PLAZA CENTERS N.V.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

PLAZA CENTERS N.V.

CONSOLIDATED FINANCIAL STATEMENTS

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Independent Auditors’ Report

To the Board of Directors and Stockholders
Plaza Centers N.V.

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Plaza Centers N.V. (the Company), which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

We do not express an opinion on the accompanying consolidated financial statements of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report and their possible cumulative effect on the consolidated financial statements, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion

In seeking to form an opinion on the consolidated financial statements, we have considered the implications of the following significant matters disclosed in the consolidated financial statements:

• Significant matters related to potential irregularities

We draw attention to Note 8(5) d. to the consolidated financial statements which discloses that the Board of Directors and Management had become aware of potential irregularities with respect to certain contracts entered into concerning the Casa radio project in Romania and that the Company had reported these to the Romanian authorities. The note also states that the Company’s parent company, Elbit Imaging Ltd (Elbit) has during the course of 2016 appointed a special committee to examine these matters as they may involve potential violations 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 relevant authorities regarding the matters.

We also draw attention to Note 28 e. to the consolidated financial statements which discloses that the Board of Directors and Management had become aware of an agency and commission contract, which was signed in 2011 and related to the sale in 2012 of property in the US jointly owned by the Company and Elbit. Note 28 e. also discloses the steps taken by the Company with respect to this matter. The characteristics of the contract indicate that this contract may involve a potential violation of laws and regulations. We believe that the Company has not completed a sufficient investigation of the circumstances of this contract and of the implications of the payments made thereunder.

As part of its responsibility to ensure that the Company’s business activities are conducted in accordance with laws and regulations, and to identify and address any non-compliance, we expect the Company to carry out a full review of past contracts to identify whether or not there may be other contracts which could involve potential violations of the laws and regulations of any of the jurisdictions to which the Company may be subject. The Company did not agree to carry out such a review to the extent we considered sufficient and appropriate.

• Material uncertainty related to Casa radio

We also draw attention to Note 8(5) c. to the consolidated financial statements which discloses the risk that the public authorities could seek to terminate the Public Private Partnership Agreement (“PPP Agreement”) and/or relevant permits and/or could seek to impose delay penalties on the basis of perceived breaches of the Company’s commitments under the PPP Agreement. The note states that management have assessed this risk as unlikely; however this assessment is made both on the basis that the public authorities have not sought to assert their rights since the perceived breach in 2012 and also on the assessment of the merits of its counter claims against the public authorities. In the event that the public authorities seek to terminate the PPP Agreement and/or seek to impose penalties, and the Company’s counter claims are not upheld, the Company may incur penalties and/or recover less than the carrying amount of the Casa radio assets recorded in the consolidated financial statements as at year end (€ 73.2 million). Additionally the Company’s ability to realise these assets may be delayed.

• Material uncertainty related to going concern

We also draw attention to Note 2 c. and Note 16 to the consolidated financial statements which disclose, amongst other things, important information regarding how the Company plans to be able to meet its contractual obligations during the eighteen months from the end of the reporting period. There are 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. Any delays in the realization of the Company's assets and investments and collection of proceeds thereof or realization at lower prices than expected by the Company, as well as any other deviations from the Company's assumptions, could have an adverse effect on the Company's cash flows and the Company's ability to service its indebtedness in line with contractual terms.
The Company has also disclosed in Note 2 c. that the Company’s bondholders under the bond agreements (1) are entitled to make the amounts outstanding become immediately due and payable as the Company has not published its consolidated financial statements by 30 April and (2) may be entitled to make the amounts outstanding become immediately due and payable as a result of the suspension of the trading of the Company’s ordinary shares and bonds with effect from 2 May 2017. 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.
A combination of the abovementioned events and conditions indicate the existence of a material uncertainty that casts significant doubt about the Company’s ability to continue as a going concern.

Responsibilities of Management and the Board of Directors
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Statements as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
The Board of Directors is responsible for overseeing the Company’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements
Our responsibility is to conduct an audit of the Company’s consolidated financial statements in accordance with International Standards on Auditing and to issue an auditors’ report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we

were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Budapest, Hungary
May 14, 2017

KPMG Hungária Kft.

Elek Votin
Partner

CONSOLIDATED STATEMENT OF FINANCIAL POSITION IN '000 EUR

	Note	December 31, 2016	December 31, 2015
ASSETS			
Cash and cash equivalents	4	5,646	15,659
Restricted bank deposits	5	7,174	4,774
Trade receivables	6	6,645	1,654
Other receivables	7a	1,614	1,350
Prepayments	7b	2,371	196
Total current assets		23,450	23,633
Trading properties	8	263,695	317,758
Equity - accounted investees	10	30,160	40,608
Loan to equity accounted investee	10	-	4,298
Property and equipment	9	2,400	2,480
Related parties receivables	30	1,720	2,828
Long term receivables	10	699	-
Deferred taxes	17	-	406
Total non-current assets		298,674	368,378
Total assets		322,124	392,011
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest bearing loans from banks	12	48,099	31,891
Debentures at amortized cost	16	47,168	79,564
Trade payables	13	7,443	2,223
Related parties liabilities	14	206	109
Derivatives	11	453	436
Other liabilities	15	2,906	7,045
Total current liabilities		106,275	121,268
Interest bearing loans from banks	12	34,176	70,621
Debentures at amortized cost	16	131,202	102,025
Provisions	8	13,244	14,911
Derivatives	11	-	318
Deferred taxes	17	116	-
Long term payables	16(b)	488	-
Total non-current liabilities		179,226	187,875
Share capital	18	6,856	6,856
Translation reserve	18	(27,103)	(27,418)
Other reserves		(19,983)	(20,706)
Share based payment reserve	18	35,376	35,376
Share premium	18	282,596	282,596
Retained losses		(241,119)	(194,602)
Equity attributable to owners of the Company		36,623	82,102
Non-controlling interests		-	766
Total equity		36,623	82,868
Total equity and liabilities		322,124	392,011

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May 14, 2017		
Date of approval of the financial statements	**Dori Keren** **Chief Executive Officer**	**David Dekel** **Director and Chairman of the Audit Committee**

The notes on pages 11 - 80 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS IN '000 EUR

	Note	Year ended December 31, 2016	2015
Revenues and gains			
Revenues			
Revenue from disposal of trading properties	29(a)	9,632	34,684
Rental income	21(a)	15,611	18,676
Revenues from entertainment centers	21(b)	-	728
Total revenues		25,243	54,088
Gains and other			
Gain from sale of plots	24	3,989	2,589
Share in results of equity-accounted investees, net of tax	10	4,274	1,982
Other income	24	253	7,307
Total gains		8,516	11,878
Total revenues and gains		33,759	65,966
Expenses and losses			
Cost of Trading properties disposed	29(a)	(9,987)	*(43,486)
Cost of operations	22(a)	(4,886)	(6,481)
Cost of operations – entertainment centers	22(b)	-	(1,019)
Write-down of Trading Properties	8	(40,810)	(20,322)
Administrative expenses	23	(6,506)	(6,999)
Other expenses	24	(1,922)	(1,851)
Finance income	25	18,642	14,292
Finance costs	25	(34,096)	(45,195)
		(79,565)	(111,061)
Loss before income tax		(45,806)	(45,095)
Income tax expense	26	(711)	(1,021)
Loss for the year		(46,517)	(46,116)
Loss attributable to:			
Equity holders of the Company		(46,517)	(46,116)
Earnings per share			
Basic and diluted loss per share (EURO)	19	(6.78)	(6.73)

*Reclassified.

The notes on pages 11 - 80 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IN '000 EUR

	Year ended December 31, 2016	Year ended December 31, 2015
Loss for the year	(46,517)	(46,116)
Other comprehensive income		
Items that are or may be reclassified to profit or loss:		
Foreign currency translation differences - foreign operations (Trading properties) – reclassified to profit or loss	-	6,516
Foreign currency translation differences - foreign operations (Equity accounted investees)	272	1,738
Foreign currency translation differences - foreign operations (Trading properties)	-	1,121
Other comprehensive loss for the year, net of income tax	272	9,375
Total comprehensive loss for the year	(46,245)	(36,741)
Total comprehensive loss attributable to:		
Equity holders of the Company:	(46,202)	(36,835)
Non-controlling interests	(43)	94
Total comprehensive loss for the year	(46,245)	(36,741)

The notes on pages 11 - 80 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN '000 EUR

	Attributable to the equity owners of the Company								
	Share capital	Share Premium	Share based payment reserves	Translation Reserve	Other reserves(*)	Retained losses	Total	Non-controlling interests	Total
Balance at December 31, 2014	**6,856**	**282,596**	**35,340**	**(36,699)**	**(20,706)**	**(148,486)**	**118,901**	**672**	**119,573**
Share based payment (refer to note 20)	-	-	36	-	-	-	36	-	36
Comprehensive income for the year									
Net loss for the year	-	-	-	-	-	(46,116)	(46,116)	-	(46,116)
Foreign currency translation differences	-	-	-	9,281	-	-	9,281	94	9,375
Total comprehensive loss for the year	-	-	-	9,281	-	(46,116)	**(36,835)**	**94**	**(36,741)**
Balance at December 31, 2015	**6,856**	**282,596**	**35,376**	**(27,418)**	**(20,706)**	**(194,602)**	**82,102**	**766**	**82,868**
Comprehensive income for the year									
Net loss for the year	-	-	-	-	-	(46,517)	(46,517)	-	(46,517)
Other comprehensive income	-	-	-	-	723	-	723	(723)	-
Foreign currency translation differences	-	-	-	315	-	-	315	(43)	272
Total comprehensive loss for the year	-	-	-	315	723	(46,517)	**(45,479)**	**(766)**	**(46,245)**
Balance at December 31, 2016	**6,856**	**282,596**	**35,376**	**(27,103)**	**(19,983)**	**(241,119)**	**36,623**	**-**	**36,623**

(*) Including Capital reserve from acquisition of non-controlling interests without a change in control in amount of TEUR 20,706.

The notes on pages 11 - 80 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS IN '000 EUR

	Note	Year ended December 31, 2016	2015
Cash flows from operating activities			
Loss for the year		(46,517)	(46,116)
Adjustments necessary to reflect cash flows used in operating activities:			
Depreciation and impairment of property and equipment	9	67	200
Net finance costs	25	15,454	30,903
Equity-settled share-based payment transaction		-	36
Share of gain of equity-accounted investees, net of tax	10	(4,274)	(1,043)
Income tax expense (tax benefit)	26	711	1,021
		(34,559)	(14,999)
Changes in:			
Trade receivables		(4,991)	644
Other receivables		(1,332)	(2,810)
Trading properties	8	47,453	36,640
Loans from Equity Accounted Investees		18,638	105
Trade payables		5,220	346
Other liabilities, related parties liabilities and provisions		(5,221)	(5,680)
		59,767	29,245
Interest received		34	290
Interest paid		(15,670)	(17,053)
Taxes paid		(189)	(118)
Net cash provided by (used in) operating activities		9,383	(2,635)
Cash from investing activities			
Proceeds from sale of property and equipment		16	1,190
Sale of held for trading marketable debt securities		-	2,227
Purchase of held for trading marketable debt securities		-	(825)
Net cash provided by investing activities		16	2,592
Cash from financing activities			
Proceeds (payments) from hedging activities through sale of options and forwards	11	630	(373)
Changes in restricted cash		(2,588)	1,945
Proceeds from loans from banks and financial institutions	12	11,530	-
Repayment of debentures	16	(24,656)	(6,585)
Repayment of interest bearing loans from banks	12	(4,322)	(12,921)
Net cash used in financing activities		(19,406)	(17,934)
Decrease in cash and cash equivalents during the year		(10,007)	(17,977)
Effect of movement in exchange rate fluctuations on cash held		(6)	273
Cash and cash equivalents as at January 1st		15,659	33,363
Cash and cash equivalents as at December 31st		**5,646**	**15,659**

The notes on pages 11 - 80 are an integral part of these consolidated financial statements.

NOTE 1 - PRINCIPAL ACTIVITIES AND OWNERSHIP

Plaza Centers N.V. ("the Group” or “the Company") was incorporated and is registered in the Netherlands. The Company’s registered office is at Prins Hendrikkade 48-S, 1012 AC, Amsterdam, the Netherlands. The Company conducts its activities in the field of establishing, operating and selling of shopping and entertainment centers, as well as other mixed-use projects (retail, office, residential) in Central and Eastern Europe (starting 1996) and India (from 2006).

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 associates and jointly controlled entities.

