upon the companies listed on the WSE an obligation to disclose in their current reports continuous or incidental non-compliance with best practice provisions (with the exception of the rules set forth in Part I). Moreover, every year each WSE-listed company is required to publish a detailed statement on any non-compliance with the WSE Corporate Governance Rules (including the rules set forth in Part I) by way of a statement submitted with a listed company’s annual report. Companies listed on the WSE are required to justify non-compliance or partial compliance with any of the WSE Corporate Governance Rules and to present possible ways of eliminating the potential consequences of such non-compliance or the steps such company intends to take to mitigate the risk of non-compliance with such rule in the future. The Company complies, to the extent practicable, with all the principles of the WSE Corporate Governance Rules. However, the Company will only be in the position to comply with certain principles insofar such is permitted by Dutch law. Detailed information regarding non-compliance as well as additional

explanations regarding partial compliance with certain Corporate Governance Rules of the WSE due to incompatibilities with Dutch law, will be included in the aforementioned reports, which will be available on the Company’s website and published by way of a current report.

## Board practices

In the Netherlands, statutory law provides for both a one-tier governance (monistisch bestuursmodel) and a two-tier governance (dualistisch bestuursmodel, having a separate management board and a separate supervisory board). It is well established practice for international active companies in the Netherlands to have a one-tier structure in the management board (bestuur). Although all members of the management board are formally managing directors (bestuurders), the articles of association will provide that certain directors have executive tasks and obligations (executive directors, uitvoerend bestuurders) and certain directors have supervisory duties (non-executive directors, niet-uitvoerend bestuurders). In case of the Company, the Articles of Association do provide that some directors are responsible for the day-to-day management of the Company (executive directors) and other directors are responsible for supervising the day-to-day management of the Company (non-executive directors). All responsibilities are subject to the overall responsibility of the Board. All statutory provisions relating to the members of the management board apply in principle to all members of a one-tier board.

The Board is accountable to the General Meeting of Shareholders.

## Composition and operation of the Board

From 1 January 2017 until 12 September 2017, the Company had four directors – one executive director and three non-executive directors, of whom two were independent. With the effect of 12 September 2017 Mr. Marco Habib Wichers resigned. Since the resignation of the above director the Company has three directors – one executive director and two non-executive directors, of whom one is independent.

The appointment of Board members is done by the General Meeting. The current Articles of Association contain (section 23A) an arrangement for the appointment/re-appointment of independent directors, if and for so long as the ordinary shares are admitted to the Official List of the London Stock Exchange, which in essence provides for a regulation pursuant to which the appointment is made by separate resolutions of the General Meeting and the meeting of Independent shareholders (an independent shareholder not being a person who exercises or controls on its own or together

# Corporate governance

acting in concert thirty percent (30%) or more of the votes in a General Meeting).

The Board meets regularly throughout the year, when each director has full access to all relevant information. Non-executive directors may if necessary take independent professional advice at the Company's expense. From August 2016 onwards, due to the reduction of the number of members of the Board, the Company has had not remuneration committee and no nomination committee in place. The Audit Committee, which has a statutory basis in Dutch law, is still in function.

## Audit Committee

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

Composition\*: Mr. Wichers, Mr. Dekel.  
Chairman: Mr. Dekel.

## Internal control/risk management

The Board has established a continuous process for identifying and managing the risks faced by the Company, and confirms that any appropriate actions have been or are being taken to address any weaknesses. It is the responsibility of the Audit Committee to consider the effectiveness of the Company's internal controls, risk management procedures, and risks associated with individual development projects.

## Share Dealing Code

The Company operates a share dealing code, which limits the freedom of directors and certain employees of the Company to deal in the Company's shares. The share dealing code imposes restrictions beyond those that are imposed by law. The Company takes all reasonable steps to ensure compliance by those parties affected. The Company operates a share dealing code, particularly relating to dealing during close periods, for all Board members and certain employees, as is appropriate for a listed company. The Company takes all reasonable steps to ensure compliance by those parties affected.

The prevailing share dealing code complies with the provisions of the Market Abuse Regulation (regulation (EU) No 596/2014 of the European Parliament and of the Council) of 16 April 2014. The share dealing code is available on the Company's website [http://www.plazacenters.com/downloads/Dealing\\_Code\\_23\\_November\\_2016.pdf](http://www.plazacenters.com/downloads/Dealing_Code_23_November_2016.pdf)).

## Group Global Compliance Policy

The Company operates a Group Global Compliance Policy, which ensure adherence to all applicable laws, regulations and policies and to provide a mechanism for preventing and reporting any breach of those laws or regulations. The Company aspires to conduct business in an honest way, and without the use of unlawful or unethical practices including but not limited to bribery, unlawfully limiting competition and/or violating economic sanctions.

## Controlling shareholder and conflicts of interest

At the date of this document, the Company is aware of the following persons who are interested directly or indirectly in 3% or more of the issued share capital of the Company:

|   | Number of ordinary shares | Percentage of issued share capital/voting rights |
|---|---------------------------|--|
| Elbit Imaging Limited                       | 3,078,474                 | 44.90%   |
| Davidson Kempner Capital Management LLC     | 1,802,820                 | 26.30%   |
| York Capital Management Global Advisors LLC | 246,423                   | 3.59%  |

The Board is satisfied that the Company is capable of carrying on its business independently of Elbit Imaging Limited, with whom it has a relationship agreement to ensure that all transactions and relationships it has with the Elbit Imaging Group are conducted at arm's length and on a normal commercial basis.

## Shareholder communication

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

Details of AGM's held in 2017 can be found on pages 32.

\* Until 12 September 2017 Mr. Marco Wichers was a member of the Audit committee and the Remuneration Committee and then was replaced by Mr. Ron Hadassi.

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

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

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

The Company's website ([www.plazacenters.com](http://www.plazacenters.com)) contains comprehensive information about the business, and there is a dedicated "Investor Relations" section where detailed financial information on the Company may be found.

### Corporate, social and ethical policies

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

It is therefore the responsibility of the Board to ensure that the Company, its directors and its employees act at all time in an ethical manner. As a result, the Company seeks to be honest and fair in its relations with all stakeholders and to respect the laws and sensitivities of all the countries in which It operates. Reference is made to the „Plaza Centers Group Global Compliance Policy ([http://www.plazacenters.com/downloads/Plaza\\_Centers\\_Global\\_Policy\\_2016.pdf](http://www.plazacenters.com/downloads/Plaza_Centers_Global_Policy_2016.pdf)), as described on page 37, which also addresses compliance with foreign trade laws, sound working conditions and no discrimination.

### Environment

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

The Company undertakes a detailed environmental impact study of every project it undertakes, including an audit of its waste management, water and energy usage, emissions to air and water, ozone depletion and more. Reference is made to the "Plaza Centers Group Global Compliance Policy ([http://www.plazacenters.com/downloads/Plaza\\_Centers\\_Global\\_Policy\\_2016.pdf](http://www.plazacenters.com/downloads/Plaza_Centers_Global_Policy_2016.pdf)), which also addresses sustainable entrepreneurship (including environment).

### Health and safety

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

The Company undertakes a detailed environmental impact study of every project it undertakes, including an audit of its waste management, water and energy usage, emissions to air and water, ozone depletion and more. Reference is made to the "Plaza Centers Group Global Compliance Policy ([http://www.plazacenters.com/downloads/Plaza\\_Centers\\_Global\\_Policy\\_2016.pdf](http://www.plazacenters.com/downloads/Plaza_Centers_Global_Policy_2016.pdf)), which also addresses sound working conditions of employees.

### Corporate governance declaration

This declaration is included pursuant to Article 2a of the Decree further stipulations regarding the content of management reports (Vaststellingsbesluit nadere voorschriften inhoud bestuursverslag) of 23 December 2004 (as amended) (hereafter the "Decree").

For the statements in this declaration as understood in Articles 3, 3a and 3b of the Decree, please see the relevant sections of this Annual Report. The following should be understood to be inserts to and repetitions of these statements:



# Corporate governance

- Compliance with the provisions and best practice principles of the Code (pages 34-35);
- Particulars of the risk management system: pages 40-49;
- The functioning of the general meeting of shareholders, its primary authorities, the rights of shareholders and how they can be exercised (page 32);
- The composition and functioning of the Board and the Audit Committee (pages 36-37);
- The regulations regarding the appointment and replacement of members of the Board (page 36);
- Information in respect of diversity with the Company (page 35).



# Risk management

The following section describes the Group's risk management and control system which forms an essential part of the business operations and reporting, and aims to ensure with a reasonable degree of certainty that the risks to which the group is exposed are identified and controlled adequately within the margins of the risk profile.

Plaza mainly operates its business in emerging markets and therefore it is exposed to a relatively high degree of inherent risk in such activities. The Management Board is responsible for setting strategic, financial, and operational objectives as well as for implementing risk management according to these objectives.

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 are reviewed regularly to reflect changes in market conditions and the Group's activities.

The strategic risks largely pertain to the real estate projects and geographical allocation, and to the timing of development, sales and the corresponding financing arrangements. Operational risks include, amongst other things, the selection of properties and lessees, the technical condition of properties, tax-related risks, as well as the performance of Plaza's organisation and its systems. The financial risks concern interest rate, liquidity and counterparty credit risks, foreign currency exchange rates, level of gearing, debt arrangements cross-defaults as well as secure finance or refinancing risks and compliance with its debt restructuring plan and its amendments.

Plaza has an adequate risk management and internal control system. An important element of the internal control system is a management structure that can take decisions effectively and on the basis of consultation. Strict procedures are followed for the regular preparation of monthly, quarterly and annual figures based on the Company's accounting principles. Monthly meetings or conference calls are held between the Management Board, Headquarter and local managers to discuss the results per country versus budgets and the long term financial planning. The internal management reporting system is designed to follow developments in rental income, the value of investments, rent arrears, vacancies, the progress of development projects and to improve and dispose of its real estate assets at optimal market conditions. The preparation of the financial results for period in comparison with the budget. There are internal information systems regulations which contain inter alia back-up, recovery back up and management of disasters plan to ensure that data will not be lost in case of emergencies.

## Business strategy and restructuring plan

Plaza is focused on its businesses in CEE region and India (emerging markets). By nature, various aspects of the emerging markets are relatively underdeveloped and unstable and therefore are often exposed to risks arising from unforeseen changes, such as legal, political, tax, regulatory, and economic changes.

In 2018, Plaza's focus is in completion of preliminary signed assets' sale agreements, unlocking the value of land through developments where possible, reducing debt levels, continue to handle reducing costs, and delivering on behalf of bondholders and shareholders.

The strategy is evaluated by the Management Board each year, reformulated as necessary and established in a business plan and a cash flow forecast. The strategy considers a period of two years, taking into account the expected negative cash flows, with detailed budget proposals elaborated in the first year. The strategy is then translated into concrete tasks and actions. During this process, opportunities and important business risks are identified, and the Company's objectives and strategy are evaluated and adjusted if appropriate. The strategy is discussed with and approved by the Management Board pursuant to the restructuring plan restrictions and amendments and consulting with its bondholders.

In addition, to ensure knowledge and understanding of its business environments, Plaza employs local employees and consultants, in a minimum level adjusted to the company's level of activities. In some cases has entered into local partnerships.

## Capital management

Pursuant to the approved restructuring plan, the Company will be allowed to distribute dividends to its shareholders only if at least 75% of the unpaid balance of the bonds (excluding bonds that are sold by a Company's subsidiary) following the date the restructuring plan will come into effect and shall bind all creditors which are subject to it, have been repaid in full prior to such distribution and provided that following such distribution a certain financial coverage ratio is met, unless such distribution has been approved in a meeting of the creditors that are subject to the restructuring plan by a majority of at least 67% of the debt's balance which is being held by the creditors participating in such meeting and voting. Notwithstanding the aforesaid, in case of an additional equity investment in the Company of at least €20 million that occurs following the date the restructuring plan came into force, the Company will be allowed (subject to applicable law) to distribute a dividend to its shareholders in an amount equal to 50% of the said additional equity investment and such distribution will not be subject to the said limitations.

Plaza will continue with efficiency measures and cost reduction where possible. At the end of 2018, G&A expenses will be reduced to circa EUR 3.1 million and foretasted adjusted G&A for the following year starting April 2018 is EUR 2.6 million (excluding non recurring items) following stringent cost control initiatives, e.g. reduction of manpower, cutting cost of suppliers, advisors etc.

Management regularly reviews compliance with specified minimum cash reserve covenants which have to be greater than the amount estimated to pay all administrative and general expenses and interest payments to the debentures holders 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. Investments in new or existing REA of the group shall not be permitted if following such investment the cash reserves are less than the minimum cash reserve and minimum coverage ratio covenant (as defined in the restructuring plan) is not met, namely below the threshold of 118%. 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.

## Risk appetite

Pursuing any business objective inevitably leads to taking risks. Risks can jeopardize those objectives in various ways. Each type of risk encountered is being dealt with in a manner and with the intensity that matches the nature and size of the risk in relation to the risk appetite of the Board of Management. Risk appetite is the level of risk we deem acceptable to achieve our objectives. The risk appetite per risk area is determined annually by the Board of Management. These risk areas comprise themes such as financial, operational, strategic, compliance and (information) security themes. Overall, Plaza's risk appetite did not materially change compared to previous year.

Effective risk management is a key success factor for realizing our objectives. Risk areas with a low-risk appetite and thus, a low acceptable residual risk requires strong risk management and strong internal controls. Risk areas with a high-risk appetite requires relatively less risk management and internal control effort.

Plaza has a generally prudent risk appetite, which can be described per risk category as follows:

Strategic risks: in the pursuit of our strategic objectives, Plaza is

willing to accept reasonable risks in a responsible way, taking into account our stakeholders' interests.

With respect to other risk categories, the approach of the company towards risks could be qualified as conservative, with compliance and financial reporting risks as most conservative categories.

Compliance risks: we are committed to full compliance with relevant laws and regulations and have a zero tolerance approach to bribery and corruption, fraud and all other forms of (illegal) misconduct.

Financial reporting risks: we have effective control frameworks (Given the size and condition of the company) in place to minimize the risk of material misstatements and errors in our financial statements.

## Financing risk management

### Liquidity risk

In line with the debt restructuring plan agreed in 2014, Plaza repays 75% of proceeds from disposals to bondholders. In 2016, Plaza paid €24.7 million to bondholders and, since the restructuring plan was approved in 2014, a total of €93.1 million has been distributed as well as 13.21% of shares in the Company. For background on this restructuring, please refer to pages 8-11.

Following the closing of the Company's restructuring plan, the consolidated financial statements include liabilities to bondholders for the aggregate principal amount of €123 million. The company published cash flow forecast (as described on page 23) until H1-2020 in order to demonstrate the abovementioned repayments, as they fall due and to emphasize that 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.

As Plaza depends on external financing and has a high exposure to CEE and India, Plaza bears the risks due to fluctuations in selling yield, interest rates, exchange rates, and other indices, its financial assets and debt value, cash flows, covenants and cost of capital will be impacted, thereby affecting its ability to raise capital.

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 "iICCC" to "iICC"

with negative outlook on a local Israeli scale. In January 2018, Maalot has discontinued tracking Plaza's rating at the Company's request.

As a basis for and contribution to effective risk management and to ensure that Plaza will be able to pursue its strategy even during periods of economic downturn, Plaza limits its financial risks by hedging these risks if and when expedient.

#### Interest rate risks

In view of Plaza's policy to hold investments for the long term while exit yields are high, the loans used to fund this are also taken with long maturities. Plaza used interest-rate swaps to manage its interest-rate risk. This policy regarding the hedging of interest-rate risk is defensive in nature, with the objective of protecting itself against rising interest rates. The Group incurred certain floating rate indebtedness and changes in interest rates may increase its cost of borrowing, impacting on its profitability. On a project by project basis, the Group considered hedging against interest rate fluctuations or as sometimes required to hedge by the lending banks. Currently there is no hedge against interest fluctuations (including CPI on its ILS debentures).

