21 March 2019

PLAZA CENTERS N.V.

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FURTHER PORTFOLIO REPOSITIONING & DELEVERAGING

Plaza Centers N.V. (“Plaza” / “Company” / “Group”) today announces its results for the year ended 31 December 2018.

Financial highlights:

- Reduction in total assets to €62 million (31 December 2017: €141 million) as a result of the Company’s deleveraging including principal repayments and the redemption in full of Series of bonds issued in Poland in total amount of €40.1 million
- Book value of the Company’s Trading properties decreased by €31 million to €42.6 million over the period, due to disposals (land plots in Poland and Serbia, and disposal of shares of SPV holding plot in Greece) in line with the restructuring plan and an impairment of €29.5 million of Trading Properties in Romania, Poland, Greece and Serbia
- Consolidated cash position as at December 31, 2018 decreased to €1.4 million (31 December 2017: €44.8 million) and current cash position of circa €1.28 million
- Revenue from disposal of trading properties totaled €2.3 million (2017: €193 million) in line with the Company’s disposal program
- €31.7 million loss recorded at an operating level (December 31, 2017: €15 million) where a loss from selling trading properties was increased by write-down of trading properties and decreased administrative expenses
- Administrative Expenses reduced to €2.7 million in 2018 due to cost cutting of professional services and manpower (2017: €6.15 million)
- Losses increased to €38.4 million in 2018 from €26.6 million in 2017 as the write down of trading properties increased by €18 million, while net finance expense were €7.7 and €10.6 million, respectively
- Basic and diluted loss per share of €5.60 (December 31, 2017: loss per share of €3.87)

Progress in portfolio rationalisation and financial highlights:

During 2018 Plaza received gross proceeds of €2.3 million from sales transactions, price adjustments and other income. The disposals form part of the Company’s ongoing strategy to reduce the Company’s debt.

Settlement agreement with the Bondholders:

In January 2018, a settlement agreement was reached and approved (and all the conditions precedent in the agreement fulfilled) between the holders of two Series of Israeli Bonds and the Company regarding the allocation of funds, to be repaid by the Company, across the Israeli Bonds Series. As a result, the Series A Bondholders withdrew their request for immediate repayment. It is clarified that the Settlement Agreement is a separate agreement among the parties thereto with respect to the Company's restructuring plan, and as such had no effect on the Polish Bondholders. On January 31, 2018 the Company paid the bondholders a total amount of principal and interest of €38.5 million.

Retirement of Chief Executive Officer:

On 11 January 2018, the Company announced that the CEO, Dori Keren, would retire from his position at the end of March 2018. The Board of Directors appointed Avi Hakhamov, who has been with the Company for more than 11 years, as Acting CEO commencing 1 April 2018.

Ceasing of rating by S&P

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

Motion to reveal and review internal documents:

In March 2018, a Shareholder of the Company has filed a motion with the Financial Department of the District Court in Tel-Aviv to reveal and review internal documents of the Company and of Elbit Imaging Ltd., with respect to the events surrounding that certain agreements that were signed in connection with the Casa Radio Project in Romania and the sale of the US portfolio. Such events were previously announced by the Company and are detailed in the notes to consolidated financial statements as of December 31, 2018. In July 2018, the Company has filed a response to the relevant court. The case is still pending at court. For further information see Note 17(6).

Redemption of the Polish Bonds:

In May 2018, further to the decision of the Israeli Series A and Series B Bondholders, the Company has redeemed in full the series of bonds issued in Poland at their principal amount together with interest accrued to the maturity date in total amount of €2.66 million. Upon completion of the redemption, the Company has no outstanding bonds issued in Poland.

Earn-out payment for the sale of Torun:

In June 2018, the Company received the earn-out payment for the sale of Torun Plaza totaling €0.35 million, reduced by NAV adjustment of €0.14 million.

Sale of a plot Lodz, Poland („Lodz Centrum Plaza"):

In July 2018, a subsidiary of the Company has signed a preliminary agreement with respect to the sale of a 4,000 sqm plot of land in Lodz, Poland known as "Lodz Centrum Plaza", in consideration for PLN 1.3 million (circa €0.3 million). The plot was sold in September 2018.

Update on disposal of land plot in Miercurea Ciuc, Romania:

Further to the Company's announcement dated October 17, 2018 regarding signing the pre-agreement for the sale of land plot in Miercurea Ciuc, Romania, the Company grant an option for the purchase of the Plot till mid-April 2019 for a total consideration of €0.11 million. The Company has received €95,000 in 2018 and an additional €15,000 in 2019 (Non-refundable payments). In March 2019, following negotiations with the purchaser, the parties agreed that (i) the signing date of a definitive agreement will be postponed by 3 months to mid-July 2019, (ii) the receipt of non-refundable advance payments of €250,000 in two tranches by the end of April 2019, and; (ii) the sale price will be increased by €30,000.

To the extent that the Company will enter into a definitive agreement and consummates the transaction, the Company expects to receive €1.47 million (including non-refundable advanced payments).

Sale of a plot in Krusevac, Serbia:

On December 3, 2018 the Company announced that it completed the sale of its (indirectly) 100% stake in a 5-acre plot in Krusevac, Serbia, for a total consideration of approximately €0.29 million which is slightly below book value.

Preliminary Sale Agreement of Plot in Lodz, Poland:

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

During February 2019 the Company has signed conditional sale agreement for which the remaining balance less 50% of the sum invested in the road (up to maximum amount of circa €0.19 million) will be paid once the final agreement is signed after the municipality confirms that it will not exercise pre-emptive rights. The rest of consideration (circa €0.84 million) will be paid in two instalments: €0.75 million at the date of the signing of the final sale agreement and the remaining amount of €0.09 million till the end of April 2019.

Disposal of land plot in Greece:

On December 24, 2018 the Company signed a definitive agreement for the sale of its (indirectly) 100% stake in a Greek subsidiary (on an "as is" basis) for a total gross amount of €1.05 million (out of which €0.3 million has already been received as advance payments during 2017). The total net proceeds to the Company, following the deduction of working capital adjustments in accordance with the balance sheet of the SPV and transaction costs, were circa €0.66 million.

As a result of the transaction, an amount €1.05 million is recorded in Revenue from disposal of trading properties and amount of circa €2.28 million is recorded in Cost of trading properties sold. In addition, as a result of sale on "as is" basis, the Company reversed tax liability previously recorded in the financial statements resulted in tax benefit of €1.015 million.

Belgrade Plaza:

On January 26, 2017, the Company signed a binding share purchase agreement with BIG Shopping Centers Ltd ("BIG"), for the sale of the SPV holding Belgrade Plaza shopping and entertainment centre. The final agreed value of Belgrade Plaza, which comprise circa 32,300 sqm of GLA, will be calculated based on a general cap rate of 8.25% as well as the sustainable NOI after 12 months of operation. 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.

During June 2018 (the first adjustment date) the First purchase price adjustment was examined and accordingly no additional proceed was made.

During December 2018, BIG paid €466,000 for the stands and signage at the Big Fashion mall in Belgrade (previously known as “Belgrade Plaza”). In addition, BIG further informed us that they intend to hold an additional €1 million until an orderly engineering examination of the mall's technical conditions is completed as part of the final Price adjustment to be performed in May 2020. The Company is currently evaluating its options regarding BIG's intention to hold the €1 million which was not recorded in the consolidated financial statements due to uncertainty related to receipt of such amount.

Update re 2012 Disposal of Shopping Centers in the US:
On December 20, 2018 Plaza Centers announced that following its announcement of 21 November 2017, and the review concluded in 2018 by the Financial Conduct Authority (FCA), no retrospective disclosures or other actions are required under the FCA’s Listing Rules in relation to this matter.