The Company is listed on the Main Board 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, 2015 – 44.9%). The Company regards Elbit Imaging Limited ("EI") as the ultimate parent company (refer to note 30 for more details). For the list of the Group entities, refer to note 35.

NOTE 2 - BASIS OF PREPARATION

a. Statement of compliance

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

These consolidated financial statements are not intended for statutory filing purposes. The Company is required to file consolidated financial statements prepared in accordance with The Netherlands Civil Code. At the date of approving these financial statements the Company had not yet prepared consolidated financial statements for the year ended December 31, 2016 in accordance with the Netherlands Civil Code.

The consolidated financial statements were authorized for issue by the Board of Directors on May 14, 2017.

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 banking facilities and debentures, and other working capital requirements.

The Group’s primary need for liquidity is to repay its debt, fund working capital requirements of the operating shopping centers, develop new shopping centers 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.

NOTE 2 - BASIS OF PREPARATION (Cont.)

As at December 31, 2016 the Group's outstanding obligations to bondholders and banks are EUR 186.4 million and EUR 82.3 million, respectively.

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 debentures.

Information concerning the Group's obligations and commitments to make future payments under contracts such as debt agreements in the next 18 months is aggregated in the following tables.

Contractual Obligations	**Total Payment Due by period (in TEUR)**	
	Within 1 year	**1-1.5 years**
Debentures including current portion and interest	56,500 (*)	21,375
Secured bank loans	48,129	440
Total contractual obligations (excluding working capital)	104,629	21,815

(*) Out of which EUR 51.8 million was repaid by the date of approval of these consolidated financial statements.

The Company expects to increase the amount of its liquid balances during the next 18 months, by means of the following actions:

- Sale of shopping centers in amount of EUR 146 million
- Sale of plots of lands in amount of EUR 49.5 million
- NOI and other income EUR 6.7 million

Management expects that the Group will be able to meet the remaining contractual obligations during the 13 months period following the approval of these consolidated financial statements by a combination of its assets disposal program and cash generated from operating shopping centers. Management further expects that these actions are probable and will be executed in alignment with the anticipated timing of the Group's liquidity needs.

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 are 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.

NOTE 2 - BASIS OF PREPARATION (Cont.)

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 discussed in Note 16, at the end of the reporting period the Company is in compliance with all financial covenants required under the Restructuring Plan. However, as of the date of the approval of these consolidated financial statements, the Company is near the minimum ratio required in respect to the Coverage Ratio Covenant.

As disclosed in note 32i. the Company did not publish its financial statements within the deadline set out in the bond trust deeds and has not remedied the situation within the allowed time. This entitles the Bondholders to declare that all or a part of their respective (remaining) claims become immediately due and payable. As disclosed in Note 32j the trading of the Company's ordinary shares, Series A Notes and Series B Notes have been suspended from trading on the relevant exchanges. This may entitle the Bondholders to declare that all or a part of their respective (remaining) claims become immediately due and payable.

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 indicate 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 its properties into three types (completed shopping centers, plots designated for development and plots designated for sale). In respect of its completed shopping centers the Group is actively seeking buyers. Therefore, management believes these are appropriately classified as trading properties rather than investment properties.

In respect of plots designated for sale, (which are not intended to be constructed in the near future), the Company is actively seeking buyers and does not hold the plots with the intention to gain from capital appreciation. Plots designated for construction are intended to be developed and sold as a completed project in the normal course of business once circumstances allow. Therefore, management also believes that these are appropriately classified as trading properties.

e. Use of estimates and judgments

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

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only
NOTE 2 - BASIS OF PREPARATION (Cont.)

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
- Note 2(d) – Trading property vs. Investment property

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, 28 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;
- Note 26 – recognition of deferred tax assets and availability of future taxable profits against which tax losses carried-forward can be used.

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 Normal Operating Cycle ("NOC") of the Group is driven by its business model to buy, develop and sell, primarily shopping centers, and comprises the estimated amount of time required to complete the process from the acquisition of undeveloped land through its development, preparation for sale and ultimate disposal. Based on the Group's experience, mainly from the period from 1996-2008, this period of time was three to five years (and in respect of large scale, multi-phase/mixed-use projects, up to eight years). For example, for completed shopping centers, these steps include achieving a stabilized tenants list, improving the tenant mix, increasing occupancy rates, completion of certain tenant improvements and finding the qualified buyers. For plots, this includes obtaining permits, finance and construction.

The Company maintains its existing business model; however following the financial crisis, the level of uncertainty of the actual amount of time needed to complete all steps in the process has become much longer than what the Company believes is a normal level. Over the period 2009 – 2012, the Company has had difficulty selling completed properties at prices reflecting management's view of reasonable estimated values, as well as experienced a lack of available finance for development of plots. The return to what management considers more normal conditions, primarily in the CEE markets where it has properties, have been longer than expected.

In view of the above uncertainties and abnormalities, the Company has taken since 2013 a position of reclassifying its entire trading properties to long term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

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

NOTE 3 - MEASUREMENT OF FAIR VALUES

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

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

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

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

- Note 11 - Derivatives
- Note 27 – Financial instruments

NOTE 4 - CASH AND CASH EQUIVALENTS

Bank deposits and cash denominated in	Interest rate as of December 31, 2016	December 31, 2016	December 31, 2015
EUR - bank balances		2,309	6,595
Romanian Lei (RON)	Mainly 0.4%	93	2,739
United States Dollar (USD) - bank balances		143	2,069
New Israeli Shekel (NIS)	0%	45	2,017
Polish Zlotys (PLN)		2,293	1,576
Other currencies		763	663
Cash and cash equivalents in the statement of financial position		5,646	15,659

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 27.

NOTE 5 - RESTRICTED BANK DEPOSITS

	Interest rate as of December 31, 2016	December 31, 2016	December 31, 2015
Short term restricted bank deposits			
In EUR	See (1) below	6,547	3,972
In USD		-	298
In PLN	See (2) below	627	504
Total short term		7,174	4,774

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5 - RESTRICTED BANK DEPOSITS (Cont.)

(1) As of December 31, 2016, EUR 4 million and EUR 2.52 million is restricted mainly in respect of bank facilities agreements signed to finance Projects in Poland and Serbia, respectively. These amounts carry an annual interest rate of mainly Overnight rates.
(2) Secured tenants deposit in respect of Suwalki and Torun malls.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 27.

NOTE 6 - TRADE RECEIVABLES

	December 31, 2016	December 31, 2015
Trade receivables (1)	7,429	3,064
Less - Allowance for doubtful debts	(784)	(1,410)
	6,645	1,654

(1) Includes EUR 5.6 million from sale of plots (2015- nil).

NOTE 7 - OTHER ACCOUNTS RECEIVABLES, PREPAYMENTS AND ADVANCES

a. <u>Other receivables</u>

	December 31, 2016	December 31, 2015
VAT and tax receivables	1,392	1,061
Others	222	289
	1,614	1,350

b. <u>Prepayments and advances</u>

	December 31, 2016	December 31, 2015
Advanced payments to suppliers	98	137
Prepaid expenses	2,273	59
	2,371	196

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8 - TRADING PROPERTIES

	December 31, 2016	December 31, 2015
Balance as at 1 January	317,758	370,761
Acquisition, construction costs and other (1),(2)	25,793	6,649
Write-down of trading properties, net (3)	(40,810)	(20,322)
Effect of movements in exchange rates	-	4,756
Trading properties disposed (refer to note 29(a)-29(d))	(39,046)	(44,086)
Balance as at 31 December	263,695	317,758
Operating shopping centers	108,869	129,483
Plots designated for development (4) ,(5)	129,197	161,183
Plots designated for sale	25,629	27,092
Total	263,695	317,758

(1) 2016 and 2015 - mainly due to construction activities in Serbia.
(2) Includes EUR 5.1 million of non-specific borrowing costs capitalized, using a capitalization rate of 13% (2015: nil).
(3) Breakdown of write -downs (write-up) of trading properties is presented in the table below.

Project name (location)	The year ended December 31, 2016	2015
Koregaon Park (Pune, India) - sold	-	1,540
Helios Plaza (Athens, Greece)	740	450
Liberec (Liberec, Czech Republic) – sold	-	6,225
Belgrade Plaza Visnjicka (Belgrade, Serbia)	-	(5,601)
Krusevac (Krusevac, Serbia)	200	800
Lodz Plaza (Lodz, Poland)	400	2,225
Lodz residential (Lodz, Poland) - sold	-	2,133
Kielce (Kielce, Poland)	1,100	170
Zgorzelec (Zgorzelec, Poland) – sold	-	1,466
Casa radio (Bucharest, Romania), net	32,241	8,500
Constanta (Constanta, Romania)	852	400
Ciuc (Ciuc, Romania)	950	-
Timisoara (Timisoara, Romania)	2,600	261
Arena Plaza extension (Budapest, Hungary)	927	1,111
Other, aggregated	800	642
	40,810	20,322

The 2016 write- downs were caused mainly by the following factors:

- There were significant decreases in Net Realizable Value of certain projects due to factors listed below.

NOTE 8 - TRADING PROPERTIES (Cont.)

Delays in the commencement of the construction of certain projects designated for development and increase in certain properties' specific risks.

- In the case of Casa radio project in Romania write-down was recognized primarily due to increased uncertainty over the timing of the project's development as well as discount rate and exit rate assumptions resulting from the bureaucratic deadlock of the Public-Private Partnership agreement ("PPP"). Finally, the fair value of Casa radio has been determined assuming a sale of the project in a limited marketing period taking into account the conditions and liquidity needs of the Company in order to meet its future repayment schedule. Due to this, an additional discount has been applied to the market value of the project.

- EUR 2.6 million of write-down on Timisoara project, Romania, which reflects change in the concept of the project to a smaller scheme due to growing competition and a shopping mall saturated market.

- EUR 1.8 million of write-down on two plots held in Romania (Ciuc and Constanta) due to difficulties in realizing these plots of lands for a long period of time (more than two years) and due to the political environment in Romania.

- EUR 1.1 million write down recorded on Kielce project due to preliminary sale agreement.

- EUR 0.9 million of write-down on Arena Extension project, in Budapest, Hungary which reflects changes in management's assessment of the existing legal issues relating to the project.

- EUR 0.8 million write-down on a plot in Brasov which reflects the option of the financing bank to purchase the plot for EUR 1.1 million (refer to Note 29(g)).

- EUR 0.7 million write-down recorded on Helios Plaza project, in Pireaus, Greece, due to uncertainty in respect of estimated value of the planned sale transaction.

- EUR 0.4 million write down recorded on Lodz Plaza project which reflects the City Council's decision to reject proposals for a shopping center development. Consequently, management has taken strategic decision not to develop Lodz Plaza shopping center in Lodz and will instead realize the value of the asset through a disposal.

(4) Including Casa radio in Romania and Belgrade Plaza (Visnjicka) in Serbia.

(5) Casa radio note

a. <u>General</u>

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 central 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 (10%).

NOTE 8 - TRADING PROPERTIES (Cont.)

(5) Casa radio note (cont.)

As part of the PPP, the Project SPV was granted with development and exploitation rights in relation to the site for a period of 49 years, starting December 2006 (38 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 Group 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 Contract with the Authorities, as discussed in subsection c below, and the global financial crisis. These circumstances (and mainly the bureaucratic deadlock with the Romanian Authorities to deal with the issues specified below) caused the Project SPV not to meet the development timeline of the Project, as specified in the PPP. However, management believes that it had legitimate reasons for the delays in this timeline, as discussed in subsection c below.

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

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

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

c. Discussions with Authorities on construction time table deferral

Following the Court decision with respect to the PUZ, the Project SPV was required to submit a request for building permits within 60 days from the approval date of the PUZ/PUD and commence development of its project within 60 days after obtaining 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 several notifications sent to the Romanian Authorities expressing a wish to renegotiate the existing PPP agreement no major breakthrough could be achieved. The Company could 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.

NOTE 8 - TRADING PROPERTIES (Cont.)

(5) Casa radio note (cont.)

Because of the refusal 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. 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 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.

During 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. Management believes that partnering with reputable investors with considerable financial strength can enhance the Group's 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. The increased risk arising from the above matters has been reflected in the valuation of the project.

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

NOTE 8 - TRADING PROPERTIES (Cont.)

(5) Casa radio note (cont.)

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 in 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, 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 relevant authorities regarding the matters.

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 13.2 million in respect of the construction of the PAB (December 31, 2015: EUR 14.9 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.