#### Foreign currency exchange rates

As Plaza's functional currency is Euro, it is exposed to risk deriving from changes in foreign currency exchange rates as some of its purchases of services and construction agreements are conducted in local currencies, or are affected by them. Its rental revenues may also be denominated in local currencies. The Group sought to minimise these risks by ensuring that its principal liabilities (financing and construction) and its principal sources of revenue (sale proceeds and rentals) are all denominated in the same currency (namely Euro), or are linked to the rate of exchange of the local currency and the Euro. In order to limit the foreign currency exchange risk in connection with the Notes, may enter into similar hedging arrangements (as necessary) in respect of each of the series of Notes, subject to market conditions, although 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.

If the Company is not successful in fully hedging its foreign exchange rate exposure, changes in currency exchange rates relative to the Euro may adversely affect the Group's profit or loss, cash flows and certain covenants. A devaluation of the local currencies in relation to the Euro, or vice versa, may adversely affect the Group's results in 2018, mainly in Romania and India.

Furthermore, Plaza used to monitor its currency exposure on a continuous basis and acts accordingly by investing in foreign currencies in certain cases when cash flows denominated in foreign currency are needed according to project construction budget. As a policy, the Group does not invest in foreign currencies for speculative purposes. The consolidated financial statements include additional information about and disclosure on Plaza's use of financial instruments and sensitivity analysis.

## The Company's top risks

The following risks and related key mitigants, where applicable, are described below:

- **Our business is subject to general business and macro and microeconomic risks**

**Risk description:** The group is exposed to number of specific real estate factors, including all of the risks inherent in the business of developing, owning, managing and using real estate, changes in laws and governmental regulations, property valuations and fluctuations in the property markets generally and in the local markets where the group operates. If any of these factors were to materialize and be adverse, they could have a material adverse effect on the Group's business, financial condition and prospects. Liquidity of real estate assets differs substantially between markets, assets classes and between development and investment and during the development stage. Many of the Group's assets are less liquid due to their location (emerging markets), type (requiring intensive management e.g. Casa Radio) and their stage of development (uncompleted projects). Such illiquid may affect the Group's ability to dispose of or liquidate some projects in a timely fashion and at satisfactory prices in response to changes in the economic environment, the local real estate market or other factors. The competition in the real estate markets in the Poland where we had shopping mall affected sale price and occupancy and rental rates of the Group's property.

The Group carries out continual high level reviews of the real estate sector in the markets in which it is present to review its existing portfolio in line with the market movements. Regular updates are presented by the local teams to the senior management to gauge economic trends and analyze its impact of the Group's assets.

**Risk mitigation:** In reaction to slow economic recovery Plaza will continue with efficiency measures and cost reduction where possible (e.g G&A expenses were reduced materially following stringent cost control initiatives (excluding non recurring items)), and focus on improvement and disposal of its real estate assets at

# Risk management

optimal market conditions. These measures have been and will be pursued with vigor. Market developments will be closely watched and additional measures will be taken if necessary.

- **Events of default under the Group's debt arrangements may result in cross-defaults being triggered under other debt arrangements that the Group has in place**

If an event of default were to subsist under one or more of the Group's debt arrangements, that event of default may, in accordance with the cross-default provisions, constitute an event of default under the Group's other debt arrangements. Upon an event of default (whether due to cross-default or otherwise), the relevant lenders would have the right, subject to the terms of the relevant facility arrangements to, amongst other things, declare the borrower's outstanding debts under the relevant facilities to be due and payable and/or cancel their respective commitments under the facilities, enforce their security, take control of certain assets or make a demand on any guarantees given in respect of the relevant facility. In respect of the bonds, the trustees representing holders of bonds (or a resolution of the holders of bonds) may be able to claim, under circumstances where the Company does not fulfil its obligations under the bonds (including but not limited to payment obligations and financial statements publication) an immediate settlement, and declare all or any part of the unsettled balance of the bonds immediately due and payable. In respect of the Polish bonds, each holder of the Polish bonds has the right to ask for an early redemption of the Polish bonds on the occurrence of an event of default by the Company (including but not limited to payment obligations). A default and/or acceleration of repayment of debt under the debt arrangements may affect the ability of the Group to obtain alternative financing in the longer term, either on a timely basis or on terms favourable to the Group, and the Group's ability to pursue its strategic business plans. This may have an adverse effect on the Group's business, results of operations, financial condition and/or prospects. Whilst the use of borrowings is intended to enhance the returns on the Group's invested capital when the value of the Group's underlying assets is rising, it may have the opposite effect where the value of underlying assets is falling. Any fall in the value of any of the Group's properties may have significantly reduce the value of the Group's equity investment in the member of the Group which holds such property, meaning that the Group may not make a profit, may incur a loss on the sale or revaluation of any such property and/or increase the likelihood of a member of the Group breaching certain financial covenants in its existing debt arrangements resulting in an event of default under such arrangements. The occurrence of one or more of these factors may have a material adverse effect on the Group's business, financial condition and/or results of operations.

Risk mitigation: The Company's bondholders under the bond agreements (1) are entitled the bondholders to declare that all or a part of their respective (remaining) claims become immediately due and payable, since the Company is not in compliance with Coverage Ratio Covenant ("CRC") as defined in the restructuring plan at 2017 year-end (2) 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. Further, the note states that as at the date of authorisation of the consolidated financial statements the bondholders have not taken steps to assert their rights.

Transparency and periodic update meetings with the Company's creditors help to understand the situation and decision making.

- **The Group's financial performance is dependent on local real estate prices and rental levels**

Risk description: There can be no guarantee that the real estate markets in CEE region and India will continue to develop, or develop at the rate anticipated by the Group, or that the market trends anticipated by the Group will materialise. Where yields are high, such as some of the current market yields, the Group will not be able to achieve substantial capital gains by selling the commercial centers.

Risk mitigation: Sale of yielding assets where value potential is or is close to being established and where sale price is appealing.

- **Real estate valuation is inherently subjective and uncertain**

Risk description: The valuation of property is inherently subjective due to, amongst other things, the individual nature of each property, and furthermore valuations are sensitive to change in market sentiment. As such, valuations are subject to uncertainty and cash generated on disposals may be different from the value of assets previously carried on the Group's balance sheet. There is no assurance that valuations of properties, (including restricted marketing period assumption), when made, will reflect the actual sale prices even where those sales occur shortly after the valuation date. This may mean that the value ascribed by the Group to the properties held by it may not reflect the value realised on sale, and that the returns generated by the Group on disposals of properties may be less than anticipated. In addition, the value of the Group's properties may fluctuate as a result of factors such as changes in regulatory requirements and applicable laws (including taxation and planning), political conditions, the availability of credit finance and the condition of financial markets, interest and inflation fluctuations and local factors such as competition. Each of these factors may have an adverse effect on the Group's busi-

ness, result of operations, financial condition and/or prospects. The Company may from time to time publish such valuations. Any decreases in the published value of the Group's properties may adversely affect the price of the ordinary shares.

Risk mitigation: Plaza will rely on its extensive experience and knowledge of managing retail assets and strong relationships with local and international retailers while using estimates and associated assumptions. These estimates and underlying assumptions, including sales under restricted marketing period, are closely reviewed on an ongoing basis by the Board members.

- **The Group's borrowing costs and access to capital markets depend significantly on the Company's credit ratings and market perception of the Company's and the controlling shareholder's financial resilience**

Risk description: Reduction in the credit ratings of the Group or deterioration in the capital market perception of the Group's financial resilience, could significantly increase its borrowing costs, limit its access to the capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. Therefore, any further reduction in credit ratings or deterioration of market perception could materially adversely affect the Group's access to liquidity and competitive position and, hence, have a material adverse effect on the Group's business, financial position and/or results of operations. These material adverse effects could also follow from a reduction in the credit ratings of the controlling shareholder.

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 "i1CCC" to "i1CC" with negative outlook on a local Israeli scale. In January 2018, Maalot has discontinued tracking Plaza's rating at the Company's request.

Risk mitigation: Implementing the amended restructuring plan will resolve the Company's liquidity situation. Plaza continues reviewing financing options available to the Company to achieve the most effective debt profile.

Plaza is actively pursuing sales opportunities to generate cash which will contribute to the Company's liquidity and reduce debt levels. The amended maturity schedule of debentures is detailed in the restructuring plan on page 8-11.

- **We may have difficulties exercising a full separation from our partner in connection with our project in Bangalore, India which may significantly affect our ability to dispose of such asset and complete our strategy relating to our plots in India**

Our strategy with respect to our plots in India is to dispose of such assets under the most optimal market conditions. Due to regulatory, physical and other limitations to develop our project in Bangalore, India, on December 2, 2015, we announced that EPI (JV with Elbit imaging) signed an agreement to sell 100% of its interest in a special purpose vehicle which holds a site in Bangalore, India to a local Investor. The transaction was subject to certain conditions precedent which have not been met. As a result, the local investor was required to carry out an agreed upon separation mechanism under which EPI obtained, from the Escrow Agent, the transfer deeds for land plots covering approximately 8.3 acres which had been provided to us as guarantees under the agreement. Although the separation mechanism has been initiated, we have still not been able to achieve full separation due to a lack of cooperation by the local investor. In order to complete the separation process, the local investor is required to execute documents transferring and duly registering its 10% undivided interest in the plot in EPI's favor. Even if we are able to properly execute the separation mechanism (in particular with respect to the transfer of the local partner's 10% undivided interest in our favor) and/or exercise the guarantees placed by the local investor, there is no guarantee that we will be able to dispose of the land in the Bangalore project to a third party due to proprietary claims to certain parts of the Bangalore project, and other third party holdings on parts of the land within the Bangalore project thus making the holdings in the land a non-contiguous property.

In addition, legal and regulatory restrictions placed by local authorities can materially impede our ability to dispose of the land on optimal commercial terms which may materially adversely affect our ability to dispose of the land to third parties which may jeopardize our business strategy, planning and operations, and could cause severe delays in disposition of the plots and could have a material adverse effect on our operations, cash flow and in turn, our ability to repay our debts in timely manner.

- **Our ability to generate short term cash flow from our Chennai project in the short term is limited**

Our strategy in respect of our projects in India is to liquidate our assets at the most commercially optimal prices. However, we have entered into JDA transaction with a local developer in order to develop our project in Chennai, India. As per the terms of the JDA, we are entitled to receive an agreed upon percentage of the proceeds from sales to third parties of villas and plots developed by the local developer.

# Risk management

As of the date this current report, our estimations are that sales in the Chennai, India project will commence in approximately 18-24 months, and the completion of the full-scale project (including obtaining all permits, construction works, marketing and collections of sales proceeds) will occur within a period of approximately 6 years.

As a consequence, our cash flow from the Chennai, India project in the near term is very limited. In addition, our ability to sell the project to other third party developers is limited since new developers would likely ask that we terminated our JDA with the local developer, which is possible only under certain events detailed in the JDA.

Additionally, we are fully dependent on the local developer's skills and efforts to complete the Chennai, India project in the most efficient way. If the local developer will not duly perform its obligations we may experience a delay in our expected cash flow, and may need to terminate the JDA and seek alternative exist strategies from the Chennai, India project which may not be on optimal terms.

- **We rely on our local joint development partner's performance, financial capability and reputation in our project in Chennai. Any significant decline in the reputation of the local joint development partner's capabilities or the existence of conflicts of interest could adversely affect our results of operation and cash flow.**

Our project in Chennai, India is subject to a JDA with a local partner. The Chennai, India project is to be developed by the local partner who is responsible for the construction of the Chennai, India project at its own costs, as well as marketing the Chennai, India project to third parties buyers. Any significant decline in the financial capabilities of the local partner might cause delays in the construction and marketing of the Chennai, India project by the local partner in the expected timeline. In addition, any significant decline in the reputation of the local partner could cause delays in the marketing of the project to third parties buyers. Since the local partner has another project in Chennai in close proximity to our Chennai, India project, there may be a conflict of interest in the construction and marketing of our Chennai, India project since the local partner may have other business interests that are inconsistent with ours.

Consequently, disputes or disagreements with the local partner could result in interruption to the business operations of our project and may materially impact our financial condition, cash flow, and results of operations.

- **Casa Radio Project**

Risk description: The joint venture in relation to the Casa Radio site in Bucharest is governed by the public-private partnership laws of Romania pursuant to which no projects have yet been implemented in Romania. There is a risk that the legal structure of this partnership may be challenged in the future and that the development and exploitation rights to be granted by the Romanian government to the joint venture company are more restrictive than currently anticipated, leading to us being unable to obtain the development profits predicted for the project. Recent political changes in Romania have resulted in delays in receiving required communications, regulatory approvals and permits from the Romanian government, which may affect our ability to develop and sell our projects there. Furthermore, third parties could challenge the Romanian government's decision, following the failure of the original partners to fulfill their obligations or to put the contract out to tender or to carry out a new site valuation. A successful challenge on either count could result in us having to enter a new tender process, which would lead to an increase in associated expenses and uncertainty.

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 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 this process is still on-going, the Company is unable to comment on any details related to this matter. Management is currently unable to estimate any monetary sanctions in respect to the potential irregularities.

In addition, our Casa Radio project in Romania may be subject to governmental expropriation or monetary sanctions. The nature of the development and exploitation rights granted to the joint venture company in relation to the Casa Radio site in Bucharest are for a period of only 49 years, and in the event that this term is not extended, the rights in relation to the site would revert to the Government of Romania. Additionally, there may be other regulatory risks relating to the Romanian government's right to expropriate the rights to the Casa Radio Site in Bucharest or that they will impose sanctions on the Company with respect to the property. Furthermore, these rights are subject to termination under certain circumstances by the Romanian government, such as in the event a delay in the project timetable, and any termination prior to the expiration of such rights may have a material adverse effect on our business.

## Legal and regulatory risk

Like all international companies, the Company is exposed to the changing regulatory environment in the countries and regions where it conducts business. Many of the CEE countries in which the Group operates or intends to operate are countries that until the last two decades were allied with the former Soviet Union under a communist economic system, and they are still subject to various risks, which may include instability or changes in national or local government authorities, land expropriation, changes in taxation legislation or regulation, changes to business practices or customs, changes to laws and regulations relating to currency repatriation and limitations on the level of foreign investment or development. The Group will be affected by the rules and regulations regarding foreign ownership of real estate and personal property.

The Group may be liable for the costs of removal, investigation or remediation of hazardous or toxic substances located on or in a site owned or leased by it, regardless of whether a member of the Group was responsible for the presence of such hazardous or toxic substances. The costs of any required removal, investigation or remediation of such substances may be substantial and/or may result in significant budget overruns and critical delays in construction schedules. The presence of such substances, or the failure to remediate such substances properly, may also adversely affect the Group's ability to sell or lease the development or to borrow using the real estate as security. Additionally, any future sale of the development will be generally subject to indemnities to be provided by the Group to the purchaser against such environmental liabilities. Accordingly, the Group may continue to face potential environmental liabilities with respect to a particular property even after such property has been sold. Laws and regulations, as may be amended over time, may also impose liability for the release of

certain materials into the air or water from a property, including asbestos, and such release can form the basis for liability to third persons for personal injury or other damages. Other laws and regulations can limit the development of, and impose liability for, the disturbance of wetlands or the habitats of threatened or endangered species. Any environmental issue may significantly increase the cost of a development and/or cause delays, which may have a material adverse effect on the profitability of that development and the results of operations of the Group.

There is an increasing awareness of environmental issues in Central and Eastern Europe. This may be of critical importance in areas previously occupied by the Soviet Army, where soil pollution may be prevalent. The Group generally insists upon receiving an environmental report as a condition for purchase, or alternatively, conducts environmental tests during its due diligence investigations. Also, some countries such as Poland, Romania and the require that a developer carries out an environmental report on the land before building permit applications are considered. Nevertheless, the Group cannot be certain that all sites acquired will be free of environmental pollution. If a property that the Group acquired turns out to be polluted, such a finding will adversely affect the Group's ability to construct, develop and operate a shopping and entertainment center on such property, and may cause the Group to suffer expenses incurred in cleaning up the polluted site which may be significant.

While the Group makes every effort to conduct thorough and reliable due diligence investigations, in some countries where former communist regimes carried out extensive land expropriations in the past, the Group may be faced with restitution claims by former land owners in respect of project sites acquired by it. If upheld, these claims would jeopardise the integrity of its title to the land and its ability to develop the land, which may have a material adverse effect on the Group's business, financial condition and/or results of operations.