Elbit Imaging announces it is no longer the Controlling Shareholder of Plaza Centers:
Elbit Imaging Ltd. (TASE, NASDAQ: EMITF) ("Elbit") informed in December 2018, that it has signed a trust agreement according to which Elbit will deposit its shares of Plaza Centers N.V (the "Shares" and "Plaza", respectively) with a trustee. In accordance with the trust agreement, Elbit retains the right to receive any and all rights in connection with the Shares, other than the voting rights which are vested with the trustee for all matters and purposes effective from December 18, 2018. In addition, Elbit may instruct the trustee, from time to time, to sell all or any portion of the Shares. The trust agreement shall terminate upon the earlier of: (i) a sale of all of the Shares to a third party; and (ii) the date on which actions have been taken for realization of any of the liens Elbit granted in favor of the holders of the Series I Notes issued by Elbit. The outcome of the above mentioned is that Elbit no longer considers itself to be the controlling shareholder of Plaza and accordingly will not consolidate Plaza's financial reports in its own financial reports.

Sale agreement of plot in Bangalore, India:
In June 2017, Elbit Plaza India Real Estate Holdings Ltd. ("EPI") (in which Plaza holds a 50% stake with its joint venture partner, Elbit Imaging Ltd.) signed a revised sale agreement with the former partner (the "Purchaser"). In January 2018, the Purchaser has notified EPI that due to a proposed zoning change (initiated by the Indian authorities) which could potentially impact the development of the land, all remaining payments under the Agreement will be stopped until a mutually acceptable solution is reached on this matter. EPI has rejected the Purchaser's claims, having no relevance to the existing Agreement, and started to evaluate its legal options. INR 46 Crores (approximately €6.06 million) were paid till March 2018.

In March 2018, the Company signed an amended revised agreement as follows: The Purchaser and EPI have agreed that the total purchase price shall be increased to INR 350 Crores (approximately €44.5 million). The Final Closing will take place on 31 August 2019 when the final installment of circa INR 212 Crores (approximately €26.9 million) will be paid to EPI against the transfer of the outstanding share capital of the SPV.

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

On February 4, 2019 Plaza announced that the Purchaser defaults on payments and that EPI is considering all legal measures available to it to protect its interest.

During March, 2019, Plaza announced that the Purchaser has further paid to EPI INR 9.25 cores (approximately €1.15 million), thereby having paid approximately INR 80 crores (approximately €10.26 million) as against approximately INR 92 crores (approximately €11.8 million) that was supposed to be paid by end of February 2019. The Parties continue to discuss regarding getting further payments. Plaza part from the consideration is 50%.

Regarding Environmental update on Bangalore project and the implications on the net realisable value refer to Note 6 (b) (1) in the consolidated financial statements and key highlights below.

*Sale agreement of plot in Chennai, India***:**

In July 2018, Elbit Plaza India Real Estate Holdings Limited ("EPI"), has signed a term sheet with its local partner ("Buyer"), relating to the sale of EPI's Indian subsidiary ("SPV") that holds 74.7-acre plot in Chennai, India ("Term Sheet"). Under the terms of the Term sheet, the Buyer shall have 60 (sixty) days to conduct due diligence only with respect to the SPV, following which definitive agreements, for the sale of the SPV in consideration of approximately €13.2 million (INR 1,060 million, the Company's share approximately €6.6 million), (subject to adjustment with respect to the previous deposit that was placed and the existing cash in the SPV level), shall be signed and closing shall take place on the same day. The closing of the transaction was expected in February 2019. As the transaction was not completed the Term Sheet was terminated by EPI.

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

Key highlights since the period end:

Next payment to the holders of series A and series B bonds:

On February 18, 2019 the company paid principal of circa €250,000 and penalty interest on arrears of €150,000 following the bondholder's approval for the deferral of certain principal payments to July 1, 2019 instead of December 31, 2018.

Pre-agreement for the sale of land plot in Brasov, Romania:

On February 5, 2019 the Company has signed a Pre-Agreement for the sale of a plot in Brasov, Romania for a total gross amount of €620,000 which is slightly above the last reported book value. The consummation of the Transaction (which will take place not later than January 15, 2020) is subject to the fulfillment of certain conditions, including, inter alia: (i) the former financing bank of the Project did not exercise its right to purchase the Property until December 6, 2019; (ii) successful conclusion by the potential purchaser of its due diligence investigations; and (iii) the execution of definitive agreement.

As of the date hereof, there can be no certainty that a definitive agreement will be signed and/or that the Transaction will be consummated.

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. On March 2019, the Supreme Court has set aside the Order thereby restoring the position as it existed before the Order was passed by NGT.

Non-binding agreement for the sale of the Company's indirect shareholdings in the Dambovita Center Project ("CASA RADIO"):

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

Following the execution of the LOI, the Purchaser shall have a period of 3 months to conduct due diligence investigations (with the aim of concluding the due diligence investigations before April 19, 2019), after which, if satisfactory, a pre-sale agreement will be executed within 30 days following the conclusion of the due diligence investigations (the "Pre-Sale Agreement").

In the framework of the Pre-Sale Agreement, the Purchaser will pay the Company a non-refundable down payment 15 months following the execution of the Pre-Sale Agreement, and subject to the satisfactory fulfilment of certain conditions precedent, the Parties will sign a sale agreement.

The consummation of the Transaction is subject to the fulfilment of certain conditions ("the closing conditions"), including, inter alia: (i) certain confirmations and approvals of competent public authorities regarding the PPP agreement in place and acceptance of the Purchaser; (ii) the successful conclusion by the Purchaser of its due diligence investigations; (iii) obtaining the approval of the Romanian authorities for the updated structure of the Project and timetable; (iv) confirmation that the 49-year lease period under the PPP agreement (signed between the Romanian Authorities and the Company) will commence from 2012 at the earliest, although, should the said lease period commence earlier, the parties shall amicably negotiate a price adjustment mechanism to the Purchaser's satisfaction and approval; and (v) the execution of definitive agreements.

During the period commencing on the date of the execution of the LOI and ending on the earlier of: (i) 18 month, or (ii) the Purchaser informs the Company of his withdrawal from the Transaction, the Company and its representatives have undertaken to refrain from negotiating with any other third party other than the Purchaser for the purpose of selling its shareholdings in the Project.

The payment schedule according to the LOI is expected to be set as follows:

Non-refundable down payment	€200,000
Execution of Sale Agreement (following fulfilment of the conditions precedent)	€20,000,000
Issuance of Building Permit for Phase 1 (the construction of the shopping mall, offices/residential, Hotel& Casino, Supermarket and parking).	€22,000,000
Finalization and inauguration of Phase 1	€17,800,000

The Company is not obligated to participate in the financing of the Project. In addition, the Purchaser acknowledged the liability to build the public authority building under the PPP agreement.

As of the date hereof, there can be no certainty that either the Pre-Sale Agreement, or the Sale Agreement will be executed and/or that the Transaction will be consummated as presented above or at all.
Refer to the Company's financial statements section for additional information.

Commenting on the results, acting CEO Avi Hakhamov said:
"Our active focus has continued to centre on asset disposals in CEE (including signing pre-agreements for future sales), continuing efforts to realize projects in India and generating cash flows, material cost cutting, tight budget control and the optimisation of the business with the aim of satisfying our obligations to our stakeholders. This remains our absolute priority for the next year."

For further details, please contact:

Plaza

Avi Hakhamov, acting CEO + 361 6104523

Notes to Editors

Plaza Centers N.V. (www.plazacenters.com) is listed on the Main Board of the London Stock Exchange, as of 19 October 2007, on the Warsaw Stock Exchange (LSE: "PLAZ", WSE: "PLZ/PLAZACNTR") and, on the Tel Aviv Stock Exchange.

Forward-looking statements

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

MANAGEMENT STATEMENT

During 2018 the management's focus has almost entirely been on cost reductions, delivering the €2.3 million of disposals of plots of land that we completed in the 12 months to 31 December, which produced €2 million in net proceeds, and repayment of material funds - circa €38.5 million (principal and interest) paid to the bondholders following signing settlement agreement on January 2018 by and among the Company and the two Israeli Series of Bonds.