(6) Security over trading properties

As at December 31, 2016, a total carrying amount of EUR 109 million (December 31, 2015 – EUR 123 million) which represents two operating shopping centers is pledged against secured bank loans of approximately EUR 71 million and one shopping center under construction with carrying amount of EUR 56 million and a pledged against secured bank loans of approximately

NOTE 8 - TRADING PROPERTIES (Cont.)

EUR 11.5 million.

(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, 2016, amounted to EUR 187 million or 41% percent of outstanding trading properties original cost (December 31, 2015 – EUR 230 million or 42% 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, 2016, 81.2% of the value of trading properties was based on valuations done by the independent third party valuation service (2015 - 98%). In certain cases management adjusted the values provided by the external valuator to reflect the Group's specific risks.

The majority of the trading properties were valued using the Residual technique (or the Discounted Cash Flows technique for operating shopping centers) except two projects in a value of EUR 12.1 million which were 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 the trading properties carrying amounts equals their net realizable values with the exception of Torun and Suwalki in Poland and Belgrade in Serbia. (2015: Torun and Suwalki in Poland), where the carrying amount reflects the cost.

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:

a. Completed trading properties (operating shopping centers)

The Net Realizable Value of operating shopping centers reflects rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The Net Realizable Value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. The Group uses professional appraisers for determining the Net Realizable Value of the operating shopping centers.

Independent valuation reports are prepared by Jones Lang LaSalle by using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at the reporting date.

NOTE 8 - TRADING PROPERTIES (Cont.)

The principal assumptions underlying management's estimation of Net Realizable Values are those related to the receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions made by the Group and those reported by the market, if available. Expected future rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

b. Incomplete trading properties (undeveloped plots of lands)

The net realizable value in case of an undeveloped project is determined by either:

- comparison with the sale price of land for comparable development ; or
- Assessment of the value of the project as completed and deduction of the costs of development (including developer's profit and financing costs), and applying an estimated discount rate, to arrive at the underlying land value. This is known as the residual method.

b1 – Comparable method

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

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

- Adjustment due to the time of the transaction. Market conditions at the time of the sales transaction of a comparable property may differ from those on the valuation date of the property being valued. Factors that impact market conditions include rapidly appreciating or depreciating property values, changes in tax laws, building restrictions or moratoriums, fluctuations in supply and demand, or any combination or forces working in concert to alter market conditions from one date to another.

- Adjustment due to asking price and condition of payment. The special motivations of the parties to the transaction in many situations can affect the prices paid and even render some transactions as non-market. Examples of special conditions of sale include a higher price paid by a buyer because the parcel has synergistic, or marriage value; a lower price paid because a seller was in a hurry to conclude the sale; a financial, business, or family relationship between the parties involved in the transaction, unusual tax considerations; lack of exposure of the property in the (open) market; or the prospect of lengthy litigation proceedings.

- Adjustment because of size, shape, contiguous and surface area. Where the physical characteristics of a comparable property vary from those of the subject property, each of the differences is considered, and the adjustment is made for the impact of each of these differences on value.

- Adjustment because of location. The locations of the comparable sale properties and the subject property are compared to ascertain whether location and the immediate

NOTE 8 - TRADING PROPERTIES (Cont.)

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.

<u>b2 – Residual method</u>

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.

  Some larger schemes such as Casa radio in Romania and Chennai in India are phased over time. Is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8 - TRADING PROPERTIES (Cont.)

(8) Significant estimates

The following table shows the valuation techniques used in measuring the net realizable value of trading properties, including those held by joint ventures in India which are recorded as equity accounted investees:

Group of assets	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Torun shopping center – Poland	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the shopping center. The cash flow projections include specific estimates for 10 years. The expected net cash flows are discounted using a risk-adjusted discount rate.	• Estimated rental prices per SQM are EUR 8–41.0, weighted average EUR 13.1 (2015: EUR 6.5-47.0, weighted average EUR 14.9); • Estimated exit yield is 8.5% (2015: 7.15%); • Discount rate is 9% (2015: 8.85%); • Based on 93.2% occupancy rate (2015: 94.5%).	The estimated fair value would increase (decrease) if: • the estimated rental prices per sqm were higher (lower); • the Estimated exit yield rates were lower (higher); • the Estimated discount rates were lower (higher); • The occupancy of the mall was higher (lower).
Plots in CEE (except 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;	• Estimated weighted average rental prices per SQM is between EUR 3.50 to EUR 13.50 (2015: EUR 3.0 to 12.25); • The Estimated Exit Yield for the projects are between 8% and 10.5% (2015: 8.5%-12.5%); • The construction cost of the projects are between 130 EUR/sqm to 1,000 EUR /sqm (2015: 275 EUR/sqm to 858 EUR/sqm); • The development finance rate is 5% (2015: 7.5%-10%); • Developers profit – 10%-18% (2015: 20%).	The estimated fair value would increase (decrease) if: • the estimated rental prices per sqm were higher (lower); • the Estimated exit yield rates were lower (higher); • the Estimated discount rates were lower (higher); • The construction cost of the project were lower (higher); • The developer's profit provision for the project were lower (higher); • The development finance provision for the project were lower (higher); • The estimated completion of the project were shorter (longer); • The occupancy of the planned mall were higher (lower); • The land prices for comparable transactions on the market would be higher (lower)

The characteristics of the project would be changed;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8 - TRADING PROPERTIES (Cont.)

(8) Significant estimates (cont.)

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	• Estimated weighted average monthly rental prices per SQM is EUR 26.3 for the mall, EUR 15.80 for offices and 14.2 for Hotel (2015: EUR 27.0 for the mall, EUR 16.5 for offices); • The Estimated Exit Yield is 8.75% for the mall , 9.25 % for the office component and 10.25% for Hotel (2015: 7.5% for the mall , 8% for the office); • The construction hard costs of the project is 780 EUR/sqm for the mall; 1,010 EUR/sqm for Hotel; 740 EUR/sqm for the offices; 370 EUR/sqm for the parking(2015: 850 EUR/sqm for the mall; 1,000 EUR/sqm for the offices; 500 EUR/sqm for the parking); • The development finance rate is 5.50% (2015: 7.5%); • The scheme would compose the following components: (i) retail; (ii) offices; (iii) hotel & conference center (2015: retail and offices); • Developers profit -15% (2015: 20%); • Discount to Market Value – 25% (2015: nil); • Start of construction in 3 years (2015: 2 years).	The estimated fair value would increase (decrease) if: • the estimated rental prices per sqm were higher (lower); • the estimated yield rates were lower (higher); • The construction cost of the project were lower (higher); • The developer's profit provision for the project were lower (higher); • The development finance provision for the project were lower (higher); • The estimated completion of the project were shorter (longer); • The occupancy of the mall were higher (lower); • The characteristics of the project would be changed

NOTE 8 - TRADING PROPERTIES (Cont.)

(8) Significant estimates (cont.)

Bangalore and Chennai (Joint Ventures)	Chennai- Discounted cash flows to owner (SPV) (2015: comparable method): The valuation model considers the present value of the net cash flows expected to be generated by the sale of villa and plots. The cash flow projections include specific estimates for 11.5 years. The expected net cash flows are discounted using a risk-adjusted discount rate. Bangalore- Comperable (2015: DCF)	• The sales price per sqm for the development is between INR 24,757 and INR 46,823 subject to the size, location type, and the quality of the asset class • The construction cost per sqm for the development is INR 1,184 to INR 27,986 subject to location, type and the quality of the asset class. • Escalation of 5% p.a for sale price and 3% for cost of construction. • Interest rate for construction financing 14%; • Discount rate - 25%	The estimated fair value would increase (decrease) if: • the estimated sales prices per sqm were higher (lower); • the estimated construction cost were lower (higher); • The development finance provision for the project were lower (higher); • The estimated completion time of the project were shorter (longer); • The characteristics of the project would be changed;

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:

Operating Property	Exit Yield				
	-50bps	-25bps	0	+25bps	+50bps
Torun shopping center	78,400	77,400	76,300	75,400	74,500

	Increase in exit yields (base points)					Delay in construction commencement day (months)				
	0	*+15bps*	*+25bps*	*+40bps*	*+50bps*	*0*	*+6*	*+12*	*+18*	*+24*
Casa Radio	73,319	68,819	65,819	61,544	58,769	73,319	71,744	70,244	68,669	67,244

	Construction costs for all phases					Rental income for all the phases				
	-10%	*-5%*	*0*	*+5%*	*+10%*	*-10%*	*-5%*	*0*	*+5%*	*+10%*
Casa Radio	94,919	84,119	73,319	62,594	51,794	47,894	61,619	73,319	89,144	102,944

NOTE 8 - TRADING PROPERTIES (Cont.)

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

Project	Location	Purchase year	Holding Rate (%)	Nature of rights	Permit status	Plot Size (sqm)	Carrying amount December 31, 2016 (MEUR)	Carrying amount December 31, 2015 (MEUR)
Suwalki Plaza (****)	Poland	2006	100	Ownership	Operating shopping center (starting Q2 2010)	20,000 GLA (*)	39.9	39.7
Zgorzelec Plaza	Poland	2006	100	Ownership	Operating shopping center (starting Q1 2010)	13,000 GLA (*)	SOLD	12.1
Torun Plaza	Poland	2007	100	Ownership	Operating shopping center (starting Q4 2011)	40,000 GLA (*)	68.9	68.1
Lodz residential	Poland	2001	100	Ownership/ Perpetual usufruct	Planning permit valid	4,000	0.5	2.1
Lodz plaza	Poland	2009	100	Perpetual usufruct	Planning permit pending	61,500	5.1	5.5
Kielce Plaza (***)	Poland	2008	100	Perpetual usufruct	Planning permit valid	25,000	2.2	3.3
Leszno Plaza (***)	Poland	2008	100	Perpetual usufruct	Planning permit valid	18,000	0.8	0.8
Liberec Plaza	Czech Republic	2006	100	Ownership	Operating shopping center (starting Q1 2009)	17,000 GLA (*)	SOLD	9.6
Casa radio	Romania	2007	75	Leased for 49 years	Detailed Zoning Plan ("PUD") valid	467,000 GBA (**)	73.2	108.6
Slatina Plaza	Romania	2007	100	Ownership	N/A	23,880	SOLD	0.6
Timisoara Plaza	Romania	2007	100	Ownership	Building permit valid	31,860	7.0	9.4
Constanta Plaza	Romania	2009	100	Ownership	Existing building	24,300	1.3	2.2
Miercurea Ciuc Plaza	Romania	2007	100	Ownership	No valid permit (Building Permit expired)	36,500	1.0	2.0
Belgrade Plaza visnjicka (****)	Serbia	2007	100	Ownership	Building Permit obtained – Under construction	32,000 GLA (*)	55.9	29.6
Belgrade Plaza	Serbia	2007	100	Ownership	N/A	9,100	SOLD	13.5
Shumen Plaza (****)	Bulgaria	2007	100	Ownership	Planning permit valid	26,000	0.8	0.8
Arena Plaza Extension	Hungary	2005	100	Perpetual Land use rights	-	22,000	1.5	2.5
Piraeus Plaza	Greece	2002	100	Ownership	-	15,000	3.3	4.0
Other plots, grouped							2.2	3.4
Total							263.6	317.8

(*) Gross Lettable area (sqm)
(**) Gross Building area (sqm)
(***) Preliminary sale agreement signed
(****) Signed sale agreement after balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 9 - PROPERTY AND EQUIPMENT

	Land and buildings	Equipment	Fixtures and fittings	Total
Cost				
Balance at January 1, 2015	**7,181**	**3,400**	**1,397**	**11,978**
Additions	-	31	-	31
Reclassification	-	202	(202)	-
Disposals (*)	(3,079)	(306)	-	(3,385)
Balance at December 31, 2015	**4,102**	**3,327**	**1,195**	**8,624**
Additions	-	19	-	19
Disposals	-	(293)	-	(293)
Balance at December 31, 2016	**4,102**	**3,053**	**1,195**	**8,350**
Accumulated depreciation and impairment				
Balance at January 1, 2015	**3,561**	**3,317**	**1,071**	**7,949**
Depreciation	170	30	-	200
Disposals (*)	(1,881)	(124)	-	(2,005)
Balance at December 31, 2015	**1,850**	**3,223**	**1,071**	**6,144**
Depreciation	-	72	-	72
Disposals	-	(266)	-	(266)
Balance at December 31, 2016	**1,850**	**3,029**	**1,071**	**5,950**
Net carrying amounts				
At December 31, 2016	2,252	24	124	2,400
At December 31, 2015	2,252	104	124	2,480
At January 1, 2015	3,620	83	326	4,029

(*) 2015- Disposal of Palazzo duCale building in Romania.