Relief from taxation available to the Group may not be in accordance with the assumptions made by the Company and/or may change. Changes to the tax laws or practice in the countries in which the Company operates or any other tax jurisdiction affecting the Group could be relevant. Such changes could affect the value of the investments held by the Company or affect the Company's ability to achieve its investment objective or alter the post-tax returns to shareholders. The tax positions taken by the Group, including the tax effect of transfer pricing and the availability of tax relief provisions, are also subject to review by various tax authorities.

Under the Dutch participation exemption rules, income including dividends and capital gains derived by Dutch companies in respect



# Risk management

of qualifying investments in the nominal paid up share capital of resident or non-resident investee companies, are exempt from Dutch corporate income tax provided the conditions as set under these rules have been satisfied. The participation exemption rules and more particularly the statutory conditions thereunder have most recently been amended with effect from 1 January 2010. Such amended conditions require, among others, a minimum percentage of the share capital in the investee company requires that the investee company is not held as a passive investment (the "motive test"). If the motive test is not met, the participation exemption nevertheless applies provided that either the subject-to-tax-test or asset test is met. To benefit from the participation exemption regime during the entire holding period, the requirements must be met throughout the entire holding period. Should the Company not be in compliance with all participation exemption requirements or should the participation exemption rules be amended, this will affect its tax relief which could have an adverse effect on its cash flow position and net profits.

The Company has provided in the past substantial amounts of loans to its subsidiaries which are treated as hybrid loans and exempt under the participation exemption. Most of these loans are not covered by a tax ruling confirming the treatment for Dutch tax purposes. Therefore, there is a risk that a discussion arises with the Dutch tax authorities on the treatment thereof.

Tax losses may be carried forward and set off against income of the immediately preceding tax year and the nine subsequent tax years and may be offset against any income of the companies currently included in the fiscal unity as long as these remain part of the fiscal unity. If losses are considered so-called "holding and/or financing losses", they may only be offset against income that is derived in years that the Company also qualifies as "holding and/or financing company" within the meaning of art. 20 (4) of the Dutch Corporate Income Tax Act 1969, provided that the net balance of intragroup receivables has not increased compared to the relevant loss making year (unless there are sufficient business reasons for such increase).

If the Company were to be treated as having a permanent establishment, or as otherwise being engaged in a trade or business (including owning real estate outside the Netherlands), in any country in which it develops shopping and entertainment centers or in which its centers are managed, income (positive and negative) attributable to or effectively connected with such permanent establishment or trade or business, is generally excluded from the Dutch tax base. Specific conditions may apply based on the relevant double taxation treaty and Dutch domestic law. The occurrence of one or more of these factors may have a material adverse effect on the

Group's business, financial condition and/or results of operations.

We may be exposed to liabilities under anti-bribery laws, and any determination that we or any of our subsidiaries has violated the anti-bribery laws could have a material adverse effect on our business.

We are subject to compliance with various laws and regulations, including anti-corruption laws, which generally prohibit companies and their intermediaries from engaging in bribery or making other improper payments to foreign officials for the purpose of obtaining or retaining business or gaining an unfair business advantage. Such compliance regulations also require proper record keeping and characterization of such payments in our reports.

While our employees and agents are required to comply with these laws, we operate in many parts of the world that have experienced governmental and commercial corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. Despite our commitment to legal compliance and corporate ethics, we cannot ensure that our policies and procedures will always protect us from intentional, reckless or negligent acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and result in financial penalties, debarment from government contracts and other consequences that may have a material adverse effect on our business, financial condition or results of operations. Regarding certain particular irregularities and co-operation with the Romanian Authorities see references to Note 8(6)(d).

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.

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.

## Financial reporting

Plaza prepares an annual budget for each country, which is compared with the actual results. Investment budgets and cash flow forecasts are also prepared including strict follow-up and, to the extent required, including creditor update meetings. The semi-annual figures are reviewed by the external auditor prior to their publication by means of a press release. The financial statements are audited by the external auditor, and half year figures are subjected to a limited review by the external auditor.

Maintaining a sound financial control system over the financial reporting, setting up clear accounting policies within the Group and hiring professional finance staff can assist to reduce the risk that the financial reporting does not include any errors of material importance. In addition, the risk that trading properties are incorrectly valued is mitigated by executing major project valuations by internationally reputed external appraisers. Trading properties are being appraised at least once a year (mainly by external appraisers).

Please note that the risks the company may incur are not limited to the risks in the Risk management section. For Further details, please refer to the Company's prospectus related to its Restructuring plan dated May 27, 2014 and Company's prospectus in respect of the proposed Rights offering dated October 16, 2014 as available on the Company's website at [www.plazacenters.com](http://www.plazacenters.com).

## Internal control and risk management procedures

Internal control is the structure within which resources, behavior, procedures and actions are implemented by the Management Board and throughout the Company to ensure that activities and risks are fully controlled and to obtain the reasonable assurance that the Company's strategic objectives have been met.

Plaza's internal control procedures aim to ensure:

- the optimisation of operations and the smooth functioning of the Groups internal processes;
- compliance with current laws and regulations;
- compliance with its Restructuring Plan;
- the application of instructions and directions given by the Management Board; and
- the reliability of financial information.

The system is based on the following key principles:

- the involvement of and taking responsibility by all personnel: all Group employees contribute to internal control procedures; each employee, at his or her level, should exercise effective control over the activities for which he or she is responsible;
- the full extent of the scope covered by the procedures: the procedures should apply to all entities (operational and legal).

The internal control procedures designed to address the objectives described above cannot, however, ensure with certainty that these objectives will be achieved in full, since all procedures have inherent limitations. However, they aim to make a very significant contribution in this direction.

### Components of internal control procedures

Permanent control is the responsibility of all Group employees. It is linked directly to the functions and subsidiaries.

Country directors, aim to ensure compliance with the Group's internal control procedures, whose tasks are:

- to ensure the methods chosen at Group level are coordinated and implemented by their teams;
- to design and adapt the reporting procedures on a regular basis, giving the most appropriate indicators to obtain clear visibility of their permanent control; and
- to regularly transmit this reporting to their superiors and indicate problems and incoherences in order to enable appropriate decisions to be taken regarding changes to the controls.

The powers of the Group companies' legal representatives are limited and subject to controls. Permanent control procedures require several participants. At Group level, the coordination of permanent control is carried out under the authority of the head of accounting and CFO, whose tasks are:

- to ensure the design and implementation of actions to improve permanent control in the Group's business functions;

# Risk management

- to coordinate the choice of methodologies and tools;
- to monitor the development of the procedures in the subsidiaries; and
- to ensure all material agreements, and all brokerage fee agreements, are gathered and brought to the Board's attention.

The Group is careful to anticipate and manage major risks likely to affect the achievement of its goals and to compromise its compliance with current laws and regulations. These risks and risks appetite are identified above in this section. The identification and evaluation of risks is used as a reference to determine procedures and controls which, in their turn, influence the level of residual risk. The procedures provide a framework for the activity, in a more precise way where risks have been identified, and their application provides a control mechanism.

The Management Board has overall responsibility for the Group's internal control systems. The Management Board is tasked with defining the general principles of the internal control system, creating and implementing an appropriate internal control system and associated roles and responsibilities, and monitoring its smooth functioning in order to make any necessary improvements. Under the direction of the Management Board, the activities and functions managers carry out the supervision of the internal control system with the support of the permanent control coordination function. The Audit Committee meets at least three times per year (in 2017 the audit committee met four times), and its work and conclusions are reported to the Management Board. The supervision is also supported by the comments and recommendations of the statutory auditors and by any regulatory supervision which may take place.

## Internal control procedures relating to accounting and financial information

The aim of accounting controls is to ensure adequate coverage of the main accounting risks. They rely on understanding operational processes and the way they are translated into the Company accounts, and on defining the responsibilities of the individuals responsible for accounting scopes and information system security. Internal accounting controls aim to ensure:

- that published accounting and financial information complies with accounting regulations;
- that the accounting principles and instructions issued by the Group are applied by all its subsidiary companies; and
- that the information distributed and used internally is sufficiently reliable to contribute to processing accounting information.

The production of accounting information and the application of the controls implemented to ensure the reliability of said information are primarily the responsibility of the Company's Financial & Accounting Department that submit information to the Group, and which certify its compliance with the internal certification procedure. The corporate and consolidated financial statements are prepared by the Financial & Accounting Department, which reports directly to the Management Board. The department is charged with:

- updating accounting rules in view of changes in accounting regulations;
- defining the various levels of accounting control to be applied to the financial statement preparation process;
- ensuring correct operation of the internal accounting control environment within the Group;
- preparing and updating the procedures, validation rules and authorisation rules applying to the department; and
- monitoring the implementation of recommendations made by external auditors.

The management of financial risks, and in particular the financial structure of the Group, its financing needs and interest rate and exchange rate risk management procedures, is provided by the Financial & Accounting Department, which reports directly to the Management Board. At the end of each year, the Board validates the provisional financing plan for the following year, which sets out the broad outlines in terms of the balance and choice of resources, as well as interest rate and exchange rate hedges. During the year, key financial transaction decisions are submitted individually for approval by the Board and Audit Committee, which also receives a summary of these transactions once they have been completed. The processing and centralisation of cash flows, together with interest rate and exchange rate hedging, are the responsibility of the Financial & Accounting Department, which keeps a record of commitments and ensures that they are reflected in the accounting system.

Plaza's consolidated financial statements are prepared centrally at Plaza's corporate headquarters. The country departments are responsible for collecting information from the local bookkeepers and applying a series of appropriate controls to their job functions, as defined in the corresponding procedures. The Accounting Department has set up a system of internal collection and verification of country data and controls carried out. This system of control covers all Group entities.

The clarity of financial information and the relevance of the accounting principles used are monitored by the Audit Committee.



# Remuneration report

As the Dutch Corporate Governance Code prescribes the establishment of committees only if more than four non-executive directors are in function, the Remuneration Committee and the Nomination Committee are no longer in place as from August 2016 due to the reduction of the number of members of the

Board. Pursuant to the Articles of Association, the general meeting of shareholders determines the remuneration policy. When the remuneration policy needs changing, approval will be sought from the general meeting of shareholders of the Company.

| 2017                                 | Salary and fees<br>€'000 | Share incentive plan <sup>1</sup><br>€'000 | Total non-performance related remuneration<br>€'000 | Total performance related remuneration<br>€'000 |
|--------------------------------------|--------------------------|--|---|---|
| <b>Executive directors</b>           |                          |  |   |   |
| Non-performance related remuneration |                          |  |   |   |
| Mr. Nadav Livni                      | 70                       | -  | 70  | -   |
| <b>Total</b>                         | <b>70</b>                | <b>-</b>                                   | <b>70</b>   | <b>-</b>  |
| <b>Non-executive directors</b>       |                          |  |   |   |
| Non-performance related remuneration |                          |  |   |   |
| Mr. Ron Hadassi                      | 191                      | -  | 191   | -   |
| Mr. David Dekel                      | 67                       | -  | 67  | -   |
| Mr. Marco Wichers                    | 39*                      | -  | 39*   | -   |
| <b>Total</b>                         | <b>297</b>               | <b>-</b>                                   | <b>297</b>  | <b>-</b>  |
| <b>Total – all directors</b>         | <b>367</b>               | <b>-</b>                                   | <b>367</b>  | <b>-</b>  |

\* Resigned on 12 September 2017

### Service arrangements

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

### The shareholder returns performance 2017\*



\* Source: Bloomberg, as of 31 December 2017. Past performance is not an indication of future returns.

## Share options

The Company adopted its Share Option Scheme on October 26, 2006. At the same time, 26,108,602 non-negotiable options over Ordinary Shares were granted, the terms and conditions of which (except for the exercise price) are regulated by the Share Option Scheme. Regarding the modification of Share Option Scheme and reverse split 1:100 refer to note 20 of the consolidated financial statements.

In 2017 none of the Board members has share options. Mr. Dori Keren (CEO) had 118,889 options granted and unexercised. The option fully vested with an exercise price of £43.

For the exercise and forfeiture of options refer to the table below.

|                       | Number of options<br>as at 31 December<br>2017 |
|-----------------------|--|
| Total pool            | 478,345  |
| Granted               | 471,951  |
| Exercised             | (84,205)                                       |
| Forfeited             | (152,222)                                      |
| Left for future grant | 158,616  |

Amsterdam, 26 April 2018

The Board of Directors:

Ron Hadassi

Nadav Livni

David Dekel

# Statement of the directors



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

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

Netherlands law requires the directors to prepare financial statements for each financial year that give, according to generally acceptable standards, a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the companies that are included in its consolidated accounts for that period.

Netherlands law requires the directors to prepare an annual report that gives a true and fair view of the position as per the balance sheet date, the course of business during the past financial year of the Company and its affiliated companies included in the annual financial statements, and that the annual report contains a proper description of the principal risks the company faces.

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

The directors need to select appropriate accounting policies and apply them consistently in their reports. They must state whether they have followed applicable accounting standards, disclosing and explaining any material departures in the financial statements. Any judgments and estimates that directors make must be both reasonable and prudent. The directors must also prepare financial statements on a “going concern” basis, unless it is inappropriate to presume that the Company will continue in business. The directors confirm that they have complied with the above requirements in preparing the financial statements. Throughout the financial year, the directors are responsible for keeping proper accounting records which disclose at any time and with reasonable accuracy the financial position of the Company. They are also responsible for ensuring that these statements comply with applicable company law.

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

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

As required pursuant to Best Practice Provision 1.4.3. of the Dutch Corporate Governance Code, the Board declares that this Annual Report provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems in place with the Company. The Board declares that the aforementioned systems provide reasonable assurance that the financial reporting does not contain any material inaccuracies and that, based on the current state of affairs of the Company, it is justified that the financial reporting is prepared on a going concern basis.

The Board further declares that this Annual Report states those material risks and uncertainties that are relevant to the expectation of the Company’s continuity for the period of twelve months after the preparation of the report.

The financial statements fairly represent the Company’s financial condition and the results of the Company’s operations and provide the required disclosures.

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.

It should be noted that the above does not imply that these systems and procedures provide absolute assurance as to the realisation of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliance with legislation, rules and regulations.

In view of all of the above, hereby following the requirements of Article 5:25c Paragraph 2 under c. of the Netherlands Act on the Financial Supervision (*Wet op het financieel toezicht*), the directors hereby confirm that (i) the annual financial statements 2017, as included herein, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its affiliated companies that are included in the consolidated financial statements; and (ii) the annual report includes a fair review of the position at the balance sheet date and the development and performance of the business of the Company and its affiliated companies that are included in the consolidated annual financial statements and that the principal risks and uncertainties that the company faces are described.