In addition, following several years of efforts to promote the development of the Casa Radio project either by bringing a partner or through the sale of the Company's holdings, a number of serious proposals were received during the course of 2018 from serious and experienced real estate investors which were examined by management and the board. The management and the board of directors came to the conclusion that the proposed price and terms of LOI are optimal and reasonable considering the Company's current status and decided to sign a LOI with AFI Europe in 2019.

In India, the Company focus its efforts to bring cash flows from Bangalore project in accordance with the signed sale agreement, and signed a term sheet for the sale of its 50% stake in a 74.7-acre plot in Chennai, India. The closing date was extended several times and in 2019 the company (through its 50% subsidiary) terminated the the Joint Development Agreement and the Term Sheet and initiated arbitration proceeding,

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

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

Results

During the year, Plaza recorded a €38.4 million loss attributable to the shareholders of the Company. This is a 44% increase compared to the losses reported in 2017 (loss of €26.5 million).

Total result of operations excluding the finance income and finance cost was loss of €31.7 million in 2018 and €14.9 in 2017. Losses were generated in both years mainly from write down of trading properties. Additionally, currently the Company holds no operating assets.

The consolidated cash position as at 31 December 2018 was €1.4 million (31 December 2017: €44.8 million) and the current cash position is circa €1.28 million.

Liquidity & Financing

Plaza ended the period with a consolidated cash position of €1.4 million, compared to €44.8 million at the end of 2017.

As at December 31 2018 the Group's outstanding obligation to bondholders is €80.5 million after all bank loans were repaid or disposed. The outstanding balance of the debt to bondholders is circa €84.3 million as of today.

In November 2016, the Group agreed with its bondholders to amend the terms of the early repayment requirement under the original debt restructuring plan (the "Restructuring Plan"). On March 15, 2017, the Group repaid the required minimum early repayment to its bondholders and thus obtained a deferral of one year for the remaining contractual obligations of the bonds.

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

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

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

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

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

In February 18, 2019 the Company paid approximately €400,000 to its Series A and Series B. The bondholders approved the deferral of payment to July 1, 2019.

Information concerning the Group's obligations and commitments to make future payments under contracts such as debt agreements in the 15 months starting April 1, 2019 is aggregated in the following table:

Liquidity Requirements	Total Payment Due by period (in TEUR) Within 1 year	Within 1-1.5 year
Bonds including current portion and interest (*)	56,354	31,118
General & administrative	1,725	750
Total liquidity requirements	58,079	31,868
Total Sources (**)	6,561	7,015
Total deficit	(51,518)	(24,853)

(*) An amount of Circa EUR 0.4 million was repaid (excluding interest) by the date of approval of these consolidated financial statements following the balance sheet date.

(**) The Company expects to increase the amount of its liquid balances during the 15 months starting April 1, 2019, by sale of plots of lands (excluding Chennai, India) and others, and on the assumption that a final agreement for sale Casa Radio Project will be concluded, not including cash balances as of the date of signing the financial statements.

The board and management estimate that there are significant doubts regarding the Company's ability to serve its entire debt according to the current repayment schedule. Moreover, following the recent default of purchaser of Bangalore project to meet payments schedule according to the signed amendment agreement, and default of purchaser of Chennai Project to complete the sale transaction, which is detailed above, it is expected that the Company will not be able to meet its entire contractual obligations in the upcoming 12 months.

As of December 31, 2018, the Company is not in compliance with Coverage Ratio Covenant ("CRC") as defined in the restructuring plan. This may entitle the bondholders to declare that all or a part of their respective (remaining) claims become immediately due and payable. In addition, the Minimum Cash Reserve Covenant is not maintained as of December 31, 2018. If its continued throughout a period comprising two consecutive quarterly reports following the year-end report on which such breach has been established, then such breach shall constitute an event of default under the trust deeds, and the Bondholders shall be entitled to declare that all or a part of their respective (remaining) claims become immediately due and payable.

Moreover, the Company's financial statements as of December 31, 2017 include an auditor's opinion with emphasis of matter to going concern uncertainty as well as auditor's review report on interim financial statements as of June 30, 2018 include the same. As a result, there is a risk that the bondholders could argue that there are significant doubts with respect to the Company's ability to repay its obligations, which will trigger the immediate repayment of the bonds.

In respect of credit rating downgrade followed by withdraw of credit rating by Standard & Poor at the Company's request refer to Note 8 (e) to the financial statements.

In the case that the bondholders would declare their remaining claims to become immediately due and payable, the Company would not be in a position to settle those claims and would need to enter to an additional debt restructuring or might cease to be a going concern. As at the date of these financial statements the bondholders have not taken steps to assert their rights.

On January 31, 2019 the bondholders of Series A and Series B approved a partial deferral of the scheduled Principal payment as of December 31, 2018 to July 1, 2019.

Strategy and Outlook

At this point in time, the Company remains focused on cost cutting, completing the disposal of the assets identified for sale (including signing definitive sale agreements), concentration of efforts with aim to sign a pre-sale agreement of Casa Radio, getting further payments for Bangalore project, progress and decision in the arbitration process of Chennai Project and delivering on its commitments to its stakeholders.

OPERATIONAL REVIEW

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

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

Asset/Project	**Location**	**Nature of asset**	**Plot Size sqm**	**Plaza's effective ownership %**	**Status**
Casa Radio	Bucharest, Romania	Mixed-use retail, hotel and leisure plus office scheme	467,000 (GBA including parking spaces)	75	Designated for sale; Non-binding Letter of Intent signed
Lodz Plaza	Lodz, Poland	Retail & entertainment scheme	61,500	100	Designated for sale; Conditional sale agreement for part of the plot in place
Csiki Plaza	Miercurea Ciuc, Romania	Retail & entertainment scheme	36,500	100	Preliminary sale agreement
Brasov	Brasov, Romania	Retail & entertainment scheme	67,000	100	Preliminary sale agreement
Bangalore	Bangalore, India	Residential Scheme	218,500	25	Amended revised sale agreement in place
Chennai	Chennai, India	Residential Scheme	302,400	50	JDA and term sheet terminated; Initiated an Arbitration proceeding

FINANCIAL REVIEW

Results

Revenue for the period derived from the disposal of trading properties amounted to €2.3 million, compared to €193 million in 2017, the decrease being largely attributable to the sales of the last operating shopping and entertainment centres such as Suwalki Plaza and Torun Plaza in Poland in January and November 2017 respectively, and the disposal of Belgrade Plaza in Serbia in January 2017, whilst disposals of 2018 included the sale of three plots: the disposal of shares of SPV holding plot in Greece, land plot known as “Lodz Centrum Plaza” in Poland and the plot in Krusevac, Serbia, earn-out payment for the sale of Torun Plaza reduced by NAV adjustment and income for the stands and signage in Belgrade Plaza. Other income includes €0.22 due to settlement agreement with the buyer of Kragujevac Plaza mall regarding refund of claim from the city of Kragujevac.

The write down of trading properties increased from €11.5 million in 2017 to €29.5 million in 2018. The 2018 write down is mainly attributable to Lodz Plaza (€1.9 million) and Casa Radio (€24.2 million, net) projects.

Following signing of LOI for the sale of Casa Radio project, the Company measured the net realizable value of the project based on the signed LOI. For this purpose, a valuation was performed through an external appraiser whose opinion does not reflect the risk related to uncertainty in respect of fulfilment of the closing conditions, as described in Note 5(4)(f) and derived to a value of EUR 37.7 million. As a result, the Company's management assumed additional discount of 33.3% in order to reflect this uncertainty which resulted in value of the proposed deal of EUR 25 million.