NOTE 10 - EQUITY ACCOUNTED INVESTEES

The Group has the following interest (directly and indirectly) in the below joint ventures (the Group has no investment in associates), as at December 31, 2016 and 2015:

Company name	Country	Activity	Interest of holding (percentage) as at December 31, 2016	2015
Elbit Plaza USA II LP	USA	Inactive	50%	50%
Elbit Plaza India Real Estate Holdings Ltd. ("EPI") (*)	Cyprus	Mixed-use large scale projects	47.5%	47.5%
Elbit Cochin Ltd.	Cyprus	strike off	-	40%
SIA Diksna ("Diksna") (**)	Latvia	Operating shopping center	50%	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.
(**) Riga Plaza shopping center sold.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 10 - EQUITY ACCOUNTED INVESTEES (Cont.)

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

	2016	2015
Balance as at 1 January	44,906	42,229
Loans from equity-accounted investees, net	(18,638)	(1,043)
Share in results of equity-accounted investees, net of tax (1)	4,274	1,982
Effect of movements in exchange rates	317	1,738
Classification to Long term recievables (Diksna)	(699)	-
Balance as at 31 December (2)	30,160	44,906

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

	The year ended December 31,	
Project name (holding company name)	2016	2015
Bangalore (held by EPI)	(5,466)	-
Chennai (held by EPI)	(6,114)	-
Riga Plaza (held by Diksna)	-	939
	(11,580)	939

(2) As of December 31, 2016, no loan to equity accounted investee Diksna (December 31, 2015 – EUR 4.3 million). 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.

Material joint ventures

Within the joint ventures, two joint ventures were deemed as material, and these are EPI (due to holding of major schemes in Bangalore and Chennai) and Diksna (being the only active shopping center held through a joint venture which was sold in 2016). The summarized financial information of the material joint ventures is as follows:

	December 31,			
	2016		2015	
	EPI	Diksna (sold)	EPI	Diksna
Current assets (*)	1,602	-	338	2,408
Diksna loan to shareholders	-	-	-	-
Trading properties-non current	59,120	-	51,661	93,400
Other current liabilities	(1,036)	-	(187)	(1,930)
Interest bearing loans from banks	-	-	-	(55,990)
Group loan	-	-	-	(8,596)
Net assets (100%)	59,686	-	51,812	29,292
Group share of net asset (50%) (**)	29,843	-	25,906	14,646
Carrying amount of interest in joint venture	29,843	-	25,906	14,646

(*) In 2016 – including cash and cash equivalents in EPI in the amount of EUR 1.4 million ;In 2015- Including cash and cash equivalents in Diksna in the amount of EUR 0.4 million. In 2016 the Company's share in the cash balance of Diksna was reclassified to long term receivables (EUR 699 Thousands).
(**) Refer to remark on EPI holding rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 10 - EQUITY ACCOUNTED INVESTEES (Cont.)

Material joint ventures (cont.)

	The year ended December 31,			
	2016		2015	
	EPI	Diksna	EPI	Diksna
Revenue	-	8,144	-	11,762
Cost of operations	-	(3,514)	-	(4,142)
Interest expenses	-	(944)	-	(1,908)
Increase in ownership rights	30,134	-	-	-
Uplift (write-downs)	(23,160)	-	-	1,878
Loss on disposal of undertaking	-	(2,112)	-	-
Total net profit (loss) and comprehensive income (100%)	6,974	1,574	(3,510)	7,320
Group share of Profit (loss) and comprehensive income (50%)	3,487	787	(1,755)	3,660
Interest income on Diksna loan	-	-	-	77
Total results from investees	3,487	787	(1,755)	3,737

Immaterial joint ventures information

As of December 31, 2016 and 2015, with the exception of EPI and Diksna, all other outstanding joint ventures were considered immaterial. The aggregation of the information in respect of these immaterial joint ventures was as follows (the Group's part):

	December 31,	
	2016	2015
Current assets	317	56
Carrying amount of interest in joint venture	317	56

Sale of a shopping center in Latvia

On September 15, 2016, one of the Company's JVs, in which it has a 50% stake, has completed a business sale agreement with respect to the sale of Riga Plaza shopping and entertainment center in Riga, Latvia (Riga Plaza), to a global investment fund for EUR 17.8 million in cash after repayment of banks loan (representing Plaza's share of the sale of the business), with an additional circa EUR 0.7 million (Plaza's share) expected to be received within the next 24 months after balance sheet date. In line with the Company's stated restructuring plan, 75% of the net cash proceeds from the Company's share of the sale of the business, has been distributed to the Company's bondholders in the fourth quarter of 2016.

Business update on Bangalore project – India

2008 Agreement

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, 2016, 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.

2015 Agreement

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 45.4 million) which should have been paid no later than September 30, 2016 (" Long Stop Date"). On September 30, 2016 the Company announced that the transaction has not been completed and the parties has reached to preliminary understanding with

NOTE 10 - EQUITY ACCOUNTED INVESTEES (Cont.)

the partner that the Long Stop Date will be extended subject to payments of advances by the Partner. Accordingly, on the same day the Partner has advanced an amount of INR 5 Crores (approximately EUR 0.65 million) to the Company. On November 15, 2016, the Partner informed EPI that it will not be able to execute the next advance payments, which were due in the fourth quarter of 2016.

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 is acting 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.

Through the end of the third quarter of 2016 EPI has included the investment in the SPV as investment in joint venture (50%) under the equity method since under the Agreement the partner was entitled to receive 50% shareholding in the SPV had he complied with all of his obligations under the Agreement and specially with respect to the purchase of all the acres included in the 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.

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.

As for December 31, 2016 and 2015 the Group measured the net realizable value of the project. The Group financial statements for the year ended December 31, 2016, include increase in the Company's shareholding in the SPV (as described above) and a decrease in the net realizable value of the Plot. The decrease in the value of the Plot in 2016 was made according to the comparable method and attributable mainly to the new NGT order described above, the interest that the partner still hold in the Plot (10% as described above), the size of the plot and the non-contiguous land parcel.

NOTE 10 - EQUITY ACCOUNTED INVESTEES (Cont.)

Joint development agreement signed in respect of plot in Chennai, India

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 its 80% shareholding in the Chennai SPV by January 15, 2016, for a net consideration of approximately INR 161.7 Crores (EUR 21.6 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, as of the balance sheet date EPI has 100% of the equity and voting rights in the Chennai Project SPV.

On August 2, 2016, Chennai Project SPV has signed a Joint Development Agreement with a local developer ("Developer" and "JDA", respectively) with respect to the Property.

Under the terms of the JDA, the Chennai Project SPV granted the property development rights to the Developer who shall bear full responsibility for all of the project costs and liabilities, as well as for the marketing of the scheme. The JDA also stipulates specific project milestones, timelines and minimum sale prices.

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

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

In order to secure its obligation, the Developer will pay a total refundable deposit of INR 35.5 Crores (approximately EUR 4.8 million), with INR 10 Crores (approximately EUR 1.35 million) paid following the signing and registration of the JDA, INR 17 Crores (approximately EUR 2.3 million) payable when planning permission for the first phase of the development project is obtained (the "Project Commencement Date"), and the remaining INR 8.5 Crores (approximately EUR 1.15 million) payable six months after the Project Commencement Date ("Refundable Deposit").

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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 11 - DERIVATIVES

The table below summarizes the results of the 2016 and 2015 derivatives activity (none of the abovementioned activities qualified for hedge accounting), as well as the outstanding derivatives as of December 31, 2016 and 2015:

Derivative type	Nominal amount as of December 31, 2016	Fair value of derivatives at December 31, 2016	Gain in 2016	Fair value of derivatives at December 31, 2015	Loss in 2015	Maturity date of derivative
Currency options (1)	N/A	N/A	N/A	N/A	(586)	N/A
Forward contracts		-	630	-	-	-
IRS (2)	EUR 31.8 million	(453)	301	(754)	140	December 2017
Total		(453)	931	(754)	(446)	

(1) Selling options strategy (by writing call and put currency option) in order to manage its foreign currency risk (EUR-NIS) inherent in its long term debentures series A and series B issued in NIS. The Company ceased using this strategy effective October 2015.
(2) In respect of Torun project loan the project company pays fixed interest rate of 1% and receives three months Euribor on a quarterly basis, until December 31, 2017. In respect of Torun IRS the project company also established a bail mortgage up to EUR 5 million encumbering the real estate project.

NOTE 12 - INTEREST BEARING LOANS FROM BANKS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, refer to note 27. All interest bearing loans from banks are secured. Breakdown, terms and conditions of outstanding loans were as follows:

				December 31,	
				2016	2015
	Nominal interest rate	Currency	Year of maturity	Carrying amount	
Torun project secured bank loan (1),(4)	3M Euribor+3%	EUR	2017	44,249	45,516
Suwalki project secured bank loan (4)	3M Euribor+1.65%	EUR	2020	26,497	27,571
Zgorzelec project secured bank loan (2)	3M Euribor+2.75%	EUR	n/a	-	21,225
Valley view (bas) project secured bank loan (3)	3M EURIBOR+5.5%	EUR	n/a	-	8,200
Belgrade Plaza Bank Loan (6)	3M EURIBOR+5%	EUR	2032	11,529	-
Total interest bearing liabilities (5)				**82,275**	**102,512**

(1) IRS on bank loan – refer to note 11.
(2) Zgorzelec loan – during September 2016, debt repayment agreement was completed with the financing bank (refer to Note 29(c) followed by release from outstanding (and partially recourse) loan (including accrued interest thereof) of circa EUR 23 million ,
(3) In December 2016, a wholly owned subsidiary of the Company, PC Enterprises BV, has acquired the bank loan of circa EUR 10 million (including accrued interest), which is held against the Company's plot in Romania from the financing bank.
(4) 2016 - Including EUR 48.1 million of current maturities of long term loans.
(5) A default in any of the three bank loans would trigger a cross default. No event of default occurred in 2016.
(6) EUR 42.5 million credit facility to finance the development of Belgrade Plaza (Visnjicka).
The amount in the table represents the utilized facility.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 12 - INTEREST BEARING LOANS FROM BANKS (Cont.)

Covenants on loan

The below table summarises the main covenants (Loan to Value ("LTV") and Debt Service Coverage Ratio ("DSCR")) on bank loans:

Bank facility	Actual LTV	Contractual LTV	Actual DSCR	Contractual DSCR
Torun project - secured bank loan	50%	70%	1.94	1.25
Suwalki project- secured bank loan	58%	70%	1.47	1.20
Belgrade project (Visnjicka) - secured bank loan	N/A	60%	N/A	1.2

As at the end of the reporting period, all of the group's companies are in compliance with the entire loan covenants.

NOTE 13 - TRADE PAYABLES

	Currency	December 31, 2016	December 31, 2015
Construction related payables		6,352	776
Other trade payables	Mainly in PLN, EUR	1,091	1,447
		7,443	2,223

NOTE 14 - RELATED PARTIES PAYABLES

	Currency	December 31, 2016	December 31, 2015
EI Group- ultimate parent company – expenses recharged	EUR, USD	155	76
Other related parties in EI group	EUR	51	33
		206	109

For payments (including share based payments) to related parties and related party receivables refer to note 30.

NOTE 15 - OTHER LIABILITIES

Short term	Currency	December 31, 2016	December 31, 2015
Obligations to tenants	EUR	1,095	1,385
Accrued bank interest (1)	Mainly EUR	-	2,807
Obligation in respect of plot purchase	Mainly EUR	-	1,380
Government institutions and fees		480	974
Salaries and related expenses		243	264
Accrued expenses and commissions		82	44
Other (2)		1,006	191
Total		2,906	7,045

(1) 2015 - Mainly due to bank facilities in Zgorzelec (EUR 1.5 million) and valley view BAS (EUR 1.2 million) which were in default (refer also to note 12).
(2) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 16 - DEBENTURES

A. Composition:

	Effective interest rate	Contractual interest rate	Principal final maturity	Adjusted par value	Carrying amounts as at December 31 2016
Series A Debentures	8.43%	CPI+6%	2020	63,745	61,506
Series B Debentures	12.19%	CPI+6.9%	2019	112,089	106,303
Polish Debentures	10.46%	6M WIBOR+6%	2018	10,631	10,561
				186,465	178,370

B. Mandatory repayments subsequent to the reporting date (with deferral, without early repayments):

2017*	47,168
2018	35,241
2019	89,295
2020	14,761
	186,465

* repayment paid on March 15, 2017 to get the deferral.