The Board of Managing Directors

**Ron Hadassi**  
Non-executive Director,  
Chairman

**David Dekel**  
Independent Non-executive  
Director

**Nadav Livni**  
Executive Director

26 April 2018

This page was left intentionally blank



This page was left intentionally blank

This page was left intentionally blank

This page was left intentionally blank



# Consolidated statement of financial position

|   | Note | December 31, 2017<br>€'000 | December 31, 2016<br>€'000 |
|---|------|----------------------------|----------------------------|
| <b>ASSETS</b>                               |      |                            |                            |
| 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                        |
| <b>Total current assets</b>                 |      | <b>45,645</b>              | <b>21,703</b>              |
| 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                     |
| <b>Total non-current assets</b>             |      | <b>95,030</b>              | <b>300,421</b>             |
| <b>Total assets</b>                         |      | <b>140,675</b>             | <b>322,124</b>             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |      |                            |                            |
| 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                      |
| <b>Total current liabilities</b>            |      | <b>119,463</b>             | <b>271,653</b>             |
| Provisions                                  | 8(5) | 12,849                     | 13,244                     |
| Deferred taxes                              | 16   | -                          | 116                        |
| Long term payables                          |      | -                          | 488                        |
| <b>Total non-current liabilities</b>        |      | <b>12,849</b>              | <b>13,848</b>              |
| 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)                  |
| <b>Total equity</b>                         |      | <b>8,363</b>               | <b>36,623</b>              |
| <b>Total equity and liabilities</b>         |      | <b>140,675</b>             | <b>322,124</b>             |

\* Reclassified. See Note 2(g)

\*\* Restated. See Note 2(f)

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

26 April 2018  
Date of approval of the  
financial statements

**Avi Hakhamov**  
Acting Chief Executive  
Officer

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

# Consolidated statement of profit or loss



|  | Note      | Year ended<br>December 31, 2017<br>€'000 | Year ended<br>December 31, 2016<br>€'000 |
|--|-----------|--|--|
| <b>Revenues and gains</b>                                  |           |  |  |
| Revenue from disposal of trading properties                | 8(5)(a-j) | 192,958                                  | *29,395                                  |
| <b>Total revenues</b>                                      |           | <b>192,958</b>                           | <b>29,395</b>                            |
| <b>Gains and other</b>                                     |           |  |  |
| 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                                      |
| <b>Total gains</b>   |           | <b>8,665</b>                             | <b>20,260</b>                            |
| <b>Total revenues and gains</b>                            |           | <b>201,623</b>                           | <b>49,655</b>                            |
| <b>Expenses and losses</b>                                 |           |  |  |
| 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)                                  |
|  |           | (216,566)                                | (80,007)                                 |
| Finance income   | 24        | 577                                      | 18,642                                   |
| Finance costs  | 24        | (11,196)                                 | (34,096)                                 |
|  |           | (227,185)                                | (95,461)                                 |
| <b>Loss before income tax</b>                              |           | <b>(25,562)</b>                          | <b>(45,806)</b>                          |
| Income Tax expense   | 25        | (1,001)                                  | (711)                                    |
| <b>Loss for the year</b>                                   |           | <b>(26,563)</b>                          | <b>(46,517)</b>                          |
| <b>Loss attributable to:</b>                               |           |  |  |
| Equity holders of the Company                              |           | (26,563)                                 | (46,517)                                 |
| <b>Earnings per share</b>                                  |           |  |  |
| Basic and diluted loss per share (EUR)                     | 18        | (3.87)                                   | (6.78)                                   |

\* Reclassified. See Note 2(g).

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



# Consolidated statement of comprehensive income

|  | Year ended<br>December 31, 2017<br>€'000 | Year ended<br>December 31, 2016<br>€'000 |
|--|--|--|
| <b>Loss for the year</b>   | <b>(26,563)</b>                          | <b>(46,517)</b>                          |
| <b>Other comprehensive income</b>  |  |  |
| <b>Items that are or may be reclassified to profit or loss:</b>                            |  |  |
| 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)                                     |
| <b>Total comprehensive loss for the year</b>   | <b>(28,260)</b>                          | <b>(46,245)</b>                          |

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

# Consolidated statement of changes in equity



|  | Attributable to the equity owners of the Company |                        |                                       |                              |  |                          |                 |                                    | Total<br>€'000  |
|--|--|------------------------|---------------------------------------|------------------------------|--|--------------------------|-----------------|------------------------------------|-----------------|
|  | Share capital<br>€'000                           | Share premium<br>€'000 | Share based payment reserves<br>€'000 | Translation reserve<br>€'000 | Capital reserve from acquisition of non-controlling interests<br>€'000 | Retained losses<br>€'000 | Total<br>€'000  | Non-controlling interests<br>€'000 |                 |
| <b>Balance at January 1, 2016</b>            | <b>6,856</b>                                     | <b>282,596</b>         | <b>35,376</b>                         | <b>(27,418)</b>              | <b>(20,706)</b>  | <b>(194,602)</b>         | <b>82,102</b>   | <b>766</b>                         | <b>82,868</b>   |
| Transaction with Non-controlling interests   | -  | -                      | -                                     | -                            | 723  | -                        | 723             | (723)                              | -               |
| <b>Comprehensive income for the year</b>     |  |                        |                                       |                              |  |                          |                 |                                    |                 |
| Net loss for the year                        | -  | -                      | -                                     | -                            | -  | (46,517)                 | (46,517)        | -                                  | (46,517)        |
| Foreign currency translation differences     | -  | -                      | -                                     | 315                          | -  | -                        | 315             | (43)                               | 272             |
| <b>Total comprehensive loss for the year</b> | <b>-</b>   | <b>-</b>               | <b>-</b>                              | <b>315</b>                   | <b>-</b>   | <b>(46,517)</b>          | <b>(46,202)</b> | <b>(43)</b>                        | <b>(46,245)</b> |
| <b>Balance at December 31, 2016</b>          | <b>6,856</b>                                     | <b>282,596</b>         | <b>35,376</b>                         | <b>(27,103)</b>              | <b>(19,983)</b>  | <b>(241,119)</b>         | <b>36,623</b>   | <b>-</b>                           | <b>36,623</b>   |
| <b>Comprehensive income for the year</b>     |  |                        |                                       |                              |  |                          |                 |                                    |                 |
| Net loss for the year                        | -  | -                      | -                                     | -                            | -  | (26,563)                 | (26,563)        | -                                  | (26,563)        |
| Foreign currency translation differences     | -  | -                      | -                                     | (1,697)                      | -  | -                        | (1,697)         | -                                  | (1,697)         |
| <b>Total comprehensive loss for the year</b> | <b>-</b>   | <b>-</b>               | <b>-</b>                              | <b>(1,697)</b>               | <b>-</b>   | <b>(26,563)</b>          | <b>(28,260)</b> | <b>-</b>                           | <b>(28,260)</b> |
| <b>Balance at December 31, 2017</b>          | <b>6,856</b>                                     | <b>282,596</b>         | <b>35,376</b>                         | <b>(28,800)</b>              | <b>(19,983)</b>  | <b>(267,682)</b>         | <b>8,363</b>    | <b>-</b>                           | <b>8,363</b>    |

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



# Consolidated statement of cash flow

|  | Note | Year ended<br>December 31, 2017<br>€'000 | Year ended<br>December 31, 2016<br>Restated* €'000 |
|--|------|--|--|
| <b>Cash flows from operating activities</b>                                      |      |  |  |
| Loss for the year  |      | (26,563)                                 | (46,517)   |
| <b>Adjustments necessary to reflect cash flows used in operating activities:</b> |      |  |  |
| 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  |
|  |      | <b>(10,648)</b>                          | <b>(38,071)</b>                                    |
| <b>Changes in:</b>   |      |  |  |
| 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                    |      | (1,586)                                  | 144  |
|  |      | <b>21,025</b>                            | <b>23,537</b>                                      |
| Interest received  |      | -  | 34   |
| Interest paid  |      | (10,739)                                 | (15,801)   |
| Taxes paid   |      | (41)                                     | (189)  |
| <b>Net cash used in operating activities</b>                                     |      | <b>(403)</b>                             | <b>(30,490)</b>                                    |
| <b>Cash from investing activities</b>  |      |  |  |
| 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                            |      | 2,560                                    | *19,337  |
| <b>Net cash provided by investing activities</b>                                 |      | <b>98,690</b>                            | <b>38,811</b>                                      |
| <b>Cash from financing activities</b>  |      |  |  |
| 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   | (939)                                    | *(4,532)   |
| <b>Net cash used in financing activities</b>                                     |      | <b>(59,089)</b>                          | <b>(18,328)</b>                                    |
| <b>Increase (decrease) in cash and cash equivalents during the year</b>          |      | <b>39,198</b>                            | <b>(10,007)</b>                                    |
| <b>Effect of movement in exchange rate fluctuations on cash held</b>             |      | <b>-</b>                                 | <b>(6)</b>   |
| <b>Cash and cash equivalents as at January 1st</b>                               |      | <b>5,646</b>                             | <b>15,659</b>                                      |
| <b>Cash and cash equivalents as at December 31<sup>st</sup></b>                  |      | <b>44,844</b>                            | <b>5,646</b>                                       |
| <b>Non-cash movements</b>  |      |  |  |
| Receivable due to sale of plot   |      | -  | 4,449  |

\* Reclassified. Refer to Note 2(g).

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



|  | Year ended<br>December 31, 2017<br>€'000 | Year ended<br>December 31, 2016<br>€'000 |
|--|--|--|
| <b>Appendix A – Proceeds from sale of investments in previously consolidated subsidiaries:</b> |  |  |
| 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                                    |
|  | <b>89,814</b>                            | <b>22,046</b>                            |

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



# Notes to 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").

The consolidated financial statements were authorized for issue by the Board of Directors on 26 April 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.

### 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 1-1.5 years |
| Bonds including current portion and interest* | 23,700                                | 36,700             |
| General & administrative                      | 3,100                                 | 600                |
| <b>Total liquidity requirements</b>           | <b>26,800</b>                         | <b>37,300</b>      |
| <b>Total Sources **</b>                       | <b>16,300</b>                         | <b>4,400</b>       |
| <b>Total deficit</b>                          | <b>(10,500)</b>                       | <b>(32,900)</b>    |

\* 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.

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.

#### 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

# Financial statements

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.

## Operating cycle determination

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

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

## f. Restatement due to an error in 2016 financial statements:

As mentioned in Note 15 to the consolidated financial statements of the Company, the Bonds issued by the Company include several covenants, some of which allow the bondholders to demand immediate repayment in certain circumstances. In particular, the bondholders may ask for immediate repayment where there has been a material deterioration in the Company's business as compared to its situation at the time of the 2014 restructuring plan; and where there is substantial suspicion that the Company will be unable to repay the Bonds on time. In addition, should the bondholders exercise their right to declare immediate repayment, there is a cross default trigger in the Company's bank loan agreements that would allow the banks to demand repayment of the loans made. As of December 31, 2016, there were significant risks and uncertainties pertaining to the achievement of the Company's cash flow forecasts, which include the occurrence of events, which are beyond the Company's sole control. The Company's financial statements as of September 30, 2016 included an auditor's opinion with emphasis of matter to going concern uncertainty. As a result, there is a risk that the bondholders could argue there exists a substantial suspicion with respect to the Company's ability to repay its obligations that entitles them to immediate repayment. Should this occur there is a risk that the banks with whom the Company has loans in place will also demand immediate repayment of the loans made to the Company. The Company would be unable to meet the demands of its bondholders and its banks. Accordingly, the Company restated its 2016 annual financial statements in order to present the entire Bonds outstanding amounting to EUR 178,370 thousand and interest-bearing loans in amount of EUR 82,275 thousand as current liabilities.

# ts NOTE 2

|                                | As previously reported | Amendment | Restated |
|--------------------------------|------------------------|-----------|----------|
| <b>Current liabilities</b>     |                        |           |          |
| Bonds at amortized cost        | 47,168                 | 131,202   | 178,370  |
| Interest Bearing Loans         | 48,099                 | 34,176    | 82,275   |
| <b>Non-current liabilities</b> |                        |           |          |
| Bonds at amortized cost        | 131,202                | (131,202) | -        |
| Interest Bearing Loans         | 34,176                 | (34,176)  | -        |

## g. Reclassification and change in presentation format of statements of profit or loss:

- The Company has reclassified certain items in the 2016 annual financial statements (prior to reissuance).
- During the period, the Company has changed the presentation format of the statements of profit or loss. Under the new format – sale of trading properties (shopping centers and land plots) is presented on a gross basis due to the Company's business of selling the entirety of its trading properties. Prior to this change, only "sale of shopping centers" was presented on a net basis. In addition, "rental income from such shopping centers" is presented as part of other income line item. The Company believes that the new presentation format better reflects its results of operations and is in line with the presentation format of the Company's parent company.
- The Company has reclassified prepaid expenses from current assets to non-current assets based on the contractual terms.

Balance sheet as of December 31, 2016:

|                           | As previously reported | Amendment | Reclassified |
|---------------------------|------------------------|-----------|--------------|
| <b>Current assets</b>     |                        |           |              |
| Prepayments               | 2,371                  | (1,747)   | 624          |
| <b>Non-current assets</b> |                        |           |              |
| Prepaid expenses          | -                      | 1,747     | 1,747        |

Income statement for the year ended December 31, 2016:

|   | As previously reported | Amendment | Reclassified    |
|---|------------------------|-----------|-----------------|
| <b>Revenues</b>                             |                        |           |                 |
| Revenue from disposal of trading properties | 9,632                  | 19,763    | 29,395          |
| Rental income                               | 15,611                 | (15,611)  | -               |
| <b>Gains and other</b>                      |                        |           |                 |
| Rental income                               | -                      | 15,611    | 15,611          |
| Gain from sale of plots                     | 3,989                  | (3,989)   | -               |
| Other income                                | 253                    | 122       | 375             |
| <b>Expenses and losses</b>                  |                        |           |                 |
| Cost of Trading properties disposed         | (9,987)                | (15,896)  | (25,883)        |
| <b>Loss for the year</b>                    | <b>(46,517)</b>        | <b>-</b>  | <b>(46,517)</b> |

# Financial statements

## 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

|  | December 31, 2017 | December 31, 2016 |
|--|-------------------|-------------------|
|  | €'000             | €'000             |
| <b>Bank deposits and cash denominated in</b> |                   |                   |
| 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               | 2,29              |
| Other currencies                             | 147               | 763               |
| <b>Total</b>                                 | <b>44,844</b>     | <b>5,646</b>      |

\* The balances are not bearing interest.

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

## NOTE 5 - RESTRICTED BANK DEPOSITS

|  | December 31, 2017 | December 31, 2016 |
|--|-------------------|-------------------|
|  | €'000             | €'000             |
| <b>Short-term restricted bank deposits</b> |                   |                   |
| In EUR                                     | -                 | 6,626             |
| In PLN                                     | -                 | 548               |
| <b>Total short-term</b>                    | <b>-</b>          | <b>7,174</b>      |

# ts NOTE 3,4,5,6,7,8

## NOTE 6 - TRADE RECEIVABLES

|                                     | December 31, 2017<br>€'000 | December 31, 2016<br>€'000 |
|-------------------------------------|----------------------------|----------------------------|
| Trade receivables <sup>1</sup>      | -                          | 7,429                      |
| Less – Allowance for doubtful debts | -                          | (784)                      |
| <b>Total</b>                        | <b>-</b>                   | <b>6,645</b>               |

1 2016 – Includes EUR 5.6 million from sale of plots.

## NOTE 7 - OTHER ACCOUNTS RECEIVABLES, PREPAYMENTS AND ADVANCES

|                                     | December 31, 2017<br>€'000 | December 31, 2016<br>€'000 |
|-------------------------------------|----------------------------|----------------------------|
| <b>a. Other receivables:</b>        |                            |                            |
| VAT and tax receivables             | 133                        | 1,392                      |
| Others                              | 537                        | 222                        |
| <b>Total</b>                        | <b>670</b>                 | <b>1,614</b>               |
| <b>b. Prepayments and advances:</b> |                            |                            |
| Advanced payments to suppliers      | -                          | 98                         |
| Prepaid expenses                    | 131                        | 526                        |
| <b>Total</b>                        | <b>131</b>                 | <b>624</b>                 |
| <b>c. Non-current Prepayments:</b>  |                            |                            |
| Prepaid expenses (Belgrade Plaza)   | -                          | 1,747                      |

## NOTE 8 - TRADING PROPERTIES

|  | December 31, 2017<br>€'000 | December 31, 2016<br>€'000 |
|--|----------------------------|----------------------------|
| Balance as at 1 January                            | 263,695                    | 317,758                    |
| Construction costs and other <sup>1,2</sup>        | 1,514                      | 26,041                     |
| Write-down of trading properties, net <sup>3</sup> | (11,487)                   | (42,477)                   |
| Trading properties disposed <sup>5</sup>           | (180,153)                  | (37,626)                   |
| <b>Balance as at 31 December</b>                   | <b>73,569</b>              | <b>263,695</b>             |
| Trading properties under development <sup>4</sup>  | -                          | 55,998                     |
| Trading properties designated for sale             | 73,569                     | 207,697                    |
| <b>Total</b>                                       | <b>73,569</b>              | <b>263,695</b>             |

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).