Accordingly, since the value based on the Residual technique is higher than estimated value of the proposed deal, as of December 31, 2018, the Company recorded Casa Radio project at its net realizable value in the amount of EUR 25 million (trading property is presented at gross basis in the amount of EUR 39.1 million and provision for PAB liability in the amount of EUR 14.1 million).

During the year, administrative expenses decreased to €2.7 million (2017: €6.1 million) as a result of material cost cutting of professional services and manpower and further reductions are targeted for 2019.

Finance income increased considerably to €3.6 million in 2018, from €0.6 million in 2017. A gain of €3.4 million was recorded in 2018 due to foreign currency gain on bonds.

Finance costs slightly increased to €11.3 million in 2018, from €11.2 million in 2017. The main components were:

- FOREX (NIS-EUR) – foreign currency loss other €1.9 million (the effect on the debentures in 2017 – €1.1 million).
- Interest expenses booked on bank loans and debentures totaled €5.7 million (2017: €10.7 million).
- €3.7 million recorded as a cost, associated with the amortisation of the discount on debentures (2017: €0.7 million non-cash income).
- No financial costs were capitalized 2018 and 2017.

Tax benefit of circa €1 million was recorded as a result of reversed tax liability previously recorded following the disposal of SPV holding the plot in Athens, Greece on “as is” basis.

Balance sheet and cash flow

The balance sheet as at 31 December 2018 showed total assets of circa €62 million compared to total assets of €141 million at the end of 2017, largely as a result of the implementation of the debt reduction strategy through asset disposal, repayment of principal and interest in total amount of €38.5 million in January 2018 following the signed settlement agreement, and due to impairment of trading properties recognized in amount of EUR 29.5 million.

The consolidated cash position as at 31 December 2018 decreased to €1.4 million (31 December 2017: €44.8 million) mainly due to payment of principals and interests for bonds in total amount of circa €38.3 million in January 2018 from the cash which was at the closing balance as of December 31, 2017.

The value of the Company’s trading properties decreased from €73.5 million as at 31 December 2017 to €42.6 million at the end of 31 December 2018, following the disposals of shares of SPV holding plot in Greece, land plot known as “Lodz Centrum Plaza” in Poland and the plot in Krusevac, Serbia, and the circa €24.2 million impairment against the Casa Radio project in Romania as explained in the results above.

Investments in equity accounted investee companies has decreased by €1.8 million to €17.7 million (31 December 2017: €19.5 million) mainly as a result of value increase of the Bangalore project in India in an amount of € 1.6 million and cash distribution of €2.5 million (31 December 2017: € 5.4 million).

Due to the sale of shares of SPV holding the plot in Greece and reverse of tax liability previously recorded in 2017 in an amount of €1 million, other current liabilities has decreased from €1.9 million to €0.5 million.

As at 31 December 2018, Plaza has a balance sheet liability of €76.7 million (with an adjusted par value of circa €80.5 million) from issuing bonds on the Tel Aviv Stock Exchange. These bonds are presented at amortised cost under current liabilities.

Provision was created with respect to the obligation connected to Casa Radio project (Bucharest Romania) in the amount of €14.1 million (2017: €12.8 million) for the construction of the Public Authority Building.

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

1. **General Background**

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

The Material uncertainty related to going concern was included in the independent auditors’ report and in view of the management’s plans for asset disposals and also in respect of material uncertainty related to Casa Radio project, as described in Notes 1 (b) and 5 of these Consolidated Financial Statements in this press release. The board and management estimates that the Company is unable to serve its entire debt according to the current repayment schedule. Moreover, following the recent default of purchaser of Bangalore project to meet payments schedule according to the signed amendment and default of purchaser of Chennai Project to complete the sale, it is expected that the Company will not be able to meet its entire contractual obligations in the following 12 months.

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

2. Projected cash flow

The Company has implemented the restructuring plan that was approved by the Dutch court on July 9, 2014 (the “Restructuring Plan”). Under the Restructuring Plan, principal payments under the bonds issued by the Company and originally due in the years 2013 to 2015 were deferred for a period of four and a half years, and principal payments originally due in 2016 and 2017 were deferred for a period of one year. During first three months 2017, the Company paid to its bondholders a total amount of NIS 191.7 million (EUR 49.2 million) as an early redemption. Upon such payments, the Company complied with the Early Prepayment Term (early redemption at the total sum of at least NIS 382 million) and thus obtained a deferral of one year for the remaining contractual obligations of the bonds.

In January 2018, a settlement agreement was signed by and among the Company and the two Israeli Series of Bonds (refer to section “Liquidity and financing”).

On November 22, 2018 the Company announced based on its current forecasts, the Company expected to pay the accrued interest on Series A and Series B Bonds on December 31, 2018, in accordance with the repayment schedule determined in the Company's Restructuring Plan and Settlement Agreement with Series A and Series B Bondholders from 11 January 2018 (the “Settlement Agreement”). The Company noted that it will not meet its principal repayment due on December 31, 2018 as provided for in the Settlement Agreement. On February 18, 2019 the company paid principal of circa EUR 250,000 and Penalty interest on arrears of EUR 150,000 following the bondholder’s approval to defer principal repayment to July 1, 2019.

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

	2019	2020
Cash - Opening Balance	**1.48**	**0.15**
Proceeds from selling of trading properties (1)(2)(3)	6.56	33.18
Total Sources	**8.04**	**33.33**
Debentures - principal	0.25	19.36
Debentures - interest	5.74	5.37
Compensation to Bondholders	-	2.14
Operational expenses	1.90	1.50
Total Uses	**7.89**	**28.37**
Cash - Closing Balance	**0.15**	**4.96**

(1) Comprised from the sale of plots: Lodz Mall, Mirecurea Ciuc, Brasov and Bangalore (Company's share 50%), price adjustment from Belgrade Plaza during 2019 and 2020;

(2) Assuming EUR/NIS rate of 4.1. The last schedule payment for Bangalore plot sale is at August 2019. The company took a conservative approach regarding payment schedule and therefore payments spread up to and including 2020. Chennai Project excluded;

(3) Casa Radio project – assuming EUR 20 million to be received (2020).

Below is a summary table of the comparison between forecasted and actual cash flow, with explanations on the differences published for the year ending 31 December 2018.

In € millions		**2018 Forecast**	**2018 Actual**
Cash - Opening Balance		**44.8**	**44.8**
Proceeds from sales transactions, price adjustments and other income (1)		13.6	5.92
Total Sources		**58.4**	**50.72**
Debentures – principal (2)		53.9	40.89
Debentures - interest		5.7	5.69
Compensation to Bondholders		0.2	0.20
Operational expenses (3)		3.2	2.46
Total Uses		**63.0**	**49.24**
Cash - Closing Balance		**-4.6**	**1.48**

(1) Forecast included proceeds from: Chennai (€3.44 m), Bangalore (€2.70 m), Riga (€0.30 m), Kochi Advance (€1.4 m), Greece (€3.1 m), Lodz Plaza (€1.2 m), Lodz Centrum (€0.31 m), Torun Plaza price adjustment (€0.15 m), Belgrade (€1.0 m).
Actual included proceeds from: Bangalore (€1.85 m), Riga (€0.20 m), Kochi Advance (€1.55 m), Greece (€0.66 m), Lodz Plaza (€0.07 m), Lodz Centrum (€0.30 m), Torun Plaza price adjustment (€0.21 m), Belgrade (€0.47 m), Krusevac (€0.29 m), settlement in Kragujevac (€0.23 m), Miercurea Ciuc (€0.09 m).

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

(3) Decrease as a result of non-cash costs of 2018 (€0.4 m) and material cost cutting of professional services and manpower.