(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").

NOTE 16 – DEBENTURES (Cont.)

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 488 thousand (which is equal to 0.25% from the Company's outstanding debt under the debentures at that time) (the "Consent Fee"). The consent Fee shall be paid to the Company's bondholders on a pro rata basis.

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

(3) 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 75% 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN ‘000 EUR

accordance with its relative share in the deferred debt. Such prepayment will be real repayment and not in bond purchase.

NOTE 16 - DEBENTURES (Cont.)

C. Revised effective interest rate:

As a result of the non-substantial modifications of terms regarding the approved amendment described above, the Company calculated a new effective interest rate as follows:

	Effective interest rate before the amendment	**Effective interest rate after the amendment**
Series A Debentures	11.58%	8.43%
Series B Debentures	13.83%	12.19%
Polish Debentures	10.83%	10.46%

D. Covenants

The debentures’ covenants are detailed in note 28 (b).

In respect of the Coverage Ratio Covenant (“CRC”), as defined in the restructuring plan, as at December 31, 2016 the CRC was 126.5**%**, in comparison with 118% minimum ratio required.

E. Credit rating

Both NIS series of debentures have credit rating by S&P Maalot of “ilCCC“ on a local Israeli scale with negative outlook as of the date of approval of these financial statements.

F. Debentures held in treasury

The Company held through its wholly owned subsidiary NIS 13.6 million par value of series B debentures (adjusted par value of NIS 15.8 million (EUR 3.8 million).

In November 2016, all debentures held in treasury were paid as dividend “in kind” to the Company and deleted from trading.

NOTE 17- RECOGNIZED DEFERRED TAX ASSETS (LIABILITIES)

Deferred taxes recognized are attributable to the following items:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 17- RECOGNIZED DEFERRED TAX ASSETS (LIABILITIES) (Cont.)

Assets/(liabilities) 2015	December 31, 2014	Recognized in Profit or loss 2015	December 31, 2015
Property, equipment and other assets	921	(515)	406
Debentures	(7,334)	3,540	(3,794)
Tax value of loss carry-forwards recognized (*)	7,334	(3,540)	3,794
Deferred tax asset (liability), net	921	(515)	406

(*) 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 119,346 thousand (2015: EUR 151,845 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, 2016 the expiry date status of tax losses to be carried forward is as follows:

Total tax losses carried forward	**2017**	**2018**	**2019**	**2020**	**2021**	**After 2021**
132,590	582	4,159	8,033	13,730	14,044	92,041

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

NOTE 18 - EQUITY

	Remarks	**December 31, 2016**	**December 31, 2015**
		Number of shares	
Authorized ordinary shares of par value EUR 1 each		10,000,000	
Authorized ordinary shares of par value EUR 0.01 each		-	1,000,000,000
Issued and fully paid:			
At the beginning of the year		6,855,603	685,560,275
At the end of the year	(*)	6,855,603	685,560,275

(*) In accordance with the internal regulations of the WSE, shares with a market price below PLN 0.50 are listed in a separate segment referred to as the "Alert List". Shares placed on the Alert List are no longer subject to continuous quotation by the WSE.

NOTE 18 - EQUITY (cont.)

In order to avoid the adverse consequences of the Alert List, the Company has decided to consolidate its share capital and ensure that its ordinary shares are removed from the Alert List. Consolidation of the Company's share capital on the basis of one new ordinary share/new depositary interest for every 100 existing ordinary shares/existing depositary interest took place in June 2016.
Following its share consolidation, the first time and date of dealing in the ordinary shares of EUR 1.00 each on the premium segment of the Official List and on the LSE's main market for listed securities was at 8.00 a.m. on July 1, 2016. Similar process was performed on the TASE and the WSE on July 3, 2016 and July 4, 2016, respectively. On admission to the London Stock Exchange, the Company's issued share capital comprises 6,855,603 ordinary shares of EUR 1.00 each.

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, 2016 (2015 – EUR 35,376 thousand).

Translation reserve

The translation reserve comprises, as of December 31, 2016, 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 Debentures (EUR 199 million) has been repaid and the Coverage Ratio on the last Examination Date prior to such Distribution is not less than 150% following such Distribution, or (ii) a Majority of the Plan Creditors consents to the proposed Distribution.

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

NOTE 19 - EARNINGS PER SHARE

The calculation of basic earnings per share ("EPS") at December 31, 2016 was based on the loss attributable to ordinary shareholders of EUR 46,517 thousand (2015: loss of EUR 46,116 thousand) and a weighted average number of ordinary shares outstanding of 6,856 thousand (2015: 6,856 thousand).

The following number of shares and par values are adjusted to reflect the share consolidation as detailed on Note 18:

NOTE 19 - EARNINGS PER SHARE (Cont.)

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

In thousands of shares with a EUR 1 par value	**December 31,**	
	2016	**2015**
Issued ordinary shares at 1 January	6,856	6,856
Weighted average number of ordinary shares at 31 December	6,856	6,856

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

Weighted average number of ordinary shares (diluted)

In thousands of shares with a EUR 1 par value	**December 31,**	
	2016	**2015**
Weighted average number of ordinary shares (basic)	6,856	6,856
Effect of share options on issue	-	-
Weighted average number of ordinary shares (diluted) at 31 December	6,856	6,856

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

NOTE 20 - 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:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 20 - EMPLOYEE SHARE OPTION PLAN (Cont.)

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

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

	Weighted average exercise price (*)	**Number of options**	**Weighted average exercise price**	**Number of options**
	2016	**2016**	**2015**	**2015**
	GBP		GBP	
Outstanding at the beginning of the year	43	237,970	43	244,420
Forfeited during the period - back to pool (**)	36	(2,450)	36	(6,450)
Outstanding at the end of the year	43	235,520	43	237,970
Exercisable at the end of the year		235,520		234,690

(*) The options outstanding at 31 December 2016 have an exercise price in the range of GBP 28 to GBP 54 (app. EUR 32.7 - EUR 63.1), and have weighted average remaining contractual life of five years.

Following Plaza's share consolidation event (refer to Note 18), the Company implemented such adjustments (100:1 ratio) which are required to prevent dilution or increase in a Grantee's rights, pursuant to the ESOP with respect to the number of the Exercised Shares in relation to the Options not yet exercised by the Grantee and the Exercise Price of each Option.

(**) The total accumulated share based payment costs due to options exercise and forfeiture were 13,319 thousand as of December 31, 2016 (December 31, 2015 – EUR 13,284 thousand, December 31, 2014 – 13,216 thousand).

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 is measured based on a binomial lattice model.

During 2016 there were no employee costs for the share options granted (2015 - EUR 36 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 21 - RENTAL INCOME

a. Shopping malls and plots

	Year ended December 31, 2016	2015
Rental income from operating shopping centers (1)	15,287	18,085
Other rental income (2)	324	591
Total	**15,611**	**18,676**

(1) 2016 - three operating shopping centers presented as part of trading properties, 2015 - four operating shopping centers presented as part of trading properties,
(2) 2016 and 2015 – Small scale rental fees charged on plots held by the Group.

b. Entertainment centers

Revenue from operation of entertainment centers is attributed to a subsidiary of the Company known as "Fantasy Park" which provided gaming and entertainment services in operating shopping centers. As of December 31, 2016, this subsidiary is under liquidation.

NOTE 22 - COST OF OPERATIONS

a. Shopping malls and plots

	Year ended December 31, 2016	2015
Operating shopping centers (1)	3,816	5,353
Other cost of operations (2)	1,070	1,128
Total	**4,886**	**6,481**

(1) Refer to note 21 above.
(2) 2016 and 2015 - Attributed to small scale costs on plots held by the Group.

b. Entertainment centers

Refer also to note 21 (b) above. The costs were inclusive of management of the operation of the entertainment center, as well as utility, rent and spent material associated with the operation of the entertainment center.

NOTE 23 - ADMINISTRATIVE EXPENSES

	Year ended December 31, 2016	2015
Salaries and related expenses (*)	3,141	3,842
Professional services	2,694	2,433
Offices and office rent	187	260
Travelling and accommodation	240	260
Depreciation and amortization	20	102
Others	224	102
Total	**6,506**	**6,999**

(*) 2015 - including retirement payments to two former CEO's in a total amount of EUR 0.5 million

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 24 - OTHER INCOME AND OTHER EXPENSES

	Year ended December 31, 2016	2015
Gain from sale of plots	3,989	2,589(*)
Gain from equity accounted investee EPI – credit balances waiver	-	1,174
Waiver of advanced payments obtained from potential buyer in India	-	725
Kochi advanced payment (refer to note 30)	-	4,653
Other income	253	755(*)
Total other income	4,242	9,896
Loss due to Klepierre lawsuit (1)	(1,750)	-
Impairments of other receivables and assets (2)	-	(892)
Loss from selling turbines, airplane and other (3)	(172)	(631)
Other expenses	-	(328)
Total other expenses	(1,922)	(1,851)

*Reclassified

(1) 2016 - Refer to note 28(2).
(2) 2015- Includes impairment of receivables associated with abandoned projects in a total amount of EUR 0.9 million.
(3) 2015 – Including loss from selling Palazzo Du Calle office building– EUR 0.2 million.

NOTE 25 - FINANCE INCOME AND FINANCE COSTS

Recognized in profit or loss	Year ended December 31, 2016	2015
Gain from settlement of bank debt (refer to note 29 (c),(g); 2015- Liberec and Ploisti Project loans)	17,661	13,481
Finance income from hedging activities through sale of forwards	630	-
Foreign currency gain on bank deposits and bank loans	-	366
Interest income on bank deposits	4	26
Finance income from held for trading financial assets	-	104
Interest from loans to related parties	347	315
Finance income	**18,642**	**14,292**
Interest expense on debentures	(13,693)	(13,910)
Amortization of discount	(13,723)	(9,720)
Loss from early repayment of bonds	-	(896)
Interest expense on bank loans	(3,619)	(5,102)
Finance costs from hedging activities through currency options sale	-	(586)
Foreign currency losses on debentures	(7,536)	(14,696)
Other finance expenses	(646)	(285)
Finance expenses capitalized to trading properties under development	5,121	-
Finance costs	**(34,096)**	**(45,195)**
Net finance costs	**(15,454)**	**(30,903)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 26 - INCOME TAXES

Amounts recognized in profit or loss

	Year ended December 31, 2016	Year ended December 31, 2015
Current year tax expenses	(189)	(506)
Tax benefit (deferred tax expense) (refer to note 17)	(522)	(515)
Total	**(711)**	**(1,021)**

Deferred tax (expense) benefit

	For the year ended December 31, 2016	For the year ended December 31, 2015
Origination and reversal of temporary differences	(522)	(515)

Reconciliation of effective tax rate:

	2016	2015
Dutch statutory income tax rate	25%	25%
Loss from continuing operations before income taxes	(45,806)	(45,095)
Tax benefit at the Dutch statutory income tax rate	(11,452)	(11,274)
Recognition of previously unrecognized tax losses	(1,651)	(1,021)
Effect of tax rates in foreign jurisdictions	2,332	(995)
Current year tax loss for which no deferred tax asset is provided (1)	11,471	12,775
Non-deductible expenses (exempt income)	11	1,536
Tax Expense	**711**	**1,021**

(1) 2016 and 2015 – 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. Under the participation exemption rules, income (including dividends and capital gains) derived by Netherlands companies in respect of qualifying investments in the nominal paid up share capital of resident or non-resident investee companies, is exempt from Netherlands corporate income tax provided the conditions as set under these rules have been satisfied. Such conditions require, among others, a minimum percentage ownership interest in the investee company and require the investee company to satisfy at least one of the following tests:

- Motive Test, the investee company is not held as passive investment;
- Tax Test, the investee company is taxed locally at an effective rate of at least 10% (calculated based on Dutch tax accounting standards);
  Asset Test, the investee company owns (directly and indirectly) less than 50% low taxed passive assets.

NOTE 26 - INCOME TAXES (Cont.)

Poland

Companies resident in Poland are subject to corporate income tax at the general rate of 19%. (capital gains bears 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%, subject to European Union regulations or Double Tax Treaties outstanding.

Latvia

Companies resident in Latvia are subject to corporate income tax at the general rate of 15%. (capital gains bears the same tax rate). Tax losses may be carried forward indefinitely (with exception for losses prior to 2008). There is no withholding tax on Dividend.