# Financial statements

3 Breakdown of write-downs of trading properties is presented in the table below.

| Project name (location)                   | The year ended    | The year ended    |
|---|-------------------|-------------------|
|   | December 31, 2017 | December 31, 2016 |
|   | €'000             | €'000             |
| 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)           |
| <b>Total write-downs</b>                  | <b>11,487</b>     | <b>40,810</b>     |

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

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



# ts NOTE 8

## 5. Sale of assets in the reporting period:

### a) Sale agreement of Suwalki Plaza:

In January 2017, the Company sold its SPV holding Suwalki 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.

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 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 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 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.

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

# Financial statements

## **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. 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.

## **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

# ts NOTE 8

discussed in subsection (c) below, and the global financial crisis. These circumstances (and mainly the bureaucratic deadlock with the Romanian Authorities to deal with the issues specified below) caused the Project SPV not to meet the development timeline of the Project, as specified in the PPP. However, management believes that it had legitimate reasons for the delays in this timeline, as discussed in subsection (c) below.

## **b) Obtaining of the Detailed Urban Plan (“PUD”) permit:**

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

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

## **c) Discussions with Authorities on construction time table deferral:**

Following the Court decision with respect to the PUZ, the Project SPV was required to submit a request for building permits within 60 days from the approval date of the PUZ/PUD and commence development of its project within 60 days after obtaining 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.

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.

# Financial statements

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.

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.

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. Comparative 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.

# ts NOTE 8

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.

## 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.

# Financial statements

## 8. Significant estimates:

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

| Group of assets | Valuation technique  | Significant unobservable inputs   | Inter-relationship between key unobservable inputs and fair value measurement   |
|-----------------|--|---|---|
| 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"> <li>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).</li> <li>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).</li> <li>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).</li> <li>The development finance rate is 5.25% (2016:5.5%).</li> <li>The scheme would compose the following components: (i) retail; (ii) offices; (iii) hotel &amp; conference center;</li> <li>Developers profit -15% (2015: 15%).</li> <li>Discount to Market Value – 35% (2016: 25%).</li> <li>Start of construction in 3.5 years (2016: 3 years).</li> </ul> | <p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>the estimated rental prices per sqm were higher (lower);</li> <li>the estimated yield rates were lower (higher);</li> <li>the construction cost of the project were lower (higher);</li> <li>the developer's profit provision for the project were lower (higher);</li> <li>the development finance provision for the project were lower (higher);</li> <li>the estimated completion of the project were shorter (longer);</li> <li>the occupancy of the mall were higher (lower);</li> <li>the characteristics of the project would be changed;</li> <li>the discount to market value would decrease (increase).</li> </ul> |

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<br>(base points) |        |        |        |        | Delay in construction<br>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<br>for all phases |        |        |        |        | Rental income<br>for all the phases |        |        |        |        |
|------------|--------------------------------------|--------|--------|--------|--------|-------------------------------------|--------|--------|--------|--------|
|            | -10%                                 | -5%    | 0      | +10%   | +5%    | -10%                                | -5%    | 0      | +10%   | +5%    |
| Casa Radio | 68,695                               | 59,670 | 50,440 | 41,145 | 31,850 | 26,780                              | 38,610 | 50,440 | 62,205 | 73,970 |

# ts NOTE 8

## 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          | Carrying amount          |
|--------------------------|----------|---------------|------------------|----------------------------------|---|-----------------|--------------------------|--------------------------|
|                          |          |               |                  |                                  |   |                 | December 31, 2017 (MEUR) | December 31, 2016 (MEUR) |
| Suwalki Plaza            | Poland   | 2006          | 100              | Ownership                        | Operating shopping centre (starting Q2 2010)  | 20,000 GLA*     | SOLD                     | 39.9                     |
| Torun Plaza              | Poland   | 2007          | 100              | Ownership                        | Operating shopping centre (starting Q4 2011)  | 40,000 GLA*     | SOLD                     | 68.9                     |
| Lodz residential         | Poland   | 2001          | 100              | Ownership/<br>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                      |
| <b>Total</b>             |          |               |                  |                                  |   |                 | <b>73.5</b>              | <b>263.6</b>             |

\* 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.

# Financial statements

## NOTE 9 - PROPERTY AND EQUIPMENT

|  | Land and<br>buildings<br>€'000 | Equipment<br>€'000 | Fixtures<br>and fittings<br>€'000 | Total<br>€'000 |
|--|--------------------------------|--------------------|-----------------------------------|----------------|
| <b>Cost</b>                                    |                                |                    |                                   |                |
| <b>Balance at January 1, 2016</b>              | <b>4,102</b>                   | <b>3,327</b>       | <b>1,195</b>                      | <b>8,624</b>   |
| Additions                                      | -                              | 19                 | -                                 | 19             |
| Disposals                                      | -                              | (293)              | -                                 | (293)          |
| <b>Balance at December 31, 2016</b>            | <b>4,102</b>                   | <b>3,053</b>       | <b>1,195</b>                      | <b>8,350</b>   |
| Additions                                      | -                              | 1                  | -                                 | 1              |
| Disposals                                      | (4,102)                        | (568)              | -                                 | (4,670)        |
| <b>Balance at December 31, 2017</b>            | <b>-</b>                       | <b>2,486</b>       | <b>1,195</b>                      | <b>3,681</b>   |
| <b>Accumulated depreciation and impairment</b> |                                |                    |                                   |                |
| <b>Balance at January 1, 2016</b>              | <b>1,850</b>                   | <b>3,223</b>       | <b>1,071</b>                      | <b>6,144</b>   |
| Depreciation                                   | -                              | 72                 | -                                 | 72             |
| Disposals                                      | -                              | (266)              | -                                 | (266)          |
| <b>Balance at December 31, 2016</b>            | <b>1,850</b>                   | <b>3,029</b>       | <b>1,071</b>                      | <b>5,950</b>   |
| Depreciation                                   | -                              | 14                 | -                                 | 14             |
| Disposals                                      | (1,850)                        | (611)              | -                                 | (2,461)        |
| <b>Balance at December 31, 2017</b>            | <b>-</b>                       | <b>2,432</b>       | <b>1,071</b>                      | <b>3,503</b>   |
| <b>Net carrying amounts</b>                    |                                |                    |                                   |                |
| 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.

## 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<br>(percentage) as at<br>December 31, 2017 | Interest of holding<br>(percentage) as at<br>December 31, 2016 |
|--|---------|---|--|--|
| Elbit Plaza USA II LP**                              | USA     | Inactive                                  | -  | 50%  |
| Elbit Plaza India Real Estate Holdings Ltd. ("EPI")* | Cyprus  | Mixed-use<br>large scale projects         | 47.5%  | 47.5%  |
| SIA Diksna ("Diksna")                                | Latvia  | Operating shopping<br>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.



# ts NOTE 9,10

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

|   | <b>2017</b>   | <b>2016</b>   |
|---|---------------|---------------|
|   | <b>€'000</b>  | <b>€'000</b>  |
| Balance as at 1 January   | 30,160        | 44,906        |
| Distribution received from equity-accounted investees, net <sup>3</sup> | (1,441)       | (18,638)      |
| Share in results of equity-accounted investees, net of tax <sup>1</sup> | (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)         |
| <b>Balance as at 31 December<sup>2</sup></b>                            | <b>19,530</b> | <b>30,160</b> |

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

| <b>Project name (holding company name)</b> | <b>The year ended</b>    | <b>The year ended</b>    |
|--|--------------------------|--------------------------|
|  | <b>December 31, 2017</b> | <b>December 31, 2016</b> |
|  | <b>€'000</b>             | <b>€'000</b>             |
| Bangalore (held by EPI)*                   | (4,408)                  | (5,466)                  |
| Chennai (held by EPI)*                     | (988)                    | (6,114)                  |
| <b>Total</b>                               | <b>(5,396)</b>           | <b>(11,580)</b>          |

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

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:

|   | <b>2017</b>   | <b>2016</b>   |
|---|---------------|---------------|
|   | <b>€'000</b>  | <b>€'000</b>  |
| 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        |
| <b>Carrying amount of interest in joint venture</b> | <b>19,530</b> | <b>29,843</b> |

\* Including cash and cash equivalents in the amount of EUR 2,592 million.

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

# Financial statements

|   | 2017<br>€'000  | 2016<br>€'000 |
|---|----------------|---------------|
| 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         |
| <b>Total results from investees</b>                         | <b>(7,177)</b> | <b>3,487</b>  |

## 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.

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).

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 instalments until the Final Closing. The Final Closing will take place on 31 August 2019 when the final instalment 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.

# ts NOTE 10

## 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.

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:

| Parameter   | Premium (Discount) |
|---|--------------------|
| 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.

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.

# Financial statements

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.

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

| Parameter  | Premium (Discount) |
|--|--------------------|
| 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%                |
| <b>Total</b>   | <b>-58%</b>        |

## NOTE 11 - INTEREST BEARING LOANS FROM BANKS

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

|   | Nominal interest rate | Currency | Year of maturity | December 31, 2017<br>€'000 | December 31, 2016<br>Carrying amount<br>€'000 |
|---|-----------------------|----------|------------------|----------------------------|---|
| 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  |
| <b>Total interest-bearing liabilities</b> |                       |          |                  |                            | <b>82,275</b>                                 |
| 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)).

# ts NOTE 11, 12, 13, 14, 15

## NOTE 12 - TRADE PAYABLES

|                               | Currency           | December 31, 2017<br>€'000 | December 31, 2016<br>€'000 |
|-------------------------------|--------------------|----------------------------|----------------------------|
| Construction related payables |                    | 39                         | 6,352                      |
| Other trade payables          | Mainly in PLN, EUR | 545                        | 1,091                      |
| <b>Total</b>                  |                    | <b>584</b>                 | <b>7,443</b>               |

## NOTE 13 - RELATED PARTIES PAYABLES

|   | Currency | December 31, 2017<br>€'000 | December 31, 2016<br>€'000 |
|---|----------|----------------------------|----------------------------|
| EI Group – ultimate parent company – expenses recharged | EUR, USD | 86                         | 155                        |
| Other related parties in EI group                       | EUR      | 1                          | 51                         |
| <b>Total</b>  |          | <b>87</b>                  | <b>206</b>                 |

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

## NOTE 14 - OTHER LIABILITIES

| Short term                       | Currency | December 31, 2017<br>€'000 | December 31, 2016<br>€'000 |
|----------------------------------|----------|----------------------------|----------------------------|
| Obligations to tenants           | EUR      | -                          | 1,095                      |
| Government institutions and fees |          | 106                        | 480                        |
| Salaries and related expenses    |          | 62                         | 243                        |
| Accrued expenses                 |          | 35                         | 82                         |
| Other <sup>1</sup>               |          | 1,675                      | 1,006                      |
| <b>Total</b>                     |          | <b>1,878</b>               | <b>2,906</b>               |

<sup>1</sup> 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:

|                | Effective<br>interest rate | Contractual<br>interest rate | Principal<br>final maturity | Adjusted<br>par value | Carrying amounts as at<br>December 31, 2017 |
|----------------|----------------------------|------------------------------|-----------------------------|-----------------------|---|
| 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                                       |
| <b>Total</b>   |                            |                              |                             | <b>123,160</b>        | <b>116,914</b>                              |

# Financial statements

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

|              |                |
|--------------|----------------|
| 2018         | 24,175         |
| 2019         | 84,568         |
| 2020         | 14,417         |
| <b>Total</b> | <b>123,160</b> |

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.

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

- 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.
- 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.
- 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.

As of the date of approval of these financial statements the Company repaid the bondholder the entire NIS 382 million.

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.

# ts NOTE 15

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 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 thousand 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 "i1CCC" to "i1CC" with negative outlook on a local Israeli scale. In January 2018, Maalot has discontinued tracking Plaza's rating at the Company's request.

# Financial statements

## NOTE 16 - RECOGNIZED DEFERRED TAX ASSETS (LIABILITIES)

Deferred taxes recognized are attributable to the following items:

| Assets/(Liabilities) 2017                    | December 31,<br>2016<br>€'000 | Recognised in<br>profit or loss 2017<br>€'000 | Out of<br>Consoli-<br>dation | December 31,<br>2017<br>€'000 |
|--|-------------------------------|---|------------------------------|-------------------------------|
| 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                         |
| <b>Deferred tax asset (liability), net</b>   | <b>(116)</b>                  | <b>55</b>                                     | <b>61</b>                    | <b>-</b>                      |

| Assets/(Liabilities) 2016                    | December 31,<br>2015<br>€'000 | Recognised in<br>Profit or loss 2016<br>€'000 | December 31,<br>2016<br>€'000 |
|--|-------------------------------|---|-------------------------------|
| 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                         |
| <b>Deferred tax asset (liability), net</b>   | <b>406</b>                    | <b>(522)</b>                                  | <b>(116)</b>                  |

\* Due to tax losses created at the Company level.

### 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   | 2021   | 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.



# ts NOTE 16,17

## NOTE 17 - EQUITY

| Remarks  | December 31, 2017<br>Number of shares | December 31, 2016<br>Number of shares |
|--|---------------------------------------|---------------------------------------|
| Authorized ordinary shares of par value EUR 1 each | 10,000,000                            | 10,000,000                            |
| <b>Issued and fully paid</b>                       | <b>6,855,603</b>                      | <b>6,855,603</b>                      |

### 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.

# Financial statements

## 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)

|   | December 31, 2017 | December 31, 2016 |
|---|-------------------|-------------------|
| In thousands of shares with a EUR 1 par value             | €'000             | €'000             |
| 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):

|  | December 31, 2017 | December 31, 2016 |
|--|-------------------|-------------------|
| In thousands of shares with a EUR 1 par value                              | €'000             | €'000             |
| Weighted average number of ordinary shares (basic)                         | 6,856             | 6,856             |
| Effect of share options on issue   | -                 | -                 |
| <b>Weighted average number of ordinary shares (diluted) at 31 December</b> | <b>6,856</b>      | <b>6,856</b>      |

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:

# ts NOTE 18,19

| Grant date / employees entitled                    | Number of options | Contractual life of options <sup>1</sup> |
|--|-------------------|--|
| <b>ESOP No.1<sup>3</sup></b>                       |                   |  |
| 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 <sup>2</sup>                 | 10,161            | 15 years                                 |
| Total granted in 2008 <sup>2</sup>                 | 7,638             | 15 years                                 |
| Total granted in 2009 <sup>2</sup>                 | 3,916             | 15 years                                 |
| Total granted in 2011 <sup>2</sup>                 | 1,200             | 15 years                                 |
| <b>ESOP No.2<sup>3</sup></b>                       |                   |  |
| Total granted in 2011 <sup>2</sup>                 | 44,790            | 10 years                                 |
| Total granted in 2012 <sup>2</sup>                 | 8,600             | 10 years                                 |
| Total granted in 2013 <sup>2</sup>                 | 8,450             | 10 years                                 |
| <b>Total share options Granted</b>                 | <b>235,520</b>    |  |

1 Following the 4<sup>th</sup> 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* 2017<br>GBP | Number of options<br>2017 | Weighted average exercise price 2016<br>GBP | Number of options<br>2016 |
|--|--|---------------------------|---|---------------------------|
| Outstanding at the beginning of the year     | 43   | 235,520                   | 43  | 237,970                   |
| Forfeited during the period – back to pool** |  | -                         | 36  | (2,450)                   |
| <b>Outstanding at the end of the year</b>    | <b>43</b>                                    | <b>235,520</b>            | <b>43</b>                                   | <b>235,520</b>            |
| <b>Exercisable at the end of the year</b>    |  | <b>235,520</b>            |   | <b>235,520</b>            |

\* 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.

\*\* 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.