Avi Hakhamov

Acting CEO

21 March 2019

PLAZA CENTERS N.V.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

IN 000 EUR

CONTENTS

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION IN '000 EUR

	Note	December 31, 2018	December 31, 2017
ASSETS			
Cash and cash equivalents	3	1,405	44,844
Other receivables	4	240	670
Prepayments		-	131
Total current assets		1,645	45,645
Trading properties	2,5	42,600	73,569
Equity - accounted investees	6	17,676	19,530
Property and equipment		19	178
Related parties receivables	18	-	1,753
Total non-current assets		60,295	95,030
Total assets		61,940	140,675
LIABILITIES AND SHAREHOLDERS' EQUITY			
Bonds at amortized cost	8	76,698	116,914
Trade payables		53	584
Related parties' liabilities		3	87
Other liabilities	7	500	1,878
Total current liabilities		77,254	119,463
Provisions	5(4)(e)	14,087	12,849
Total non-current liabilities		14,087	12,849
Share capital	10	6,856	6,856
Translation reserve	10	(29,598)	(28,800)
Other reserves		(19,983)	(19,983)
Share based payment reserve	10	35,376	35,376
Share premium	10	282,596	282,596
Retained losses		(304,648)	(267,682)
Total equity		(29,401)	8,363
Total equity and liabilities		61,940	140,675

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

March 20, 2019		
Date of approval of the financial statements	**Avi Hakhamov** **Acting Chief Executive Officer**	**David Dekel** **Director and Chairman of the Audit Committee**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS IN '000 EUR

	Note	Year ended December 31, 2018	2017
Revenues and gains			
Revenue from disposal of trading properties	5	2,333	192,958
Total revenues		2,333	192,958
Gains and other			
Rental income		-	7,908
Other income	14	254	757
Total gains		254	8,665
Total revenues and gains		2,587	201,623
Expenses and losses			
Cost of trading properties disposed	5	(2,891)	(188,868)
Cost of operations		(357)	(2,231)
Write-down of trading properties	5	(29,450)	(11,487)
Share in results of equity-accounted investees, net of tax	6	1,443	(7,177)
Administrative expenses	13	(2,722)	(6,146)
Other expenses	14	(329)	(657)
		(34,306)	(216,566)
Finance income	15	3,647	577
Finance costs	15	(11,306)	(11,196)
		(41,965)	(227,185)
Loss before income tax		(39,378)	(25,562)
Tax benefit (Income tax expense)		1,013	(1,001)
Loss for the year		(38,365)	(26,563)
Loss attributable to:			
Equity holders of the Company		(38,365)	(26,563)
Earnings per share			
Basic and diluted loss per share (EUR)	11	(5.60)	(3.87)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IN '000 EUR

	Year ended December 31, 2018	Year ended December 31, 2017
Loss for the year	(38,365)	(26,563)
Other comprehensive income Items that are or may be reclassified to profit or loss:		
Foreign currency translation differences - foreign operations (Equity accounted investees)	(798)	(1,697)
Other comprehensive loss for the year, net of income tax	(798)	(1,697)
Total comprehensive loss for the year	(39,163)	(28,260)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN '000 EUR

	Share capital	Share Premium	Share based payment reserves	Translation Reserve	Capital reserve from acquisition of non-controlling interests	Retained losses	Total
Balance at January 1, 2017	6,856	282,596	35,376	(27,103)	(19,983)	(241,119)	36,623
Comprehensive income for the year							
Net loss for the year	-	-	-	-	-	(26,563)	(26,563)
Foreign currency translation differences	-	-	-	(1,697)	-	-	(1,697)
Total comprehensive loss for the year	-	-	-	(1,697)	-	(26,563)	(28,260)
Balance at December 31, 2017	6,856	282,596	35,376	(28,800)	(19,983)	(267,682)	8,363
Adjustments on initial application of IFRS 9 (see Note 2(u)(2))	-	-	-	-	-	1,399	1,399
Comprehensive income for the year							
Net loss for the year	-	-	-	-	-	(38,365)	(38,365)
Foreign currency translation differences	-	-	-	(798)	-	-	(798)
Total comprehensive loss for the year	-	-	-	(798)	-	(36,966)	(37,764)
Balance at December 31, 2018	6,856	282,596	35,376	(29,598)	(19,983)	(304,648)	(29,401)

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

CONSOLIDATED STATEMENT OF CASH FLOWS IN '000 EUR

	Year ended December 31, 2018	Year ended December 31, 2017
Cash flows from operating activities		
Loss for the year	(38,365)	(26,563)
Adjustments necessary to reflect cash flows used in operating activities		
Depreciation and impairment of property and equipment	155	18
Net finance costs	7,659	10,619
Share of loss (Gain) of equity-accounted investees, net of tax	(1,443)	7,177
Loss (Gain) from sale of subsidiaries	-	(2,900)
Income tax expense (Tax benefit)	(1,013)	1,001
	(33,007)	(10,648)
Changes in:		
Trade receivables	27	(3,102)
Other receivables	2,287	2,914
Provision	1,238	(395)
Trading properties	30,970	23,694
Trade payables	(85)	(500)
Other liabilities, related parties' liabilities and provisions	(634)	(1,586)
	33,803	21,025
Interest paid	(5,887)	(10,739)
Taxes paid	-	(41)
Net cash used in operating activities	(5,091)	(403)
Cash from investing activities		
Proceeds from sale of property and equipment	4	3,127
Proceeds from sale of subsidiaries (Appendix A)	-	89,814
Changes in restricted cash	-	3,189
Distribution received from Equity Accounted Investees	2,503	2,560
Net cash provided by investing activities	2,507	98,690
Cash from financing activities		
Proceeds from bank loans	-	4,029
Repayment of debentures	(40,065)	(62,179)
Repayment of interest-bearing loans from banks	-	(939)
Net cash used in financing activities	(40,065)	(59,089)
Increase (decrease) in cash and cash equivalents during the year	(43,439)	39,198
Effect of movement in exchange rate fluctuations on cash held	(790)	-
Cash and cash equivalents as at January 1st	44,844	5,646
Cash and cash equivalents as at December 31st	1,405	44,844

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

CONSOLIDATED STATEMENT OF CASH FLOWS IN '000 EUR

	Year ended December 31, 2018	Year ended December 31, 2017
Appendix A - Proceeds from sale of investments in previously consolidated subsidiaries:		
The subsidiaries assets and liabilities at date of sale:		
Working capital (excluding cash and cash equivalents)	-	6,307
Trading Properties	-	166,432
Bank loans	-	(85,365)
Gain (Loss) from sale of subsidiaries	-	2,440
	-	89,814

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

NOTE 1:- GENERAL INFORMATION

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

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

The Company's immediate parent company was Elbit Ultrasound (Luxembourg) B.V. / S.à r.l. ("EUL"), which held 44.9% of the Company's shares, till December 19, 2018 when EUL informed that it has signed a trust agreement according to EUL will deposit its shares of the Company with a trustee no longer considers itself to be the controlling shareholder of Plaza. (December 31, 2017 - 44.9%). For the list of the Group entities, refer to Note 20.

b. Going concern and liquidity position of the Company:

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

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

As at December 31, 2018 the Group's outstanding obligations to bondholders are EUR 80.5 million (refer also to Note 8).

Information concerning the Group's obligations and commitments to make future payments under contracts such as debt agreements in the 15 months starting April 1, 2019 is aggregated in the following tables.

	Total Payment Due by period (in TEUR)	
Liquidity Requirements	**Within 1 year**	**Within 1-1.5 year**
Including current portion and interest (*)	56,354	31,118
General & administrative	1,725	750
Total liquidity requirements	58,079	31,868
Total Sources (**)	6,561	7,015
Total deficit	(51,518)	(24,853)

NOTE 1:- GENERAL INFORMATION (Cont.)

(*) An amount of Circa EUR 0.4 million was repaid (excluding interest) by the date of approval of these consolidated financial statements following the balance sheet date.

(**) The Company expects to increase the amount of its liquid balances during the 15 months starting April 1, 2019, by sale of plots of lands (excluding Chennai, India) and others, and on the assumption that a final agreement for sale Casa Radio Project will be concluded, not including cash balances as of the date of signing the financial statements.