NOTE 27 - 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 has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group requires collateral in the form of mainly deposit equal to three months of rent from tenants of shopping centers (collected deposits from tenants totalled EUR 0.6 million and EUR 1.4 million as at December 31, 2016 and 2015, respectively).

NOTE 27 - FINANCIAL INSTRUMENTS (cont.)

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 (debentures 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.

Interest Rate Risk (including inflation)

The group's interest rate risk arises mainly from short and long term borrowing (as well as debentures). 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 debentures and bank facilities, refer to note 11. As the Israeli inflation risk is diminishing to a level that management believes is acceptable (Israeli CPI 2016 0.9%; 2015 -1%), 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 27 - FINANCIAL INSTRUMENTS (Cont.)

date was:

	Note	Credit quality	Carrying amount as at December 31, 2016	2015
Cash and cash equivalents	4	Mainly Baa3	5,646	15,659
Restricted bank deposits- short term	5	Mainly BBB+	7,174	4,774
Trade receivables, net	6	N/A	6,645	1,654
Related party receivables	30	N/A	1,720	2,828
Long term receivables	10	N/A	699	-
Loan to Diksna	10	N/A	-	4,298
Total			**21,884**	**29,213**

Credit risk (cont.)

As of December 31, 2016 and 2015, all debtors without credit quality have a relationship of less than five years with the Group. At 31 December 2016, the aging of trade and other receivables that were not impaired was as follows:

	Carrying amount December 31, 2016	2015
Neither past due nor impaired (*)	5,592	981
Past due 1–90 days	231	374
Past due 91–120 days	1,043	575
Total	**6,866**	**1,930**

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

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

	Carrying amount December 31, 2016	2015
Banks and financial institutions	12,820	20,433
Tenants	970	1,654
Recievables for sold plots	5,675	-
Loan to Diksna	-	4,298
Kochi project	1,720	2,828
Other	699	-
Total	**21,884**	**29,213**

Liquidity risk (*), (***)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 27 - FINANCIAL INSTRUMENTS (Cont.)

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
Derivative financial liabilities							
IRS Derivatives	453	(1,257)	(634)	(623)	-	-	-
Non-derivative financial liabilities							
Secured bank loans	82,275	(88,600)	(1,904)	(46,225)	(2,454)	(25,925)	(12,061)
Debentures 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)	-	-	-	-
	272,141	(313,502)	(64,928)	(51,513)	(143,840)	(41,129)	(12,061)

(*) Refer also to note 2(c) for more information. This note assumes the minimum contractual payments on the debentures to achieve the Deferral.
(**) Refer also to note 2(c) for more information on debentures issued. Out of the total remaining amount of EUR 51.2 amount of EUR 2.7 million in respect of Belgrade Plaza and EUR 4.4 million of Suwalki were assigned to the purchasers of the shopping centers and trade and other payables in the amount of EUR 1.1 million to be revolved.

Liquidity risk (cont.)

December 31, 2015

	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Derivative financial liabilities							
IRS Derivatives	754	(790)	(230)	(227)	(333)	-	-
Non-derivative financial liabilities							
Secured bank loans	102,512	(107,644)	(32,432)	(2,822)	(48,267)	(24,123)	-
Debentures issued	181,589	(238,347)	(33,034)	(60,472)	(18,115)	(116,667)	(10,059)
Trade and other payables	9,268	(9,268)	(9,268)	-	-	-	-
Related parties	109	(109)	(109)	-	-	-	-
	293,478	(355,368)	(74,843)	(63,294)	(66,382)	(140,790)	(10,059)

Currency risk

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

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

	Average rate		Reporting date Spot rate	
EUR	**2016**	**2015**	**2016**	**2015**
NIS 1	0.235	0.232	0.247	0.235

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 27 - FINANCIAL INSTRUMENTS (Cont.)

PLN denominated debentures - A change of 7 percent in EUR/PLN rates at the reporting date would have increased/(decreased) profit or loss by EUR 0.9 million, as a result of having issued PLN linked bonds.

NIS denominated debentures - A change of 6 percent in EUR/NIS rates at the reporting date would have increased/(decreased) profit or loss by EUR 9.7 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	
	2016	**2015**
Fixed rate instruments		
Financial assets	12,820	20,433
Variable rate instruments		
Debentures	(178,370)	(181,589)
Other financial liabilities	(82,275)	(102,512)
	(260,645)	(284,101)

Cash flow sensitivity analysis for variable rate instruments

A change of 5 basis points in Euribor interest rates (2015 – 53 basis points) at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2015.

Variable Interest rate effect (excluding debentures)

	Profit or Loss	
	Increase	**Decrease**
December 31, 2016	(48)	48
December 31, 2015	(500)	500

NIS Debentures

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 2015) would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

		Profit (loss) effect	
For the year ended December 31,	Carrying amount of debentures	CPI increase effect	CPI decrease effect
2016	162,722	(5,034)	5,034
2015	168,632	(5,059)	5,059

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 27 - FINANCIAL INSTRUMENTS (Cont.)
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 debentures presented at amortized cost, the fair value would be the market quote of the relevant Israeli debenture, had they been measured at fair value.

	Carrying amount		Fair value	
	2016	**2015**	**2016**	**2015**
Statement of financial position				
Debentures at amortized cost – Polish bonds	10,561	12,957	9,964	11,569
Debentures A at amortized cost – Israeli bonds	61,505	59,072	50,727	50,172
Debentures B at amortized cost – Israeli bonds	106,303	109,560	90,008	91,614

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

Fair value Hierarchy

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

	Note	Fair value hierarchy	Carrying amount as at December 31, 2016	2015
Financial assets not measured at fair value				
Cash and cash equivalents	4		5,646	15,659
Restricted bank deposits- short term	5		7,174	4,774
Trade receivables, net	6		6,645	1,654
Other receivables	7a		1,614	1,350
Loan to Diksna	10		-	4,298
Total			**21,079**	**27,735**

	Note	Fair value hierarchy	Carrying amount as at December 31, 2016	2015
Financial liabilities not measured at fair value				
Interest bearing loans from banks	12	Level 2	82,275	102,513
Debentures at amortized cost	16	Level 2	178,370	181,589
Trade and other payables			10,349	9,268
Related parties	14		206	109
Total			**271,200**	**293,479**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 27 - FINANCIAL INSTRUMENTS (Cont.)

	Note	Fair value hierarchy	Carrying amount as at December 31, 2016	2015
Financial liabilities measured at fair value				
Derivatives	11	Level 3	453	754
Total			**453**	**754**

NOTE 28 - CONTINGENT LIABILITIES AND COMMITMENTS

a. **Contingent liabilities and commitments to related parties**

1. On November 28, 2014 the Company entered into an indemnity agreement with all of the Company's newly appointed directors and on June 20, 2011 with part of the Company's senior management - the maximum indemnification amount to be granted by the Company to the directors shall not exceed 25% of the shareholders' equity of the Company based on the shareholders' equity set forth in the Company's last consolidated financial statements prior to such payment. No consideration was paid by the Company in this respect since the agreement was signed.

2. The Company maintains Directors' and Officers' liability cover, presently at the maximum amount of USD 60 million for a term of 18 months commencing on 1 May 2016. Pursuant to the terms of this policy, all the Directors and senior manager are insured. The new policy does not exclude past public offerings and covers the risk that may be incurred by the Directors through future public offerings of equity up to the amount of USD 50 million.

b. Contingent liabilities and Commitments to others

1. As part of the completion of the restructuring plan (refer also to note 16), the Group has taken the following commitments and collaterals towards the creditors:

   a. Restrictions on issuance of additional debentures - The Company undertakes not to issue any additional debentures other than as expressly provided for in the Restructuring Plan.

   b. 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 holders of all other series of debentures issued by the Company by ordinary majority Refer to note 16 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, 2016 the calculated CRC is 126.5%. 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

NOTE 28 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

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 debentures 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 debenture 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. MCRC is maintained as of December 31, 2016.

e. Negative Pledge on REA of the Company - The Company undertakes that until the debentures has 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 debentures 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, 2016.

(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

NOTE 28 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

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 debentures 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 debentures. Subject to the terms of the plan, the Group may also refinance existing FI if this does not generate net cash flow.

h. No distribution policy – The Company's ability to pay dividend is limited unless certain conditions as described in note 18 are met.

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

j. 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 perform 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 not less than EUR 70 million.

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 normal for such transactions to the respective purchasers.

Such indemnifications are limited in time and are generally capped in percentages of the purchase price. 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.

The Hungarian tax authorities have challenged the applied tax treatment in two of the entities previously sold in Hungary by the Company to Klepierre in the course of the Framework Agreement dated 30 July, 2004 ("Framework Agreement") and imposed a penalty on those entities in the sum of HUF 428.5 Million (circa EUR 1.4 million).

Klepierre has submitted an indemnification request claiming that the tax assessed in the

NOTE 28 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

described procedures falls into the scope of the Framework Agreement's tax indemnification provisions and the Company in its response rejected such claims. Subsequently, Klepierre has submitted a claim to the International Chamber of Commerce in Brussels for arbitration procedure. The International Court of Arbitration ruled in July 2016 that Plaza is liable for an indemnification claim totalling circa EUR 2 million, including costs arising from the legal process. During December 2016 the Company, Elbit Imaging Ltd. ("EI") and the plaintiff, Klepierre have reached a settlement whereby, inter alia, EI shall pay EUR 1.2 million to Klepierre. The Company paid to Klepierre the costs arising from the legal process in the amount of approximately EUR 0.6 million and recorded a liability towards EI of EUR 1.2 million, which has been offset with certain receivables from EI.

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 2.2 million as of balance sheet date, unless the buyer finds other tenant that will pay higher annual lease payment than Tesco. The management does not expect to bear a material loss.
4. The Company has contractual commitments in respect of its project in Serbia (Visnjicka) in a total amount of circa EUR 19 million in respect of construction activities, to be paid during 2017.

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 outflow of resources to settle them is remote, and therefore no provision or disclosure is required.

d. Securities, guarantees and liens under bank finance agreements by subsidiaries

1. Certain companies within the Group which are engaged in the purchase, construction or operation of shopping centers ("Project Companies") have secured their respective credit facilities (with withdrawn facility amounts totalling EUR 82.3 million, as of December 31, 2016) awarded by financing banks (for projects in Poland and Serbia), by providing first or second ranking (fixed or floating) charges on property owned thereby, including right in and to real estate property as well as the financed projects, on rights pertaining to certain contracts (including lease, operation and management agreements), on rights arising from insurance policies, and the like. Shares of certain Project Companies were also pledged in favour of the financing banks.

In respect of corporate guarantee for the fulfilment of its subsidiaries obligations under loan agreements, refer to note 12.

Shareholders loans as well as any other rights and/or interests of shareholders in and to the Project Companies were subordinated to the respective credit facilities.

NOTE 28 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

Payment to the shareholders is permitted (including the distribution of dividends but excluding management fees) subject to fulfilling certain preconditions.

Certain loan agreements include an undertaking to fulfil certain financial and operational covenants throughout the duration of the credit, namely: complying with "a minimum debt services cover ratio", "loan outstanding amount" to secured assets value ratio; complying with certain restrictions on interest rates; maintaining certain cash balances for current operations; maintaining equity to project cost ratio and net profit to current bank's debt; occupancy percentage and others.

The Project Companies undertook not to make any disposition in and to the secured assets, not to sell, transfer or lease any substantial part of their assets without the prior consent of the financing bank.

In certain events the Project Companies undertook not to allow, without the prior consent of the financing bank:

(i) any changes in and to the holding structure of the Project Companies nor to allow for any change in their incorporation documents;
(ii) execution of any significant activities, including issuance of shares, related party transactions and significant transactions not in the ordinary course of business;
(iii) certain changes to the scope of the project;
(iv) the assumption of certain liabilities by the Project Companies in favour of third parties;
(v) Receipt of loans by the Project Companies and/or the provision thereby of a guarantee to third parties; and the like.

2. Event of default

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) 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 in any of the three bank loans would trigger a cross default. No event of default occurred in 2016.

e. Certain issues with respect to an agreement from 2011

The Company's Board of Directors has become aware of certain issues with respect to an agreement from 2011, between the Company, EI and another party, the beneficial owners of

NOTE 28 - CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

which have not been identified. The characteristics of the contract could raise red flags that this contract may be a potential violation of laws and regulations.
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 Company intends to fully cooperate with the relevant governmental agencies in this matter, if required.
As such review of this issue is ongoing, EI and Plaza are unable to comment on any additional details related to this matter. 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.