# Financial statements

## NOTE 20 - RENTAL INCOME

|  | Year ended<br>December 31, 2017<br>€'000 | Year ended<br>December 31, 2016<br>€'000 |
|--|--|--|
| Rental income from operating shopping centres <sup>1</sup> | 7,562                                    | 15,287                                   |
| Other income   | 346                                      | 324                                      |
| <b>Total</b>   | <b>7,908</b>                             | <b>15,611</b>                            |

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

## NOTE 21 - COST OF OPERATIONS

|   | Year ended<br>December 31, 2017<br>€'000 | Year ended<br>December 31, 2016<br>€'000 |
|---|--|--|
| Operating shopping centers <sup>1</sup> | 1,588                                    | 3,816                                    |
| Other cost of operations <sup>2</sup>   | 643                                      | 1,070                                    |
| <b>Total</b>                            | <b>2,231</b>                             | <b>4,886</b>                             |

1 Refer to Note 20 above.

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

# ts NOTE 20,21,22,23

## NOTE 22 - ADMINISTRATIVE EXPENSES

|                               | Year ended<br>December 31, 2017<br>€'000 | Year ended<br>December 31, 2016<br>€'000 |
|-------------------------------|--|--|
| 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                                      |
| <b>Total</b>                  | <b>6,146</b>                             | <b>6,506</b>                             |

## NOTE 23 - OTHER INCOME AND OTHER EXPENSES

|                             | Year ended<br>December 31, 2017<br>€'000 | Year ended<br>December 31, 2016<br>Restated* €'000 |
|-----------------------------|--|--|
| Other income <sup>1</sup>   | 757                                      | 375  |
| <b>Total other income</b>   | <b>757</b>                               | <b>375</b>   |
| Other expenses              | 657                                      | 1,922  |
| <b>Total other expenses</b> | <b>657</b>                               | <b>(1,922)</b>                                     |

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

# Financial statements

## NOTE 24 - FINANCE INCOME AND FINANCE COSTS

| Recognised in profit or loss   | Year ended<br>December 31, 2017<br>€'000 | Year ended<br>December 31, 2016<br>€'000 |
|--|--|--|
| 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                                      | -  |
| <b>Finance income</b>  | <b>577</b>                               | <b>18,642</b>                            |
| 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                                    |
| <b>Finance costs</b>   | <b>(11,196)</b>                          | <b>(34,096)</b>                          |
| <b>Net finance costs</b>   | <b>(10,619)</b>                          | <b>(15,454)</b>                          |

\* Including an amount of EUR 2,076 thousands of interest expenses related to 2016

## NOTE 25 - INCOME TAXES

| Amounts recognized in profit or loss                                | Year ended<br>December 31, 2017<br>€'000          | Year ended<br>December 31, 2016<br>€'000          |
|---|---|---|
| Current year tax expenses   | -   | (189)   |
| 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)   |
| <b>Total</b>  | <b>(1,001)</b>                                    | <b>(711)</b>                                      |
| <b>Deferred tax (expense) benefit</b>                               | <b>Year ended<br/>December 31, 2017<br/>€'000</b> | <b>Year ended<br/>December 31, 2016<br/>€'000</b> |
| <b>Origination and reversal of temporary differences</b>            | <b>55</b>   | <b>(522)</b>                                      |

# ts NOTE 24,25

| <b>Reconciliation of effective tax rate:</b>  | <b>Year ended<br/>December 31, 2017<br/>€'000</b> | <b>Year ended<br/>December 31, 2016<br/>€'000</b> |
|---|---|---|
| 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 <sup>1</sup> | 3,070   | 10,500  |
| Non-deductible expenses (exempt income)   | 2,632   | 11  |
| <b>Tax Expense</b>  | <b>1,001</b>                                      | <b>711</b>  |

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
  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.

# Financial statements

## 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.

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.



# ts NOTE 26

## 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<br>at December 31, 2017<br>€'000 | Carrying amount as<br>at December 31, 2016<br>€'000 |
|--------------------------------------|------|----------------|---|---|
| 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   |
| <b>Total</b>                         |      |                | <b>47,122</b>                                       | <b>21,884</b>                                       |

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<br>December 31, 2017<br>€'000 | Carrying amount<br>December 31, 2016<br>€'000 |
|--------------------------------|---|---|
| Neither past due nor impaired* | -   | 5,592   |
| Past due 1-90 days             | 288   | 231   |
| Past due 91-120 days           | 237   | 1,043   |
| <b>Total</b>                   | <b>525</b>                                    | <b>6,866</b>                                  |

\* 2016 – debtors due to sale of plots in Serbia and Poland.

# Financial statements

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

|                                  | Carrying amount<br>December 31, 2017<br>€'000 | Carrying amount<br>December 31, 2016<br>€'000 |
|----------------------------------|---|---|
| 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   |
| <b>Total</b>                     | <b>47,122</b>                                 | <b>21,884</b>                                 |

## 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 months**   | 1-2 years       | 2-5 years | More than 5 years |
|---|-----------------|------------------------|-------------------|-----------------|-----------------|-----------|-------------------|
| <b>Non-derivative financial liabilities</b> |                 |                        |                   |                 |                 |           |                   |
| 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)              | -               | -               | -         | -                 |
| <b>Total</b>                                | <b>117,191</b>  | <b>(133,599)</b>       | <b>(37,430)</b>   | <b>(25,725)</b> | <b>(70,444)</b> | -         | -                 |

\* Refer to Note 16(3).

| December 31, 2016                           | Carrying amount | Contractual cash flows | 6 months or less* | 6-12 months**   | 1-2 years        | 2-5 years       | More than 5 years |
|---|-----------------|------------------------|-------------------|-----------------|------------------|-----------------|-------------------|
| <b>Derivative financial liabilities</b>     |                 |                        |                   |                 |                  |                 |                   |
| IRS Derivatives                             | 453             | (1,257)                | (634)             | (623)           | -                | -               | -                 |
| <b>Non-derivative financial liabilities</b> |                 |                        |                   |                 |                  |                 |                   |
| 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)             | -               | -                | -               | -                 |
| <b>Total</b>                                | <b>272,141</b>  | <b>(313,502)</b>       | <b>(64,928)</b>   | <b>(51,513)</b> | <b>(143,840)</b> | <b>(41,129)</b> | <b>(12,061)</b>   |

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

\*\* Out of the total remaining amount of EUR 51.2 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.

# ts NOTE 26

## 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:

| EUR   | Reporting date<br>Average rate<br>2017 | Reporting date<br>Average rate<br>2016 | Reporting date<br>Spot rate<br>2017 | Reporting date<br>Spot rate<br>2016 |
|-------|--|--|-------------------------------------|-------------------------------------|
| 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.

## Interest rate risk:

### Profile

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

|                                  | Carrying amount<br>2017<br>€'000 | Carrying amount<br>2016<br>€'000 |
|----------------------------------|----------------------------------|----------------------------------|
| <b>Fixed rate instruments</b>    |                                  |                                  |
| Financial assets                 | -                                | 12,820                           |
| <b>Variable rate instruments</b> |                                  |                                  |
| Bonds                            | (116,914)                        | (178,370)                        |
| Other financial liabilities      | -                                | (82,275)                         |

# Financial statements

## NIS Bonds:

### Sensitivity analysis – effect of changes in Israeli CPI on carrying amount of NIS debentures

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.

| For the year ended<br>December 31, | Carrying<br>amount of<br>debentures | Profit or loss effect<br>CPI<br>increase<br>effect | Profit or loss effect<br>CPI<br>decrease<br>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:

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.

| Statement of financial position           | Carrying<br>amount<br>2017 | Carrying<br>amount<br>2016 | Fair<br>value<br>2017 | Fair<br>value<br>2016 |
|---|----------------------------|----------------------------|-----------------------|-----------------------|
| 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:

- 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.
- 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:

- 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:

- 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.
- 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

# ts NOTE 27

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.

- 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:
- (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 sub-section (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.
  - (iii) At least 75% of the net cash flow resulting from the incurrence of new FI is used for a 75% early prepayment of the bonds. Subject to the terms of the plan, the Group may also refinance existing FI if this does not generate net cash flow.

# Financial statements

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.

### 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.

# ts NOTE 28

## 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:

|   | For the year ended<br>December 31, 2017<br>€'000 | For the year ended<br>December 31, 2016<br>€'000 |
|---|--|--|
| <b>Income</b>   |  |  |
| Interest on balances with EI                          | 47   | 79   |
| <b>Costs and expenses</b>                             |  |  |
| Recharges – EI  | 23.6   | 49   |
| Compensation to key management personnel <sup>2</sup> | 615  | 650  |
| Performance linked benefits - management              | 302  | 226  |
| Compensation to board members <sup>1,2</sup>          | 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.

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.

# Financial statements

## 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)).

### 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 |
|----------------------------------|------------|

## 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.



# ts NOTE 29,30,31

## 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.

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.

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

# Financial statements

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.

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.

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

# ts NOTE 31

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 realizable value is less than the cost, the trading property is written down to net realizable value.

In each subsequent period, a new assessment is made of net realizable 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 realizable 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 realizable value.

The amount of any write-down of trading properties to net realizable 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 realizable 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.

# Financial statements

## 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.

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

|                                 | Years |
|---------------------------------|-------|
| 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.

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.

# ts NOTE 31

## 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.

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

# Financial statements

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:

- 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).

## l) 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.

# ts NOTE 31

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.

## **m) Segment reporting:**

Segment results that are reported to the Group's Board of Directors (the chief operating decision makers) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate debt, assets (primarily the Company's headquarters), head office expenses, and tax assets and liabilities.

## **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.

### **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.

# Financial statements

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    |
|--------------------------------------|-------------|---------|
| Liabilities and shareholders' equity |             |         |
| Bonds at amortized cost              |             | (1,385) |
| Total liabilities                    |             | (1,385) |
| Net impact on equity, Including      |             | (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:

#### 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 under current 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



# ts NOTE 31

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.

- **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;
- 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.

# Financial statements

## 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  |
|--|-----------------------------|--|
| <b>Directly wholly owned</b>                                   |                             |  |
| HOM Ingatlanfejlesztési és Vezetési Kft.                       | Management company          |  |
| Plaza Centers Establishment B.V.                               | Holding company             |  |
| Szombathely 2002 Ingatlanhasznosító és Vagyonkezelő Kft.       | Inactive                    |  |
| Tatabánya Plaza Ingatlanfejlesztési Kft.                       | Inactive                    |  |
| Plasi Invest 2007 kft.   | Inactive                    |  |
| <b>Indirectly or jointly owned</b>                             |                             |  |
| Kerepesi 5 Irodapark Ingatlanfejlesztő Kft.                    | Holder of land usage rights | 100% held by Plaza Centers Establishment B.V.<br>Arena Plaza Extension project – October 2017 concluded an agreement on the termination of land use rights |
| POLAND   | ACTIVITY                    | REMARKS  |
| <b>Directly wholly owned</b>                                   |                             |  |
| Lodz Centrum Plaza Sp. z o.o.                                  | Owns plot of land           | Lodz (Residential) project   |
| Włocławek Plaza Sp. z o.o.                                     | Mixed-use project           | Lodz Plaza project   |
| O2 Fitness Club Sp. z o.o.                                     | Fitness                     | O2 Fitness Club project; Company under liquidation in 2018   |
| Leszno Plaza Sp. z o.o.  | Inactive                    | Leszno Plaza project - Sold July 2017;<br>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 1 S.K.A. | Inactive                    | Company under liquidation in 2018  |
| Płock 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  |
| <b>Indirectly or jointly owned</b>                             |                             |  |
| Torun Centrum Plaza Sp. z o.o.w likwidacji                     | Inactive                    | 100% held by Plaza Centers Administrations B.V.;<br>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 upadku ci 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   |

# ts NOTE 32

| LATVIA  | ACTIVITY                                   | REMARKS   |
|---|--|---|
| <b>Indirectly or jointly owned</b><br>Diksna SIA  | Operating shopping centre –<br>Sold 2016   | Equity accounted investee, 50% held by Plaza Centers N.V.<br>50% held by JV partner Riga Plaza project.                           |
| ROMANIA   | ACTIVITY                                   | REMARKS   |
| <b>Directly wholly owned</b><br>S.C. North Gate Plaza S.R.L.<br>S.C Plaza Centers Management Romania s.r.l        | Shopping center project<br>Inactive        | Csiki Plaza (Miercurea Ciuc) project<br>Liquidated in 2018  |
| <b>Indirectly or jointly owned</b><br>S.C. Dambovita Center S.R.L.  | Mixed-use project                          | 75% held by Dambovita Centers Holding B.V.<br>Casa Radio project  |
| Plaza Bas B.V.<br>Adams Invest S.R.L.   | Holding company<br>Residential project     | 50.1% held by Plaza Centers N.V.<br>95% held by Plaza Bas B.V.<br>5% held by Plaza Centers Management B.V.<br>Valley View project |
| SERBIA  | ACTIVITY                                   | REMARKS   |
| <b>Directly wholly owned</b><br>Plaza Centers (Estates) B.V.  | Holding company                            |   |
| Plaza Centers Management D.O.O.<br>Plaza Centers Holding B.V.<br>Plaza Centers (Ventures) B.V.                    | Management company<br>Inactive<br>Inactive | Krusevac Plaza project  |
| CZECH REPUBLIC  | ACTIVITY                                   | REMARKS   |
| <b>Directly wholly owned</b><br>Plaza Centers Czech Republic S.R.O.   | Inactive                                   |   |
| BULGARIA  | ACTIVITY                                   | REMARKS   |
| <b>Directly wholly owned</b><br>Shumen Plaza EOOD   | Inactive                                   | Shumen Plaza project - Sold 03/2017;<br>Company under liquidations in 2018  |
| Plaza Centers Management Bulgaria EOOD<br>Plaza Centers Development EOOD  | Management company<br>Inactive             | Company under liquidations in 2018<br>Company under liquidations in 2018  |
| GREECE  | ACTIVITY                                   | REMARKS   |
| <b>Directly wholly owned</b><br>Helios Plaza S.A.   | Shopping centre project                    | Pireas Plaza project  |
| CYPRUS – UKRAINE  | ACTIVITY                                   | REMARKS   |
| <b>Directly wholly owned</b><br>Tanoli Enterprises Ltd.<br>PC Ukraine Holdings Ltd.<br>Plaza Centers Ukraine Ltd. | Inactive<br>Inactive<br>Inactive           | 100% held by PC Ukraine Holdings Ltd.   |

# Financial statements

## THE NETHERLANDS

| ACTIVITY                                   | REMARKS         |
|--|-----------------|
| <b>Directly wholly owned</b>               |                 |
| Plaza Dambovita Complex B.V.               | Holding company |
| Plaza Centers Enterprises B.V.             | Finance company |
| Mulan B.V. (Fantasy Park Enterprises B.V.) | Holding company |
| P.L.A.Z.A B.V.                             | Inactive        |
| Plaza Centers Polish Operations B.V.       | Holding company |
| Plaza Centers administrations b.v.         | Inactive        |
| Plaza Centers Management B.V.              | Holding company |
| Plaza Centers Connections B.V.             | Inactive        |
| Dambovita Centers Holding B.V.             | Holding company |
| Plaza Centers Engagements B.V.             | Inactive        |
| Plaza Bas B.V.                             | Holding company |
| 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        |
| Plaza Centers (Ventures) B.V.              | Inactive        |

## CYPRUS – INDIA

| ACTIVITY  | REMARKS            |
|---|--------------------|
| <b>Directly wholly owned</b>                    |                    |
| PC India Holdings Public Company Ltd.           | Holding company    |
| <b>Indirectly or jointly owned</b>              |                    |
| Permindo Ltd.                                   | Holding company    |
| HOM India Management Services Pvt. Ltd.         | Management company |
| Elbit Plaza India Real Estate Holdings Ltd.     | Holding company    |
| Polyvendo Ltd.                                  | Holding company    |
| Elbit Plaza India Management Services Pvt. Ltd. | Management company |
| Vilmadoro Ltd.                                  | Holding company    |
| Kadavanthra Builders Pvt. Ltd.                  | Mixed-use project  |
| Aayas Trade Services Pvt. Ltd.                  | Mixed-use project  |

## UNITED STATES OF AMERICA

| ACTIVITY                           | REMARKS         |
|------------------------------------|-----------------|
| <b>Indirectly or jointly owned</b> |                 |
| Elbit Plaza USA II LP (EPUS II)    | Holding company |
| EPN REIT II                        | Inactive        |

# ts NOTE 32

## Entities disposed or dissolved in 2016 and 2017

| HUNGARY  | ACTIVITY                  | REMARKS   |
|--|---------------------------|---|
| Plaza House Ingatlanfejlesztési Kft.                         | Office building           | David House - Sold 02/2017  |
| POLAND   | ACTIVITY                  | REMARKS   |
| 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  | ACTIVITY                  | REMARKS   |
| 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   | ACTIVITY                  | REMARKS   |
| 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   |