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

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

The board and management estimate that the Company is unable to serve its entire debt according to the current repayment schedule. Moreover, following the recent default of purchaser of Bangalore project to meet payments schedule according to the signed amendment agreement (refer to Note 6(b)(1)), and default of purchaser of Chennai Project to complete the sale transaction (refer to Note 6(b)(2)), it is expected that the Company will not be able to meet its entire contractual obligations in the following 12 months.

As of December 31, 2018, the Company is not in compliance with Coverage Ratio Covenant ("CRC") as defined in the restructuring plan. This may entitle the bondholders to declare that all or a part of their respective (remaining) claims become immediately due and payable. In addition, the Minimum Cash Reserve Covenant as defined in Note 17(b)(1)(d) is not maintained as of December 31, 2018. If its continued throughout a period comprising two consecutive quarterly reports following the year-end report on which such breach has been established, then such breach shall constitute an event of default under the trust deeds, and the Bondholders shall be entitled to declare that all or a part of their respective (remaining) claims become immediately due and payable.

Moreover, the Company's financial statements as of December 31, 2017 include an auditor's opinion with emphasis of matter to going concern uncertainty as well as auditor's review report on interim financial statements as of June 30, 2018 include the same. As a result, there is a risk that the bondholders could argue that there are significant doubts with respect to the Company's ability to repay its obligations, which will trigger the immediate repayment of the bonds.

In addition, based on trust deeds, in the case of material deterioration in the Company's business and the existence of significant doubts regarding the Company's ability to repay the bonds on time, the bondholders may require an immediate repayment of bonds due to the Company's breach of a covenant in the trust deeds.

In respect of credit rating downgrade followed by withdraw of credit rating by Standard & Poor at the Company's request refer to Note 8(e) to these consolidated financial statements.

NOTE 1:- GENERAL INFORMATION (Cont.)

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.

On January 31, 2019 the bondholders of Series A and Series B approved a partial deferral of the scheduled Principal payment as of December 31, 2018 to July 1, 2019 (see Note 8).

A combination of the abovementioned conditions indicates the existence of a material uncertainty that casts significant doubt about the Company's ability to continue as a going concern.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of these financial statements:

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

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

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

These consolidated financial statements are not intended for statutory filing purposes. The Company is required to file consolidated financial statements prepared in accordance with The Netherlands Civil Code. At the date of approving these financial statements the Company had not yet submitted consolidated financial statements for the year ended December 31, 2018 in accordance with the Netherlands Civil Code.

The consolidated financial statements were authorized for issue by the Board of Directors on March 20, 2019.

b. Functional and presentation currency:

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

c. Investment property vs. trading property classification:

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

d. Functional and presentation currency

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Operating cycle determination:

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

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

f. Use of estimates and judgments:

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Information about other critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

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

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

- Notes 5 - key assumptions used in determining the net realisable value of trading properties;

- Note 5,16 - recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

g. Basis of consolidation:

1. Subsidiaries:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Interests in equity-accounted investees:

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

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

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

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

3. Loss of control:

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

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

4. Transactions eliminated on consolidation:

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

h. Foreign currency:

1. Foreign currency transactions:

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

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Foreign operations:

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

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

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

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

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

3. Index-linked monetary items:

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

i. Cash equivalents:

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

j. Financial instruments:

As described in Note 2a(u)(2) regarding the initial adoption of IFRS 9, "Financial Instruments" ("the Standard"), the Company elected to adopt the provisions of the Standard retrospectively without restatement of comparative data.

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

1. Financial assets:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

a) Loans and receivables:

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

2. Financial liabilities:

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

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

a) Financial liabilities at amortized cost:

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

3. Offsetting financial instruments:

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

4. Derecognition of financial instruments:

a) Financial assets:

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

b) Financial liabilities:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

5. Impairment of financial assets:

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

   Financial assets carried at amortized cost:

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

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

1. Financial assets:

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

   Debt instruments are measured at amortized cost when:

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

2. Impairment of financial assets:

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

3. Derecognition of financial assets:

   A financial asset is derecognized only when:

   - The contractual rights to the cash flows from the financial asset has expired; or

   - The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

the asset, but has transferred control of the asset; or

- The Company has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

4. Financial liabilities:

a) Financial liabilities measured at amortized cost:

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

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

5. Derecognition of financial liabilities:

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

6. Offsetting financial instruments:

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

k. Fair value measurement

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

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

- Note 16 - Financial instruments

l. Share capital:

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

m. Trading properties:

Trading properties are being designated for sale in the ordinary course of business and as such are classified as trading properties (inventory) and measured at the lower of cost and net realizable value.

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

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

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

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

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

n. Impairment of non-financial assets:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

Investment in associate or joint venture:

After application of the equity method, the Company determines whether it is 3necessary to recognize any additional impairment loss with respect to the investment in associates or joint ventures. The Company determines at each reporting date whether there is objective evidence that the carrying amount of the investment in the associate or the joint venture is impaired. The test of impairment is carried out with reference to the entire investment, including the goodwill attributed to the associate or the joint venture.

o. Provisions:

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

<u>Warranties</u>

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.

<u>Legal claims:</u>

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

p. Revenue recognition:

As described in Note 2(u)(1) regarding the initial adoption of IFRS 15, "Revenue from Contracts with Customers" ("the Standard"), the Company elected to adopt the provisions of the Standard using the modified retrospective method with the application of certain practical expedients and without restatement of comparative data.

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Revenues from selling of trading property

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

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

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

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

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

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

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

Revenue recognition:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Revenue from the sale of goods:

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

Variable consideration:

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

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

q. Operating lease payments:

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17.

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).

r. Finance income and cost:

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

s. Income tax:

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

Current tax

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred tax

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

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

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

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

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

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

t. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

1. Initial adoption of IFRS 15, "Revenue from Contracts with Customers":

The IASB issued IFRS 15, "Revenue from Contracts with Customers" ("the new Standard") in May 2014. The new Standard replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The new Standard introduces a five-step model that applies to revenue earned from contracts with customers.

The new Standard has been applied for the first time in these financial statements. The Company elected to adopt the provisions of the new Standard using the modified retrospective method with the application of certain practical expedients and without restatement of comparative data. The Company recognizes any difference between the previous carrying amount and the carrying amount on the date of initial application of the new Standard as an adjustment to the opening balance of retained earnings (or another component of equity, as applicable).

The effect of the initial application of the new Standard on the Company's financial statements is not significant.

2. Initial adoption of IFRS 9, "Financial Instruments":

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("the new Standard"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". The new Standard mainly focuses on the classification and measurement of financial assets and it applies to all assets within the scope of IAS 39.

The new Standard has been applied for the first time in these financial statements retrospectively without restatement of comparative data.

The effect of the initial adoption of the new Standard on the Company's financial statements is as follows:

During 2017, a non-substantial modification to the terms of previously issued debentures was made by the Company due to modification of the trust deeds terms. Accordingly, the Company accounted for the modification in accordance with the principles of IAS 39.AG7 by adjusting the effective interest rate such that the revised cash flows, discounted at the new interest rate, was equal to the carrying amount of the debentures before the modification in terms. Under the provisions of the new Standard, the change should be accounted for pursuant to the principles of IAS 39.AG8 whereby the revised cash flows after the modification in terms are discounted using the original effective interest rate of the debentures to arrive at a new carrying amount, with any difference from the existing carrying amount on the date of modification being recorded in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The effects of the above changes on the Company's financial statements are as follows:

In the consolidated statements of financial position:

	As previously reported	The change	According to IFRS 9
	EUR in thousands		
As of January 1, 2018,			
Bonds at amortized cost	116,914	(1,399)	115,515
Retained losses	(267,682)	1,399	(266,283)

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

1. IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use

an asset for a period of time in exchange for consideration.