NOTE 29 - SIGNIFICANT EVENTS

a. <u>Disposal of a shopping center in the Czech Republic</u>

On March 4, 2016, the Company signed an agreement to sell its subsidiary holding Liberec Plaza shopping center in the Czech Republic, for EUR 9.5 million in cash. The Company recorded a loss of EUR 355 thousand due to this transaction. The disposal followed an agreement announced by the Company in September 2015 whereby a wholly owned subsidiary of the Company ("PCE") won a tender to buy the loan given to the holding and operating company for Liberec Plaza for EUR 8.5 million.

PCE received EUR 8.5 million on account of the bank loan it previously purchased. Out of EUR 1 million remaining proceeds, 75% was distributed to the Company's bondholders in June 2016, in line with the Company's stated restructuring plan.

b. <u>Disposal of a plot in Belgrade, Serbia</u>

In June 2016, the Company sold its wholly owned subsidiary, which held the "MUP" plot in Belgrade, Serbia, for EUR 15.75 million in cash. The purchaser paid EUR 11.3 million in cash, EUR 4.05 million will be paid in January 2017 and the remaining EUR 0.4 million are due within 15 months from June 30, 2016. The Company has recorded a gain of EUR 2.15 million from this transaction, included as other income in these reports.

Furthermore, the Company will also be entitled to an additional contingent consideration of EUR 0.6 million once the purchaser successfully develops at least 69,000 sqm above ground.

Upon the receipt of each stage payment, in line with the Company's stated restructuring plan, 75% of the net cash proceeds are distributed to the Company's bondholders in the following quarter.

NOTE 29 - SIGNIFICANT EVENTS (Cont.)

c. Debt repayment agreement with financing bank of Zgorzelec Plaza shopping center in Poland

On June 30, 2016, the Company signed a Debt Repayment Agreement ("DRA") with the financing bank (the "Bank") of Zgorzelec Plaza Shopping Center in Poland whereby the Company paid EUR 1.1 million to the financing bank.

The DRA stated that the Company is obliged to make its best effort and cooperate with the Bank in trying to sell Zgorzelec Plaza Shopping Center. Simultaneous with this, the financing bank would seek a third party to be an Appointed Shareholder to purchase the shares of Zgorzelec Plaza Shopping Center for EUR 1.

On September 14, 2016, the Company signed a Share Purchase Agreement with an Appointed Shareholder nominated by the Bank, after which the remainder of the DRA process was completed, including removing a mortgage over a plot the Company owns in Leszno, Poland.

The Company recognized an accounting profit of EUR 9.2 million (included as finance income in these reports), stemming from de-recognition of EUR 23 million of the outstanding loan (including accrued interest), against the shopping center's carrying amount of EUR 12.7 million.

d. Disposal 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 EUR 2.4 million in cash. Following this transaction, the Company owns a remaining 4,000 sqm site.

The Company received an initial payment of EUR 1.27 million, and a final instalment of EUR 1.13 million is expected in June 2017.

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

e. Issuance of a disclaimer by the Dutch statutory auditors in the Company's 2015 Dutch statutory financial statements.

On May 18, 2016, the Company's 2015 Dutch statutory financials statements, required to be issued according to Dutch regulations ("Dutch Statutory Reports"), were issued with a disclaimer of opinion by the Dutch statutory auditor of the Company. The Dutch financial statements were approved by the shareholders for Dutch statutory compliance purposes http://plazacenters.com/index.php?p=financial_reports_2016.

f. Preliminary sale agreement of plot in Poland

On October 13, 2016, the Company signed a preliminary sale agreement for the disposal of a 2.47 hectare plot in the center of Kielce, Poland, for EUR 2.28 million out of which the Company has received a down payment of EUR 465 thousand, while the remaining EUR 1.8 million will be paid within eight months of this agreement. On completion of the

NOTE 29 - SIGNIFICANT EVENTS (Cont.)

transaction, in line with the Company's stated restructuring plan, 75% of the net cash proceeds will be distributed to Plaza's bondholders.

g. <u>Acquisition of Loan secured against asset in Romania</u>

During December 2016, a wholly owned subsidiary of Plaza, PC Enterprises BV, has acquired a bank loan of circa EUR 10 Million (including accrued interest), which was held against the Company's plot in Brasov, Romania, for a total consideration of EUR 1.35 million. As result of the transaction the company recorded a gain of EUR 8.5 million included in finance income. 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 EUR 1.1 million.

NOTE 30 - RELATED PARTY TRANSACTIONS

De facto control

As for December 31, 2016 and 2015, 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.

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.

The Company has currently four directors. The annual remuneration of the directors in 2016 amounted to EUR 0.42 million (2015 – EUR 0.6 million) and the annual share based payments expenses was nil in 2016 (2015- nil). There was no change in the number of Company share options granted to key personnel in 2016. There are no other benefits granted to directors. For information about related party balances as of December 31, 2016 and 2015 refer to note 14.

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 (Note 28 (b)(2)) thus balance as of December 31, 2016 is EUR 1.7 million (including accrued interest on remaining balance).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 30 - RELATED PARTY TRANSACTIONS (Cont.)

Trading transactions

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

	For the year ended December 31,	
	2016	**2015**
Income		
Interest on balances with EI	79	125
Costs and expenses		
Recharges - EI	49	264
Compensation to key management personnel (1)	876	1,059
Lease agreement on plot in Bucharest	-	45
Lease agreement for office in Bucharest	30	30

(1) Including termination of agreements with former Chief Executive officer in 2015.

As of December 31, 2016 the Company identified York Capital Management Global Advisors, LLC ("York") and Davidson Kempner Capital Management LLC ("DK") as 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, 2016, 21.3% out of the total Israeli debentures debt of the Company. Interest paid on Bonds held by York were circa EUR 4.65 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 31 - OPERATING SEGMENTS

The Group comprises one main geographical segment: CEE. India ceased to be a geographical segment, following the sale of Koregaon park shopping center in 2015. The Group does not have reportable segments by product and services. In presenting information on the basis of geographical segments, segment revenue is based on the revenue resulting from either selling or operating of Trading Property geographically located in the relevant segment. None of the Group's tenants is accounting for more than 10% of the total revenue. Also, no revenue is derived in the Netherlands, where the Company is domiciled. Data regarding the geographical analysis in the years ended December 31, 2016 and 2015 is as follows:
Refer to note 8 for further detail by property on carrying amounts of Trading Properties and note 12 for detail on project secured bank loans by property.

	Year ended December 31,	
	2016	2015
NOI in CEE (1)	13,785	16,420
Sale of properties (Liberec – refer to note 29 (a))	(355)	2,589
Income from operation/selling	13,430	19,009
Net finance costs	(4,230)	(5,094)
Net expenses from operation of other CEE assets (plots)	(631)	(838)
Other income (expenses), net	1,284	(527)
Write-downs	(40,810)	(17,843)
Reportable CEE segment profit before tax	(30,957)	(5,293)
Less - general and administrative	(6,506)	(6,999)
Results India	3,487	(11,654)
Other income – Dutch level	-	4,653
Unallocated finance costs (Dutch corporate level- mainly debentures finance cost)	(11,830)	(25,802)
Loss before income taxes	(45,806)	(45,095)
Income tax expense	(711)	(1,021)
Loss for the period	(46,517)	(46,116)
Assets and liabilities as at December 31		
Total CEE segment assets	279,123	341,849
Assets India	29,042	25,779
Unallocated assets (Mainly Cash and other financial instruments held on Dutch level)	13,959	24,383
Total assets	322,124	392,011
Segment liabilities	106,001	126,426
Unallocated liabilities (Mainly debentures)	179,500	182,717
Total liabilities	285,501	309,143

(1) NOI- net operating income earned by shopping malls, including Company's part in equity accounted investee Diksna, which holds Riga Plaza (refer to note 10). NOI earned in Poland – EUR 11.2 million (2015 -EUR 11.9 million).

NOTE 32 – EVENTS AFTER THE REPORTING PERIOD

a. Sale of Riga Plaza - update

On January 12, 2017, the Loan received by the Company from its JV in Latvia, following the sale of Riga Plaza in 2016, was repaid through a capital reduction in amount of EUR 15 million (company's part) approved by the Registrar of Companies.

b. Amended Agreement in respect of MUP project

In January 2017, further to the sale of its wholly owned subsidiary in 2016, which held the "MUP" plot and related real estate in Belgrade in Serbia, the Company has agreed with the buyer to accelerate the payment of €4.2 million out of the third scheduled payment amount of €4.6 million in a discount transaction with a present value of circa €4.05 million. The remainder of the purchase price will be paid as originally agreed between the parties.

c. Sale agreement of Suwalki Plaza

In January 2017, The Company sold its SPV holding Suwałki Plaza shopping and entertainment center in Poland to an investment fund for EUR 16.7 million, which amount was received. The purchaser is 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.

d. Final agreement for the 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.

The shopping center, which is currently over 97% pre-let, opened on 20th of April 2017 and the Company will remain 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 EUR 31.2 million from the purchaser, EUR 2 million received following the opening and further payments contingent upon certain operational targets and milestones being met. The Purchaser will provide a guarantee to secure these future payments.

The final agreed value of Belgrade Plaza, which will 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 will be approximately EUR 7.2-7.5 million per annum. Further instalments will be due to the Company during the first year of operation based on this 12 month figure. The NOI will be re-examined again after 24 months and 36 months of operation, which may lead to an upward adjustment of the final purchase price.

The Company has a line of credit from a financing bank for the development of Belgrade Plaza to a maximum amount of EUR 42.5 million. 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

NOTE 32 – EVENTS AFTER THE REPORTING PERIOD (Cont.)

of any future additional payments, in line with the Company's stated Amended Plan, 75% will be paid to the bondholders.

e. **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.

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.

f. **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.

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.

g. Standard & Poor's credit Rating update

On February 28, 2017 Standard & Poor's Maalot ("S&P Maalot"), the Israeli credit rating agency which is a division of Standard & Poor's International, updated its credit rating for the Company's series of two debentures traded on the Tel Aviv Stock Exchange and reaffirmed "ilCCC" with negative outlook and removed from the CreditWatch with negative implications due to completion of asset realization on the local Israeli scale.

h. Compliance of the Early Prepayment Term

On March 15, 2017 the Company paid its bondholders a total amount of NIS 191.74 million (EUR 49.2 million) as an early redemption. Accordingly, 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 debentures.

i. Delay in publishing consolidated financial statements

Under the bond trust deeds the Company is required to publish its annual consolidated financial statements by 31 March. If the company has not published the annual consolidated financial statements by 30 April the Bondholders are entitled to declare that all or a part of their respective (remaining) claims become immediately due and payable.

j. Suspension of trading of ordinary shares and Series A Notes and Series B Notes

Under applicable laws and regulations, the Company is required to publish consolidated financial statements within four months of the year end. The Company has not been able to comply with this requirement and its ordinary shares have been suspended from trading, with effect from 2 May 2017, on the London Stock Exchange's main market for listed securities. As a result of the aforementioned suspension, Plaza's ordinary shares were suspended from trading on the Warsaw

Stock Exchange and Plaza's ordinary shares and its Series A Notes and Series B Notes have been suspended from trading on the Tel Aviv Stock Exchange. As a result, the Bondholders may be entitled to declare that all or a part of their respective (remaining) claims become immediately due and payable.

NOTE 33 - 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 34 - SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of consolidation

1. Subsidiaries

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

2. Interests in equity-accounted investees

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

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

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.

NOTE 34 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

NOTE 34 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

NOTE 34 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Financial instruments (cont.)

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, debentures (refer to note 16), 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 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

Properties that are being constructed or developed for sale in the ordinary course of business and empty plots acquired to be developed for such a sale are classified as trading properties (inventory) and measured at the lower of cost and net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to complete construction and selling expenses. If net realisable value is less than the cost, the trading property is written down to net realisable value.

In respect of Casa radio project – the net realizable value ("NRV") refers to the net amount that plaza expects to realise from the sale of its trading property in the ordinary course of business which is entity-specific value. Casa radio NRV reflects, inter alia, a situation under which a sale in a short marketing period, taking into account the financial conditions and liquidity need of the Group (as detailed on Note 2(c) in order to meet its future repayment schedule together with other indications of the existence of material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. see also note 8 (significant unobservable inputs).

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

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

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

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

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.

NOTE 34 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

f. Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses (refer to note 34(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

NOTE 34 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

(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

NOTE 34 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

Rental income

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

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

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

are recognized only after the changes in the index have occurred.