# Company balance sheet

As at December 31, 2017  
After appropriation of result

| ASSETS                               | Note | 2017<br>€'000  | 2016<br>€'000  |
|--------------------------------------|------|----------------|----------------|
| <b>Non-current assets</b>            |      |                |                |
| Financial fixed assets               | 1    | 97,046         | *211,032       |
| Other receivables and prepayments    |      | 2,011          | -              |
| <b>Total non-current assets</b>      |      | <b>99,057</b>  | <b>211,032</b> |
| <b>Current assets</b>                |      |                |                |
| Other receivables and prepayments    |      | 87             | 4,502          |
| Short-term deposits and cash at bank | 2    | 39,379         | 1,265          |
| <b>Total current assets</b>          |      | <b>39,466</b>  | <b>5,767</b>   |
| <b>Total assets</b>                  |      | <b>138,523</b> | <b>216,799</b> |

\* Restated – refer to Note 20 below

# Equity and liabilities



| <b>Shareholders' equity</b>          | <b>Note</b> | <b>2017<br/>€'000</b> | <b>2016<br/>€'000</b> |
|--------------------------------------|-------------|-----------------------|-----------------------|
| Issued share capital                 | 3           | 6,856                 | 6,856                 |
| Share premium                        | 4           | 282,596               | 282,596               |
| Foreign currency translation reserve | 5           | (28,800)              | (27,103)              |
| Revaluation reserve                  | 6           | -                     | -                     |
| Other capital reserves               | 7           | 19,423                | 19,423                |
| Retained losses                      | 8           | (271,712)             | (245,149)             |
| <b>Total</b>                         |             | <b>8,363</b>          | <b>36,623</b>         |
| <b>Provisions</b>                    |             |                       |                       |
| Provisions participations            | 9           | -                     | *-                    |
| <b>Liabilities</b>                   |             |                       |                       |
| Long term liabilities                | 10          | -                     | **-                   |
| <b>Total</b>                         |             | <b>-</b>              | <b>-</b>              |
| Current liabilities and accruals     | 11          | 130,158               | *180,176              |
| <b>Total equity and liabilities</b>  |             | <b>138,523</b>        | <b>216,799</b>        |

\* Restated – Refer to Note 20 below

\*\* Restated – Refer to Note 2f of the consolidated financial statements regarding the restatement of long term liabilities in the financial statements of 2016



# Company profit or loss account

For the year ended December 31, 2017

|                                  | Year ended<br>December 31, 2017<br>€'000 | Year ended<br>December 31, 2016<br>€'000 |
|----------------------------------|--|--|
| <b>Revenues and gains</b>        |  |  |
| Gains from disposal of assets    | -  | *-                                       |
| Other income                     | -  | *-                                       |
| <b>Total revenues and gains</b>  | -  | -  |
| <b>Expenses and losses</b>       |  |  |
| Loss from disposal of assets     | -  | *-                                       |
| Results participations           | (10,231)                                 | *(10,751)                                |
| Administrative expenses          | (4,765)                                  | (4,462)                                  |
| Finance income                   | 221                                      | 970                                      |
| Finance costs                    | (10,773)                                 | (32,274)                                 |
| <b>Total expenses and losses</b> | <b>(25,548)</b>                          | <b>(46,517)</b>                          |
| <b>Loss before income tax</b>    | <b>(25,548)</b>                          | <b>(46,517)</b>                          |
| Income tax expense               | (1,015)                                  | -  |
| <b>Loss for the year</b>         | <b>(26,563)</b>                          | <b>(46,517)</b>                          |

\* Restated - Refer to Note 20 below



# Notes to the Company financial statements



For the year ended December 31, 2017

## CHANGES IN PART 9 OF BOOK 2 OF THE DUTCH CIVIL CODE

The changes in Part 9 of Book 2 of the Dutch Civil Code with effect as from 1 January 2016 only impacts disclosure requirements and do not have any impact on equity and result for the current and previous year.

## GENERAL

### ACTIVITIES AND OWNERSHIP

Plaza Centers N.V. (the "Company") is a company domiciled in The Netherlands. The Company is a subsidiary of Elbit Ultrasound (Luxembourg) B.V. / S.à r.l. which holds 44.9% of the Company's shares, as of balance sheet date. The ultimate shareholder of the Company is Elbit Imaging Limited. The Company is listed on the Main Board of the London Stock Exchange, the Warsaw Stock Exchange and, starting November 2014, on the Tel Aviv Stock Exchange. The Company owns subsidiary companies in Central and Eastern Europe, and in India which purchase, develop, hold and sale real estate assets. The Company is registered in the Chamber of Commerce register under number 33248324.

### ACCOUNTING POLICIES IN RESPECT OF THE VALUATION OF ASSETS AND LIABILITIES

The Company financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands, applying the accounting principles of the consolidated financial statements as set out in Article 362, Sub 8 of Part 9, Book 2, of the Netherlands Civil Code. The valuation of assets and liabilities and the calculation of the net result conform with the accounting principles applied in the consolidated annual accounts, except for participations which are valued at net asset value rather than at cost. This means that Plaza Centers N.V.'s shareholders' equity and net result are the same as in the consolidated accounts.

The Company financial statements are denominated in thousands of euros.

The company income statement has been prepared in accordance with the provisions of Section 402, Book 2, of the Netherlands Civil Code.

We refer to the notes of the consolidated financial statements, unless indicated otherwise.

### FINANCIAL NON-CURRENT ASSETS

The participating interests in which the Company is able to exert a significant influence on policy are included at the amount of the Group's share in the net asset value of the interests concerned. The net asset value is calculated according to the same policies as have been applied to these annual accounts. The other participating interests are stated at cost.

Provisions have been formed for negative net asset values of the interests concerned.

## NON-CURRENT ASSETS

### Note 1 - Financial fixed assets

|  | Year ended<br>December 31, 2017<br>€'000 | Year ended<br>December 31, 2016<br>€'000 |
|--|--|--|
| Participations                               | 91,313                                   | *206,174                                 |
| Loans to and receivables from participations | 2,950                                    | *3,018                                   |
| Other  | 2,783                                    | *1,840                                   |
| <b>Results after taxation</b>                | <b>97,046</b>                            | <b>*211,032</b>                          |

\* Restated

#### Movements in participations are broken down as follows:

|   | 2017<br>€'000 | 2016<br>€'000  |
|---|---------------|----------------|
| Balance as at January 1                 | 206,174       | *246,826       |
| Redemptions and disposal of investments | (110,638)     | *(36,110)      |
| Reclassified from other assets          | 4,311         | *6,091         |
| Translation reserve effect              | 1,697         | 118            |
| Result for the year                     | (10,231)      | *(10,751)      |
| <b>Balance as at December 31</b>        | <b>91,313</b> | <b>206,174</b> |

For a list of subsidiaries, joint ventures and associates reference is made to Note 32 to the consolidated financial statements.

\* Restated

**Movements in loans to and receivables from participations:**

|   | <b>2017</b>  | <b>2016</b>  |
|---|--------------|--------------|
|   | <b>€'000</b> | <b>€'000</b> |
| Balance as at January 1                     | 3,018        | 45,276       |
| Exchange rate differences                   | -            | 204          |
| Charges to (Repayments from) participations | (68)         | (6,515)      |
| Restated                                    | -            | (35,946)     |
| <b>Balance as at December 31</b>            | <b>2,950</b> | <b>3,018</b> |

**Movements in other:**

|  | <b>2017</b>  | <b>2016</b>  |
|--|--------------|--------------|
|  | <b>€'000</b> | <b>€'000</b> |
| Balance as at January 1                        | 1,840        | 272          |
| Expensed following impairment of participation | -            | -            |
| Reclassification to provision participation    | (4,311)      | (5,280)      |
| Additions due to uncharged costs               | 5,254        | 6,848        |
| <b>Balance as at December 31</b>               | <b>2,783</b> | <b>1,840</b> |

**Note 2 - Short-term deposits and cash at bank**

As at December 31, 2017, there are no cash restrictions on deposits and cash held (December 31, 2016 – nil).

**SHAREHOLDERS' EQUITY****Note 3 - Issued share capital**

|   | <b>2017</b>  | <b>2016</b>  |
|---|--------------|--------------|
|   | <b>€'000</b> | <b>€'000</b> |
| The issued share capital can be specified as follows: |              |              |
| Balance as at January 1                               | 6,856        | 6,856        |
| Balance as at December 31                             | 6,856        | 6,856        |

**Note 4 - Share premium**

|                           | <b>2017</b>  | <b>2016</b>  |
|---------------------------|--------------|--------------|
|                           | <b>€'000</b> | <b>€'000</b> |
| Balance as at January 1   | 282,596      | 282,596      |
| Balance as at December 31 | 282,596      | 282,596      |

## Note 5 - Foreign currency translation reserve

|  | 2017<br>€'000   | 2016<br>€'000   |
|--|-----------------|-----------------|
| The table below presents the movements in the translation reserve: |                 |                 |
| Balance as at January 1  | (27,103)        | (27,418)        |
| Movement   | 1,697           | 315             |
| <b>Balance as at December 31</b>                                   | <b>(28,800)</b> | <b>(27,103)</b> |

The movement concern the translation reserve resulted from the operation in India. The reserve is considered a legal reserve which is not distributable (if more than nil).

## Note 6 - Revaluation reserve

|                                  | 2017<br>€'000 | 2016<br>€'000 |
|----------------------------------|---------------|---------------|
| Balance as at January 1          | -             | -             |
| Balance as at December 31        | -             | -             |
| <b>Balance as at December 31</b> | <b>-</b>      | <b>-</b>      |

The reserve is considered a legal reserve which is not distributable (if more than nil).

## Note 7 - Other capital reserves

|  | 2017<br>€'000 | 2016<br>€'000 |
|--|---------------|---------------|
| The table below presents the movements in other capital reserve: |               |               |
| Balance as at January 1  | 19,423        | 18,700        |
| Movement due to share option plan                                | -             | 723           |
| <b>Balance as at December 31</b>                                 | <b>19,423</b> | <b>19,423</b> |

The movement concern the cancelation of ESOP (Employee Stock Option Plan) of a subsidiary of the Company (PC India Holdings Public Company).

## Note 8 - Revaluation reserve

|                                  | 2017<br>€'000    | 2016<br>€'000    |
|----------------------------------|------------------|------------------|
| Balance as at January 1          | (245,149)        | (198,632)        |
| Loss of the year                 | (26,563)         | (46,517)         |
| <b>Balance as at December 31</b> | <b>(271,712)</b> | <b>(245,149)</b> |

## NON-CURRENT LIABILITIES

### Note 9 - Provisions to participations

| Movements in Provisions participations are broken down as follows: | 2017<br>€'000 | 2016<br>€'000 |
|--|---------------|---------------|
| Balance as at January 1  | -             | 304,258       |
| Reclassified from Participations                                   | -             | 6,630         |
| Reclassified from other assets                                     | -             | (6,091)       |
| Impairment of participations                                       | -             | 4,865         |
| Result for the year  | -             | 19,234        |
| Restated   | -             | (328,896)     |
| <b>Balance as at December 31</b>                                   | <b>-</b>      | <b>-</b>      |

### Note 10 - Long term liabilities

Long term liabilities (debentures issued to Israeli and Polish investors) are presented according to the amortized cost basis, with discount recognized according to the effective interest rate method.

|   | Year ended<br>December 31, 2017<br>€'000 | Year ended<br>December 31, 2016<br>€'000 |
|---|--|--|
| As presented in the consolidated report         | -  | *-                                       |
| <b>Balance as at December 31 in this report</b> | <b>-</b>                                 | <b>*-</b>                                |

\* Refer to note 2f of the consolidated financial statements regarding the restatement of long term liabilities in the financial statements of 2016

For more details on the debentures refer to note 15 of the consolidated financial statements.

## CURRENT LIABILITIES AND ACCRUALS

### Note 11 - Other liabilities and accruals

|  | Year ended<br>December 31, 2017<br>€'000 | Year ended<br>December 31, 2016<br>€'000 |
|--|--|--|
| C/A Elbit Imaging Ltd  | 86                                       | 155                                      |
| C/A Plaza Centers Polish Operations N.V.                       | 11,000                                   | -  |
| Other small charges participations                             | 59                                       | 789                                      |
| <b>Total related parties</b>                                   | <b>11,145</b>                            | <b>944</b>                               |
| VAT payable  | 48                                       | 12                                       |
| Provision for salaries   | 87                                       | -  |
| Current portion of debentures and long term loans <sup>1</sup> | 116,914                                  | *178,370                                 |
| Suppliers  | 705                                      | 608                                      |
| Accruals and other creditors                                   | 1,259                                    | 242                                      |
| <b>Total non-related parties</b>                               | <b>119,013</b>                           | <b>179,231</b>                           |
| <b>Total</b>   | <b>130,158</b>                           | <b>180,176</b>                           |

<sup>1</sup> Refer to notes 15 in the consolidated report. \* Restated

## Note 12 - Contingent liabilities and guarantees

For contingencies associated with the restructuring plan, refer to note 27B of the consolidated report. For other contingent liabilities and commitments please refer to note 27 of the consolidated financial statements.

In respect of the Company's corporate guarantee for the fulfillment of its subsidiaries and joint ventures obligations under loan agreements, refer to note 11 of the consolidated report.

The Company is part of a tax group for corporate income tax, and is therefore jointly and severally liable for the tax payable by the tax group as a whole.

## Note 13 - Employees

The number of employees in the consolidated group was 18 in December 2017 (2016: 80). The average number of employees in 2015 in the consolidated group was 81.

The number of employees in the parent company only was 5 in December 2016 (2016: 6). The average number of employees in 2015 the parent company only was 6. The below table breaks down the employees per position type:

|                                       | 2017<br>€'000 | 2016<br>€'000 |
|---------------------------------------|---------------|---------------|
| Management                            | 5             | 8             |
| Business and finance                  | 7             | 19            |
| Legal                                 | -             | 4             |
| Engineering                           | -             | 11            |
| Marketing                             | 1             | 11            |
| Administration                        | 5             | 27            |
| <b>Total employees</b>                | <b>18</b>     | <b>80</b>     |
| <b>Parent Company level employees</b> |               |               |
| Management                            | 3             | 4             |
| Business and finance                  | 1             | 1             |
| Administration                        | 1             | 1             |
| <b>Total employees</b>                | <b>5</b>      | <b>6</b>      |

## Note 14 - Remuneration policy

See the Annual Remuneration Report of the Company on page 50.

As the Dutch Corporate Governance Code prescribes the establishment of committees only if more than four non-executive directors are in function, the Remuneration Committee and the Nomination Committee are no longer in place as from August 2016 due to the reduction of the number of members of the Board.