The effects of the adoption of the new Standard are as follows:

- According to the new Standard, lessees are required to recognize all leases in the statement of financial position (excluding certain exceptions, see below). Lessees will recognize a liability for lease payments with a corresponding right-of-use asset, similar to the accounting treatment for finance leases under the existing standard, IAS 17, "Leases". Lessees will also recognize interest expense and depreciation expense separately.

- The accounting treatment by lessors remains substantially unchanged from the existing standard, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after January 1, 2019.

The Company believes, based on an assessment of the impact of the adoption of the new Standard, that its application is not expected to have a material effect on the financial statements.

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

income taxes on the financial statements and accounting for changes in facts and circumstances in respect of the uncertainty.

The Interpretation is to be applied in financial statements for annual periods beginning on January 1, 2019. Early adoption is permitted. Upon initial adoption, the Company will apply the Interpretation using one of two approaches:

1. Full retrospective adoption, without restating comparative data, by recording the cumulative effect as of the date of initial adoption in the opening balance of retained earnings.

2. Full retrospective adoption including restatement of comparative data.

The Company does not expect the Interpretation to have any material effect on the financial statements.

3. IAS 28, "Investments in Associates and Joint Ventures":

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

The Amendment is to be applied retrospectively for annual periods beginning on January 1, 2019. Early adoption is permitted.

The Company is currently evaluating potential effect of the Amendment on its financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 3: - CASH AND CASH EQUIVALENTS

Bank deposits and cash denominated in	December 31, 2018	December 31, 2017
EUR - bank balances	1,323	11,654
United States Dollar (USD) - bank balances	11	586
New Israeli Shekel (NIS)	4	32,039
Polish Zlotys (PLN)	34	418
Other currencies	33	147
	1,405	44,844

*) The balances are not bearing interest.

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

NOTE 4:- OTHER RECEIVABLES

Other receivables:

	December 31, 2018	December 31, 2017
Tax receivables and VAT *)	226	133
Others	14	537
	240	670

*) refer to Note 18.

NOTE 5: - TRADING PROPERTIES

	December 31, 2018	December 31, 2017
Balance as at 1 January	73,569	263,695
Construction costs and other (1)	-	1,514
Write-down of trading properties, net (2)	(28,212)	(11,487)
Trading properties disposed (3)	(2,757)	(180,153)
Balance as at 31 December	42,600	73,569
Trading properties designated for sale	42,600	73,569

(1) 2017 - mainly due to construction activities in Serbia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5: - TRADING PROPERTIES (Cont.)

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

Project name (location)	Year ended December 31, 2018	2017
Helios Plaza (Athens, Greece)	1,150	-
Krusevac (Krusevac, Serbia)	300	400
Lodz Plaza (Lodz, Poland)	1,940	1,200
Lodz Centrum (Lodz, Poland)	100	-
Casa radio (Bucharest, Romania)	24,172	10,095
Brasov (Brasov, Romania)	550	-
Other, aggregated	-	187
	28,212	11,882
Change in provision in respect to PAB (*)	1,238	(395)
Total write-downs	29,450	11,487

(*) See also (5)(4)(e) below.

The 2018 write-downs were caused mainly due to the following factors:

- EUR 0.1 million of write-down in Lodz Centrum (Residential Plot), Poland, which is based on the preliminary agreement signed during July 2018.
- EUR 1.9 million of write-down regarding plot in Lodz Plaza ("Lodz mall"), Poland based on indications received from the local brokers regarding investors' interest, including the expected price level, direct talks with investors and non-binding proposals received.
- EUR 0.3 million of write-down in Krusevac, Serbia during first half of 2018 based on management internal estimation, which reflects the fact that no proposals have been received for a long period including brokers for the expected price, and the legal status of the Plot.
- EUR 0.55 million of write-down in Brasov plot of land, Romania, which reflects signed sale agreement (see Note 19(a)).
- EUR 25.4 million of write-down (including change in provision in respect to PAB) in Casa Radio project, Romania (see 4 in this Note).

For detailed information with respect to valuation techniques and main assumptions, refer also to (5) in this Note.

NOTE 5: - TRADING PROPERTIES (Cont.)

(3) Sale of assets in the reporting period:

a. Lodz Centrum Plaza:

In July 2018, a subsidiary of the Company has signed a preliminary agreement with respect to the sale of the land plot known as " Centrum Plaza", in consideration for PLN 1.3 million (circa EUR 0.3 million). The agreement was conditional upon the pre-emptive right of the municipality of Lodz. The plot was sold in September 2018.

b. Preliminary Sale of Plot in Lodz, Poland:

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

During February 2019 the Company has signed conditional sale agreement for which the remaining balance less 50% of the sum invested in the road (up to maximum amount of circa EUR 0.19 million) will be paid once the final agreement is signed after the municipality confirms that it will not exercise preemptive rights. The rest of consideration (circa EUR 0.84 million) will be paid in two installments: EUR 0.75 million at the date of the signing of the final sale agreement and the remaining amount of EUR 0.09 million till the end of April 2019.

c. Earn-out payment for the sale of Torun:

On 21 November, 2017 one of the Company's subsidiaries has completed the sale of Torun Plaza shopping and entertainment center in Poland to a private investment fund. The Company has received circa EUR 28.3 million. This net cash is after the deduction of the bank loan (circa EUR 43.3 million), and other working capital adjustments in accordance with the balance sheet of the SPV holding the Project. The above-mentioned sums do not include the earn-out payments received in 2018. The Company recorded revenue of EUR 71.6 million from the disposal and a loss of circa EUR 1.5 million (not including the earn-out payment mentioned).

In June 2018 the Company received the earn-out payment for the sale of Torun Plaza in amount of EUR 0.35 million, reduced by NAV adjustment of EUR 0.14 million included in Revenue from disposal of trading properties.

d. Disposal of land plot in Greece:

Following certain preliminary agreement regarding the disposal of a plot in Piraeus, Greece, several amendments were signed during 2016-2017 the latest amendment deadline had expired on January 20, 2018.

The last selling price of the share of the SPV holding the plot was set at EUR 3.54 million. In order to secure the prolonged validity of the initial agreement, the purchaser has paid advance payments in a total amount of EUR 0.3 million non-refundable to Plaza. The completion of the transactions was expected to be concluded in 2018 as an asset deal (instead of the original agreement of share deal) with a lower sale price of EUR 3.35 million.

NOTE 5: - TRADING PROPERTIES (Cont.)

In May 2018, a third party has filed a legal claim in the court of Greece against Helios Plaza AE ("HP"), a fully owned subsidiary of Plaza which holds land property in Athens ("Land Property"). The claimant is claiming from HP an amount of EUR 2.96 million based on a certain allegedly agreement that was claimed to be agreed in 2010, and has also filed a request for an injunction with respect to the Land Property in order to secure its claim. In June 2018, the injunction was granted until final decision regarding the main dispute.

On December 24, 2018 the Company signed a definitive agreement for the sale of its (indirectly) 100% stake in a Greek subsidiary (on an "as is" basis) for a total gross amount of EUR 1.05 million (out of which EUR 0.3 million has already been received as advance payments during 2017). The total net proceeds to the Company, following the deduction of working capital adjustments in accordance with the balance sheet of the SPV and transaction costs, were circa EUR 0.66 million.