Revenues from selling of trading property

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

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

For the composition of finance income and cost refer to note 25. For capitalisation of borrowing costs please refer to Note 8. 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 34(e).

l. Income tax

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

the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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 is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill

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

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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

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. New standards not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements:

- **Disclosure Initiative (Amendments to IAS 7) :**
  The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

  The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

  To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

- **Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)**

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods

beginning on or after 1 January 2017, with early adoption permitted.

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

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has completed an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

- **IFRS 9 Financial instruments**

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Group has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2016 and hedging relationships designated during 2016 under IAS 39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 35 - LIST OF GROUP ENTITIES

As of December 31, 2016, the Company owns the following companies (all are 100% held subsidiaries at the end of the reporting period presented unless otherwise indicated):

	ACTIVITY	REMARKS
HUNGARY		
Directly wholly owned		
HOM Ingatlanfejlesztesi és Vezetesi Kft.	Management company	
Plaza House Ingatlanfejelsztesi Kft.	Office building	David House – Sold 02/2017
Plaza Centers Establishment B.V.	Holding company	Arena Plaza extension
Szombathely 2002 Ingatlanhasznosito es Vagyonkezelo Kft.	Inactive	
Tatabanya Plaza Ingatlanfejlesztesi Kft.	Inactive	
Plasi Invest 2007 kft.	Inactive	
Indirectly or jointly owned		
Kerepesi 5 Irodaepulet Ingatlanfejleszto Kft.	Holder of land usage rights	100% held by Plaza Centers Establishment B.V. Arena Plaza Extension project
POLAND		
Directly wholly owned		
Kielce Plaza Sp. z o.o.	Owns plot of land	Kielce Plaza project (Preliminary sale agreement exist)
Leszno Plaza Sp. z o.o.	Owns plot of land	Leszno Plaza project (Preliminary sale agreement exist)
Lodz Centrum Plaza Sp. z o.o.	Owns plot of land	Lodz (Residential) project
Wloclawek Plaza Sp. z o.o.	Mixed-use project	Lodz Plaza project
O2 Fitness Club Sp. z o.o.	Fitness	O2 Fitness Club project
Plaza Centers Polish Operations B.V.	Holding company	
EDMC Sp. z o.o.	Management company	
Plaza Centers (Poland) Sp. z o.o.	Management company	
Bytom Plaza Sp. z o.o. w likwidacji	Inactive	
Gdansk Centrum Plaza Sp. z o.o. w likwidacji	Inactive	
Gorzow Wielkopolski Plaza Sp. z o.o. w likwidacji	Inactive	
Jelenia Gora Plaza Sp. z o.o. w likwidacji	Inactive	
Katowice Plaza Sp. z o.o. w likwidacji	Inactive	
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
Radom Plaza Sp. z o.o. w likwidacji	Inactive	
Szczecin Plaza Sp. z o.o.	Inactive	
Legnica Plaza Spolka z ograniczona odpowiedzialnoscia 1 S.K.A.	Inactive	
Płock Plaza Sp. z o.o. w likwidacji	Inactive	
Olsztyn Plaza Sp. z o.o. w likwidacji	Inactive	
Indirectly or jointly owned		
Legnica Plaza Spolka z ograniczona odpowiedzialnoscia S.K.A.	Operating shopping center	100% held by Bydgoszcz Plaza Sp. z o.o. Torun Plaza project
Suwalki Plaza Sp. z o.o.	Operating shopping center	100% held by Plaza Centers Polish Operations B.V. Suwalki Plaza project – Sold 01/2017
Bydgoszcz Plaza Sp. z o.o.	Holding company	100% held by Plaza Centers Polish Operations B.V.
Plaza Centers administrations b.v.	Inactive	100% held by Plaza Centers Polish Operations B.V.
Torun Centrum Plaza Sp. z o.o.w likwidacji	Inactive	100% held by Plaza Centers Administrations B.V.
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
P.L.A.Z.A B.V.	Inactive	50% held by Plaza Centers N.V. 50% held by Mulan B.V.
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.
Fantasy Park Suwalki Sp. z o.o. w likwidacji	Inactive	100% held by Mulan B.V.
Fantasy Park Torun Sp. z o.o. w likwidacji	Inactive	100% held by Mulan B.V.
Fantasy Park Zgorzelec Sp. z o.o. w likwidacji	Inactive	100% held by Mulan B.V.

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Fantasy Park Bytom Sp. z o.o. w likwidacji	Inactive	100% held by Mulan B.V.
Fantasy Park Poznań Sp. z o.o. w upadłości likwidacyjnej	Inactive	100% held by Mulan B.V.
Fantasy Park Kraków Sp. z o.o.	Inactive	100% held by Fantasy Park Enterprises
Fantasy Park Poland Sp. z o.o. w likwidacji	Inactive	100% LUBLY INVESTMENTS LIMITED
LATVIA		
Indirectly or jointly owned		
Diksna SIA	Operating shopping center – Sold 2016	Equity accounted investee,50% held by Plaza Centers N.V. 50% held by JV partner Riga Plaza project.
ROMANIA		
Directly wholly owned		
Dambovita Centers Holding B.V.	Holding company	100% held by Plaza Centers N.V.
Plaza Centers Management B.V.	Holding company	
S.C. Elite Plaza S.R.L.	Shopping center project	Timisoara Plaza project
S.C. North Eastern Plaza S.R.L.	Shopping center project	Constanta Plaza project
S.C. North Gate Plaza S.R.L.	Shopping center project	Csiki Plaza (Miercurea Ciuc) project
S.C. Palazzo Ducale S.R.L.	Inactive	
S.C. Plaza Centers Management Romania S.R.L.	Management company	
Indirectly or jointly owned		
S.C. Dambovita Center S.R.L.	Mixed-use project	75% held by Dambovita Centers Holding B.V. Casa Radio project
Plaza Bas B.V.	Holding company	50.1% held by Plaza Centers N.V.
Adams Invest S.R.L.	Residential project	95% held by Plaza Bas B.V. 5% held by Plaza Centers Management B.V. Valley View project
SERBIA		
Directly wholly owned		
Plaza Centers (Estates) B.V.	Holding company	
Plaza Centers Management D.O.O.	Management company	Krusevac Plaza project
Plaza Centers Holding B.V.	Inactive	
Plaza Centers (Ventures) B.V.	Inactive	
Indirectly or jointly owned		
Leisure Group D.O.O.	Shopping center project	100% held by Plaza Centers (Estates) B.V. Belgrade Plaza (Visnjicka) project – Sold 02/2017
Accent D.O.O.	Inactive	100% held by Plaza Centers Logistic B.V.
CZECH REPUBLIC		
Directly wholly owned		
Plaza Centers Czech Republic S.R.O.	Management company	
BULGARIA		
Directly wholly owned		
Shumen Plaza EOOD	Shopping center project	Shumen Plaza project – Sold 03/2017
Plaza Centers Management Bulgaria EOOD	Management company	
Plaza Centers Development EOOD	Inactive	
GREECE		
Directly wholly owned		
Helios Plaza S.A.	Shopping center project	Pireas Plaza project
CYPRUS – UKRAINE		
Directly wholly owned		
Tanoli Enterprises Ltd.	Inactive	

PC Ukraine Holdings Ltd.	Inactive	
Plaza Centers Ukraine Ltd.	Inactive	100% held by PC Ukraine Holdings Ltd.
THE NETHERLANDS		
Directly wholly owned		
Plaza Dambovita Complex B.V.	Holding company	
Plaza Centers Enterprises B.V.	Finance company	100% held by Plaza Dambovita Complex B.V.
Mulan B.V. (Fantasy Park Enterprises B.V.)	Holding company	Holds Fantasy Park subsidiaries in CEE
Plaza Centers Connections B.V.	Inactive	
Plaza Centers Engagements B.V.	Inactive	
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 Cenetrs Establishment B.V.		
CYPRUS – INDIA		
Directly wholly owned		
PC India Holdings Public Company Ltd.	Holding company	
Indirectly or jointly owned		
Permindo Ltd.	Holding company	100% held by PC India Holdings Public Company Ltd.
HOM India Management Services Pvt. Ltd.	Management company	99.99% held by PC India Holdings Public Company Ltd.
Elbit Plaza India Real Estate Holdings Ltd.	Holding company	Equity accounted investee 47.5% held by Plaza Centers N.V.
Polyvendo Ltd.	Holding company	100% held by Elbit Plaza India Real Estate Holdings Ltd.
Elbit Plaza India Management Services Pvt. Ltd.	Management company	99.99% held by Polyvendo Ltd.
Vilmadoro Ltd.	Holding company	100% held by Elbit Plaza India Real Estate Holdings Ltd.
Kadavanthra Builders Pvt. Ltd.	Mixed-use project	100% held by Elbit Plaza India Real Estate Holdings Ltd. Chennai (SipCot) project
Aayas Trade Services Pvt. Ltd.	Mixed-use project	99.9% held by Elbit Plaza India Real Estate Holdings Ltd. Bangalore project
UNITED STATES OF AMERICA		
Indirectly or jointly owned		
Elbit Plaza USA II LP (EPUS II)	Holding company	Equity accounted investee 50% held by Plaza Centers N.V. 50% held by Elbit Imaging Ltd.
EPN REIT II	Inactive	100% held by Elbit Plaza USA II LP (EPUS II)

ENTITIES DISPOSED OR DISSOLVED IN 2015 AND 2016

ROMANIA		
Primavera Invest S.R.L.	Office project	95% held by Plaza Bas B.V. 5% held by Plaza Centers Management B.V. Primavera Tower Ploiesti project
Colorado Invest S.R.L.	Residential project	95% held by Plaza Bas B.V. 5% held by Plaza Centers Management B.V. Pine Tree project
Malibu Invest S.R.L.	Residential project	Equity account investee 25%/75% held by Plaza Bas B.V. with partner Fountain Park project
Spring Invest S.R.L.	Office project	Equity accounted investee 50%/50% held by Plaza Bas B.V. with partner Primavera Tower Brasov project
Bas Developement S.R.L.	Residential project	Equity accounted investee

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

		50%/50% held by Plaza Bas B.V. with partner Acacia Park project
Sunny Invest S.R.L.	Residential project	95% held by Plaza Bas B.V. 5% held by Plaza Centers Management B.V. Green Land project
S.C. Eastern Gate Plaza S.R.L.	Inactive	
S.C. South Gate Plaza S.R.L.	Shopping center project	Slatina Plaza project
S.C. Blue Plaza S.R.L.	Inactive	
S.C. South Eastern Plaza S.R.L.	Inactive	
THE DUTCH ANTILLES		
Dreamland Entertainment N.V.	Inactive	
CYPRUS - INDIA		
Rebeldora Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Rosesmart Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Dezimark Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Elbit India Architectural Services Ltd.	Inactive	100% held by Elbit Plaza India Real Estate Holdings Ltd.
Spiralco Holdings Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Xifius Services Ltd.	Inactive	100% held by PC India Holdings Public Company Ltd.
Elbit Cochin Island Ltd.	Inactive	40% held by Plaza Centers N.V.
SERBIA		
Sek D.O.O.	Operating shopping center	100% held by Plaza Centers Holding B.V. Kragujevac Plaza project
Plaza Centers (Ventures) B.V.	Holding company	
Orchid Group D.O.O.	Shopping center project	100% held by Plaza Centers (Ventures) B.V. Belgrade Plaza (MUP) project
CZECH REPUBLIC		
P4 Plaza S.R.O.	Operating shopping center	Liberec Plaza project
POLAND		
Bielsko-Biala Plaza Sp. z o.o.	Inactive	
Chorzow Plaza Sp. z o.o.	Inactive	
Gdansk Centrum Plaza Sp. z o.o.	Inactive	
Gliwice Plaza Sp. z o.o.	Inactive	
Opole Plaza Sp. z o.o.	Inactive	
Rzeszow Plaza Sp. z o.o.	Inactive	
Tarnow Plaza Sp. z o.o.	Inactive	
Tychy Plaza Sp. z o.o.	Inactive	
Zgorzelec Plaza Sp. z o.o.	Operating shopping center	100% held by Plaza Centers Polish Operations B.V. Zgorzelec Plaza project
Fantasy Park Lodz Sp. z o.o.	Inactive	100% held by Mulan B.V.
Fantasy Park Warszawa Sp. z o.o.	Inactive	100% held by Mulan B.V.
Fantasy Park Investments Sp. z o.o.	Inactive	100% held by Mulan B.V.
LATVIA		
Indirectly or jointly owned		
Fantasy Park Latvia SIA	Entertainment	100% held by Mulan B.V.