Pursuant to the Articles of Association, the general meeting of shareholders determines the remuneration policy. When the remuneration policy needs changing, approval will be sought from the general meeting of shareholders of the Company. See further details on page 32.

| 2017                                 | Salary and fees<br>€'000 | Share incentive plan<br>€'000 | Total non-performance related remuneration<br>€'000 | Total performance related remuneration<br>€'000 |
|--------------------------------------|--------------------------|-------------------------------|---|---|
| <b>Executive directors</b>           |                          |                               |   |   |
| Non-performance related remuneration |                          |                               |   |   |
| Mr. Nadav Livni                      | 70                       | -                             | 70  | -   |
| <b>Total</b>                         | <b>70</b>                | <b>-</b>                      | <b>70</b>   | <b>-</b>  |
| <b>Non-executive directors</b>       |                          |                               |   |   |
| Non-performance related remuneration |                          |                               |   |   |
| Mr. Ron Hadassi                      | 191                      | -                             | 191   | -   |
| Mr. David Dekel                      | 67                       | -                             | 67  | -   |
| Mr. Marco Wichers                    | *39                      | -                             | *39   | -   |
| <b>Total</b>                         | <b>297</b>               | <b>-</b>                      | <b>297</b>  | <b>-</b>  |
| <b>Total – all directors</b>         | <b>367</b>               | <b>-</b>                      | <b>367</b>  | <b>-</b>  |

\* Resigned on 12th September, 2017

| 2016                                 | Salary and fees<br>€'000 | Share incentive plan<br>€'000 | Total non-performance related remuneration<br>€'000 | Total performance related remuneration<br>€'000 |
|--------------------------------------|--------------------------|-------------------------------|---|---|
| <b>Executive directors</b>           |                          |                               |   |   |
| Non-performance related remuneration |                          |                               |   |   |
| Mr. Nadav Livni                      | 67                       | -                             | 67  | -   |
| <b>Total</b>                         | <b>67</b>                | <b>-</b>                      | <b>67</b>   | <b>-</b>  |
| <b>Non-executive directors</b>       |                          |                               |   |   |
| Non-performance related remuneration |                          |                               |   |   |
| Mr. Sarig Shalhav                    | *30                      | -                             | *30   | -   |
| Mr. Ron Hadassi                      | 202                      | -                             | 202   | -   |
| Mr. David Dekel                      | 67                       | -                             | 67  | -   |
| Mr. Marco Wichers                    | 67                       | -                             | 67  | -   |
| <b>Total</b>                         | <b>366</b>               | <b>-</b>                      | <b>366</b>  | <b>-</b>  |
| <b>Total – all directors</b>         | <b>433</b>               | <b>-</b>                      | <b>433</b>  | <b>-</b>  |

\* Resigned on 8th June, 2016

## Note 15 - Service arrangements

The executive director has a rolling service contracts with the Company, which may be terminated on a three month notice.

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

## Note 16 - Share options

The Company adopted its Share Option Scheme on October 26, 2006. At the same time, 26,108,602 non-negotiable options over Ordinary Shares were granted, the terms and conditions of which (except for the exercise price) are regulated by the Share Option Scheme.

In 2017 none of the Board members has share options. Mr. Dori Keren (CEO) has 118,889 options granted and unexercised. The option fully vested with an exercise price of £43.

For the exercise and forfeiture of options refer to the table below.

|                                       | Number of<br>options granted<br>and unexercised | Number<br>exercisable as<br>at December 31, 2017 | Exercise<br>price of<br>options £ |
|---------------------------------------|---|--|-----------------------------------|
| Mr. Mordechay Zisser                  | 39,078  | 39,078   | 43                                |
| Mr. Ran Shtarkman                     | 70,891  | 70,891   | 43                                |
| Mr. Shimon Yitzchaki                  | 17,943  | 17,943   | 43                                |
| Mr. Marius van<br>Eibergen Santhagens | -   | -  | N/A                               |
| Mr. Sarig Shalhav                     | -   | -  | N/A                               |
| Mr. Ron Hadassi                       | -   | -  | N/A                               |
| Mr. David Dekel                       | -   | -  | N/A                               |
| Mr. Shlomi Kelsi                      | -   | -  | N/A                               |
| Mr. Yoav Kfir                         | -   | -  | N/A                               |
| Mr. Nadav Livni                       | -   | -  | N/A                               |
| Mr. Marco Wichers                     | -   | -  | N/A                               |

|                       | Number of<br>options as at<br>December 31, 2017 |
|-----------------------|---|
| Total pool            | 478,345   |
| Granted               | 471,951   |
| Exercised             | (84,205)  |
| Forfeited             | (152,222)                                       |
| Left for future grant | 158,616   |

|                       | Number of<br>options as at<br>December 31, 2016 |
|-----------------------|---|
| Total pool            | 478,345   |
| Granted               | 471,951   |
| Exercised             | (84,205)  |
| Forfeited             | (152,222)                                       |
| Left for future grant | 158,616   |



## Note 17 - Audit fees

The total audit fees charged by the statutory auditor amount to EUR 126,620 (2016: EUR 65,000). These fees relate only to the audit of the statutory financial statements.

## Note 18 - Appropriation of result

It is proposed that the 2016 loss of €46.5 million will be added to the other reserves. The annual accounts have been prepared on the assumption that this profit appropriation will be adopted by the Annual General Meeting of shareholders.

| <b>Retained losses</b>   | <b>2017<br/>€'000</b> | <b>2016<br/>€'000</b> |
|--|-----------------------|-----------------------|
| The table below presents the movements in the retained losses: |                       |                       |
| Balance as at January 1  | (245,149)             | (198,632)             |
| Loss in the period   | (26,563)              | (46,517)              |
| <b>Balance as at December 31</b>                               | <b>(271,712)</b>      | <b>(245,149)</b>      |

The movement is reflecting the 2017 and 2016 results.

## Note 19 - Subsequent events

An overview of the subsequent events of the company is disclosed in Note 29 to the consolidated financial statements.

## Note 20 - Restatement of 2016 financial statements

The Company has reclassified certain items in the 2016 annual financial statements.

|                               | <b>As previously reported<br/>€'000</b> | <b>Amendment<br/>€'000</b> | <b>Reclassified<br/>€'000</b> |
|-------------------------------|---|----------------------------|-------------------------------|
| <b>Non-current assets</b>     |   |                            |                               |
| Financial fixed assets        | 539,927                                 | (328,895)                  | 211,032                       |
| <b>Provisions</b>             |   |                            |                               |
| Provisions participations     | (328,895)                               | 328,895                    | -                             |
| <b>Revenues and gains</b>     |   |                            |                               |
| Gains from disposal of assets | 32,665                                  | (32,665)                   | -                             |
| Other income                  | 679                                     | (679)                      | -                             |
| <b>Expenses and losses</b>    |   |                            |                               |
| Loss from disposal of assets  | (11,598)                                | 11,598                     | -                             |
| Results participations        | (32,498)                                | 21,747                     | (10,751)                      |

Amsterdam, April 26, 2018  
The Board of Directors

**Nadav Livni**                      **Ron Hadassi**

**David Dekel**



# Other information

## **PROVISION IN THE ARTICLES OF ASSOCIATION CONCERNING THE APPROPRIATION OF PROFITS**

In accordance with the Company's Articles of Association the result for the year is at the disposal of the Annual General Meeting of shareholders.

# Independent auditor's report



To: The Shareholders and the Board of Directors of Plaza Centers N.V.

## A. Report on the Audit of the Financial Statements 2017 included in the annual report

### Our opinion

We have audited the financial statements 2017 of Plaza Centers N.V. (the company), based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Plaza Centers N.V. as at December 31, 2017 and of its results and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- the accompanying company financial statements give a true and fair view of the financial position of Plaza Centers N.V. as at December 31, 2017 and of its results for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise of:

- the consolidated statement of financial position as at 31 December 2017;
- the following statements for 2017:  
the consolidated statement of profit or loss, the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The consolidated financial statements comprise:

1. the company balance sheet as at December 31, 2017;
2. the company profit and loss account for 2017; and
3. notes comprising a summary of the accounting policies and other explanatory information.

### Basis for Our Opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Plaza Centers N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw your attention to Notes 2(c) in the consolidated financial statements which disclose, amongst others, important information regarding the Company's cash flow projections for a period of fifteen months commencing April 1st 2018. 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. In addition, there is a risk that the bondholders may demand the immediate repayment of the bonds due to the Company's breach of a covenant in the trust deeds. The combination of the abovementioned conditions indicates the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 1.4 million. The materiality is based on 1% of assets. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Board of Directors that misstatements in excess of EUR 70.000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

### Scope of the Group Audit

Plaza Centers N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Plaza Centers N.V.

Our group audit mainly focused on significant group entities. This entails components representing a significant part of group turnover, components with significant risks relating to the valuation of properties and components representing significant amounts with respect to loans and debentures. We have performed audit procedures ourselves of the company financial statements of Plaza Centers N.V. When auditing all other significant entities, we have used the work of other auditors. For the other group entities we have performed review procedures or specific audit procedures.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

### Our Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Board of Directors. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit on the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of trading properties

We have identified the measurement of trading properties at net realizable value as a significant audit matter due to their size and the complexity and judgement required in the valuation of trading properties. The valuations of these properties as of December 31, 2017, involved significant judgements and assumptions such as capitalization and discount rates, and forecasts of future rents, occupancy levels, construction costs and developer profits, made by management, in reliance on external valuers. In the context of properties which are not yet developed, these estimates contain further risks in regards to success in obtaining permits, market condition and political environment, required to forecast all circumstances through and beyond project completion. The Company's accounting policies regarding trading properties are disclosed in Notes 2(d) and 8(7) to the consolidated financial statements. The significant estimates involved in the valuation are disclosed in Note 8(8)-(9).

Our procedures in relation to the management's fair value assessment of trading properties included:

- Evaluation of the objectivity, independence, expertise of the external valuers;
- Reviewed the reports prepared by the external valuers and held discussions with them in order to gain an understanding of their methodology and the key assumptions which they used in performing the valuations.
- Using our own real estate specialists to assess the methodologies used the assumptions that were made and the appropriateness of the key estimates used in the calculation of the fair value of the trading properties based on their knowledge of the local economic, legal, political environment, and other specific circumstances, used to analyze the appropriateness of valuations.
- Checked on a sample basis, the appropriateness and consistency with other information available to us of the inputs used by the valuers. We also assessed the appropriateness of the disclosures relating to the assumptions, as we consider them important to users of the financial statements.

**Casa radio existence and measurement**

As disclosed in Note 8(6) to the consolidated financial statements, the Company in 2006 entered into an agreement to acquire a 75% interest in a company which is under a public-private partnership (PPP) agreement with the Government of Romania to develop the Casa radio site in central Bucharest. The Company is currently in a breach of the PPP agreement mainly due to delays in the development works timelines. The preparation by management of estimates of potential future claims, penalties or sanctions arising from breach of contract and the possible impact on the existence and measurement of the Casa radio property is complex and involves significant judgment and uncertainties. Accordingly, the accounting for the Casa radio project was considered a key audit matter. Based on management's analysis as described in Note 8(6)(c) the likelihood of the PPP agreement being terminated is unlikely.

Our procedures in relation to the Casa radio project included:

- We obtained a valuation of the Casa radio project prepared by an external valuator as of December 31, 2017.
- We involved our real estate specialist to review the valuation report including assessing the assumptions used by external valuator and Company's assessment on the fair value of the project as reflected in the financial statements.
- We read the PPP agreement and Additional Act and considered the provisions therein.
- We consulted with our legal department as to management's assessment of the possible consequences of the breach of the PPP agreement.
- We held meetings with the Company's management and the chairmen of the Board of directors, which are involved in the discussion with government representatives.
- We have obtained management assessment with respect to the breach of the PPP agreement and its possible effect on the existence of the property.

**Laws and regulations**

As described in Note 8(6) to the consolidated financial statements, during 2015 the Company became aware of certain issues with respect to certain agreements that were executed in prior years in connection with the Casa radio project that may contain potential violation of requirements of laws and regulations and, which were reported to the Romanian Authorities in March 2016. In addition, Concerns were raised in regards to an agreement between Elbit imaging Ltd (the parent Company, "Elbit"), the Company and Linkserve Finance Ltd. The Linkserve Agreement appointed the Agent as an agent for the sale of assets in the USA, held together by Elbit and Plaza.

Our procedures included:

- We obtained a legal opinion from the Company's external Romanian legal counsel dealing with the criminal aspects of the payments performed under certain agreements and the self-disclosure process.
- We obtained and read Board of Directors Special Committee reports indicating actions performed by management to avoid occurrence of illegal payments and search for additional indications of agreements and payments done by the group, which might be consider as illegal or indicates of a breach of any law or regulation the group is subject to.
- We involved internal risk management specialists to further assess the implementation of Special Committees' recommendations.
- The audit team performed, on a sample basis, test of costs invested during the year, costs paid to agents involved in sale transactions of the Company's properties in order to identify suspicion for illegal payments.
- We reviewed the Company's assessment based on the assessment of external legal advisors of the likelihood of potential future claims, penalties or sanctions arising from the alleged illegal acts.

## B. Report on the other information included in the annual report

In addition to the financial statements and our auditor's report, the annual report contains other information that consists of:

- Overview;
- Business review;
- Management and governance, including the Directors' report and the reporting concerning corporate governance;
- Other Information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of other information, including the Directors' report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

## C. Report on other legal and regulatory requirements

We were engaged by the Board of Directors as auditor of Plaza Centers N.V. on 23 February 2018. The audit for year 2017 was our first year audit.

### No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

## D. Description of responsibilities regarding the financial statements

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Board of Directors is responsible for overseeing the company's financial reporting process.

### Our Responsibilities for the Audit of the Financial Statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

From the matters communicated with the Board of Directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, April 30, 2018  
Baker Tilly Berk N.V.  
Original has been signed by J.H.J Spiekker RA



# Company's offices

## Plaza Centers The Netherlands

Plaza Centers N.V.  
Prins Hendrikkade 48-S  
1012 AC Amsterdam  
The Netherlands  
Phone: +31 20 344 9560  
E-mail: [info@plazacenters.nl](mailto:info@plazacenters.nl)  
[www.plazacenters.com](http://www.plazacenters.com)



## Plaza Centers Romania

63-81 Calea Victoriei  
Building I1, Entrance B2, District 1  
010065 Bucharest  
Romania  
Phone: +40 21 315 4646  
Fax: +40 21 314 5660  
E-mail: [office@plazacenters.ro](mailto:office@plazacenters.ro)



## Plaza Centers Hungary

Bajcsy-Zsilinszky út 48.  
1054 Budapest  
Hungary  
Phone: 36 1 610 4521  
E-mail: [info@plazacenters.com](mailto:info@plazacenters.com)



## Plaza Centers India

Prestige Towers  
Unit No 106A, 1st Floor  
99/100 (New no 100/31)  
Residency road  
560 025 Bangalore  
India  
Phone: +91 80 4041 4444  
Fax: +91 80 4041 4408  
[www.plazacenters.in](http://www.plazacenters.in)







## Investor relations

### FTI Consulting

200 Aldersgate  
Aldersgate Street  
London EC1A 4HD  
United Kingdom  
[www.fticonsulting.com](http://www.fticonsulting.com)

## UK sponsor

### Spark Advisory Partners Limited

5 St John's Lane  
London EC1M 4BH  
United Kingdom  
[www.sparkadvisorypartners.com](http://www.sparkadvisorypartners.com)

## Principal auditor

### Ernst & Young

144 Menachem Begin Rd.,  
Tel-Aviv 6492102,  
Israel  
[www.ey.com](http://www.ey.com)

## Dutch statutory auditor

### Baker Tilly Berk N.V.

Entrada 303 1096 ED Amsterdam  
P.O. Box 94124  
1090 GC Amsterdam  
The Netherlands  
[www.bakertillyberk.nl](http://www.bakertillyberk.nl)

## Tax counsels in the Netherlands

### Atlas Tax Lawyers

Weteringschans 24,  
1017 SG Amsterdam  
The Netherlands  
<http://atlas.tax/en/>

## Corporate solicitors in the UK

### Berwin Leighton Paisner LLP

Adelaide House  
London Bridge  
London EC4R 9HA  
United Kingdom  
<http://www.blplaw.com/>

### Greg Stonefield

Partner | Corporate & Securities  
KWM Europe LLP (King & Wood Mallesons )  
Octagon Point, St Martins Court, 5 Cheapside,  
London EC2V 6AA  
[www.kwm.com](http://www.kwm.com)

## Corporate legal counsels in the Netherlands

### Buren N.V.

World Trade Center, Tower A Level 10,  
Strawinskylaan 1017  
1077 XX Amsterdam  
The Netherlands  
[www.burenlegal.com](http://www.burenlegal.com)

## Corporate legal counsel in Poland

### Weil, Gotshal & Manges LLP

Warsaw Financial Center  
ul. Emilii Plater 53  
Warsaw 00-113  
Poland  
[www.weil.com/warsaw](http://www.weil.com/warsaw)

## Registrar

### Link Asset Services London

65 Gresham Street  
London EC2V 7NQ  
United Kingdom  
<https://www.linkassetservices.com/>





## PLAZA CENTERS N.V.

Prins Hendrikkade 48-S  
1012 AC Amsterdam, The Netherlands  
Phone: +31 20 344 9560  
[www.plazacenters.com](http://www.plazacenters.com)