As a result of the transaction, an amount EUR 1.05 million is recorded in Revenue from disposal of trading properties and amount of circa EUR 2.28 million is recorded in Cost of trading properties sold. In addition, as a result of sale on "as is" basis, the Company reversed tax liability previously recorded in the financial statements resulted in tax benefit of EUR 1.015 million (refer also to Note 9).

e. Update on disposal of land plot in Miercurea Ciuc, Romania:

Further to the Company's announcement dated October 17, 2018 regarding signing the pre-agreement for the sale of land plot in Mercuria Ciuc, Romania, the Company grant an option for the purchase of the Plot till mid-April 2019 for a total consideration of EUR 0.11 million. The Company has received EUR 95,000 in 2018, and received an additional EUR 15,000 in 2019 (non-refundable payments). In March 2019, following negotiations with the purchaser, the parties agreed that (i) the signing date of a definitive agreement will be postponed by 3 months to mid-July 2019, (ii) the receipt of non-refundable advance payments of EUR 250,000 in two tranches by the end of April 2019, and; (ii) the sale price will be increased by EUR 30,000. To the extent that the Company will enter into a definitive agreement and consummates the transaction, the Company expects to receive EUR 1.47 million (including non-refundable advanced payments).

f. Belgrade Plaza

On January 26, 2017, the Company signed a binding share purchase agreement with BIG Shopping Centers Ltd ("BIG"), for the sale of the SPV holding Belgrade Plaza shopping and entertainment center. The final agreed value of Belgrade Plaza, which comprise circa 32,300 sqm of GLA, will be calculated based on a general cap rate of 8.25% as well as the sustainable NOI after 12 months of operation, which the Company estimated in the range of EUR 6.2-6.5 million per annum.

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

During December 2018, BIG paid to the Company EUR 466,000 for the stands and signage recorded as Revenue from disposal of trading property. In addition, BIG further informed the Company that they intend to hold an additional EUR 1 million until an orderly engineering examination of the mall's technical conditions is completed as part of the final Price adjustment to be performed in May 2020. The Company is currently evaluating its options regarding BIG's intention to hold the EUR 1 million which was not recorded in the consolidated financial statements due to uncertainty related to receipt of such amount.

NOTE 5: - TRADING PROPERTIES (Cont.)

g. Disposal of land plot in Krusevac, Serbia

On December 3, 2018 the Company announced that it completed the sale of its (indirectly) 100% stake in a 5-acre plot in Krusevac, Serbia, for a total consideration of approximately EUR 290 thousands which is slightly below book value.

(4) Casa Radio:

(a) General:

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

As part of the PPP, the Project SPV was granted with development and exploitation rights in relation to the site for a period of 49 years, starting December 2006 (37 years remaining at the end of the reporting period). As part of its obligations under the PPP, the Project SPV has committed to construct a Public Authority Building ("PAB") measuring approximately 11.000 square meters for the Romanian Government at its own cost.

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

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

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

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

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

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

NOTE 5: - TRADING PROPERTIES (Cont.)

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

Because of the failure of the public authorities to cooperate, negotiate and adjust the PPP agreement, the Project SPV was not able to meet its obligations under the PPP. This resulted in a situation where the Project SPV could not "de facto" continue the execution of the Project and created a risk that the public authorities could attempt to terminate the PPP agreement. In the event that the public authorities seek to terminate the PPP Agreement and/or seek to impose penalties, the Company may incur penalties and/or recover less than the carrying amount of the Casa radio asset recorded in the consolidated financial statements as at year end (EUR 25 million). As of the date of approval of these consolidated financial statements the Project SPV did not receive any termination notification by the public authorities.

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

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

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

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

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

NOTE 5:- TRADING PROPERTIES (Cont.)

penalties in respect to the breach of the PPP agreement.

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

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

The Company has approached and is co-operating fully with the relevant Romanian Authorities regarding the matters that have come to its attention and it has submitted its initial findings in March 2016 to the Romanian Authorities. The Company, during this process has been verbally informed by the Romanian Authorities that it has received immunity from certain potential criminal charges and received further verbal assurance that the mentioned investigation should have no effect on the Company's existing legal rights to the Project and the PPP Agreement. As the investigation by the Romanian Authorities is still on-going, the Company in unable to comment further on any details related to this matter. Management is currently unable to estimate any monetary sanctions in respect to the potential irregularities, consequently no provision has been recorded in connection with these matters.

(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 14.1 million in respect of the construction of the PAB (December 31, 2017: EUR 12.8 million).

During 2018, the Company recorded loss in total amount of EUR 1.2 million from change in PAB provision as part of write down of trading properties (in 2017 income - EUR 0.4 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN ‘000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)

Following the execution of the LOI, the Purchaser shall have a period of 3 months to conduct due diligence investigations (with the aim of concluding the due diligence investigations before April 19, 2019), after which, if satisfactory, a pre-sale agreement will be executed within 30 days following the conclusion of the due diligence investigations. (the "Pre-Sale Agreement").

In the framework of the Pre-Sale Agreement, the Purchaser will pay the Company a non-refundable down payment. 15 months following the execution of the Pre-Sale Agreement, and subject to the satisfactory fulfillment of certain conditions precedent, the Parties will sign a sale agreement.

The consummation of the Transaction is subject to the fulfillment of certain conditions ("the closing conditions"), including, inter alia: (i) certain confirmations and approvals of competent public authorities regarding the PPP agreement in place and acceptance of the Purchaser; (ii) the successful conclusion by the Purchaser of its due diligence investigations; (iii) obtaining the approval of the Romanian authorities for the updated structure of the Project and timetable; (iv) confirmation that the 49-year lease period under the PPP agreement (signed between the Romanian Authorities and the Company) will commence from 2012 at the earliest, although, should the said lease period commence earlier, the parties shall amicably negotiate a price adjustment mechanism to the Purchaser's satisfaction and approval; and (v) the execution of definitive agreements.

During the period commencing on the date of the execution of the LOI and ending on the earlier of: (i) 18 month, or (ii) the Purchaser informs the Company of his withdrawal from the Transaction, the Company and its representatives have undertaken to refrain from negotiating with any other third party other than the Purchaser for the purpose of selling its shareholdings in the Project.

The payment schedule according to the LOI is expected to be set as follows:

Non-refundable down payment	EUR 200,000
Execution of Sale Agreement (following fulfillment of the conditions precedent)	EUR 20,000,000
Issuance of Building Permit for Phase 1 (the construction of the shopping mall, offices/residential, Hotel& Casino, Supermarket and parking).	EUR 22,000,000
Finalization and inauguration of Phase 1	EUR 17,800,000

The Company is not obligated to participate in the financing of the Project. In addition, the Purchaser acknowledged the liability to build the public authority building under the PPP agreement.

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

NOTE 5:- TRADING PROPERTIES (Cont.)

(5) 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, 2018, amounted to EUR 184.7 million or 79.5% percent of outstanding trading properties original cost (December 31, 2017 - EUR 171.8 million or 70% 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, 2018, 91.8% of the value of trading properties was based on valuations done by the independent third-party valuation service (2017 – 91.3%).

In 2017 the trading property Casa Radio was valued using the Residual technique which set a value of EUR 50 million. Prior to the signing of the LOI, the Company had obtained an updated appraisal as of December 31, 2018 based on the same technique which reflected a value of EUR 43 million.

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

Following signing of LOI as described in Note 5(4)(f), the Company measured the net realizable value of the project based on the signed LOI .For this purpose, a valuation was performed through an external appraiser whose opinion does not reflect the risk related to uncertainty in respect of fulfilment of the closing conditions, as described in Note 5(4)(f) and derived to a value of EUR 37.7 million. As a result, the Company's management assumed additional discount of 33.3% in order to reflect this uncertainty which resulted in value of the proposed deal of EUR 25 million.

Accordingly, since the value based on the Residual technique is higher than estimated value of the proposed deal, as of December 31, 2018, the Company recorded Casa Radio project at its net realizable value in the amount of EUR 25 million (trading property is presented at gross basis in the amount of EUR 39.1 million and provision for PAB liability in the amount of EUR 14.1 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)

Following parameters have been considered to arrive at the net realizable value of the property:

Risk category	Rate	Comments
Asset risk	7.63%	7.25% Prime Yield - the prime real estate yield as a basis for the computation of the discount rate since this risk reflects investors' sentiment regarding the country risk as well as liquidity/industry risk; and 0.38% Submarket risk - based on relevant transactions recently closed but as well as considering current market sentiment, the respective prime yield was adjusted, for each asset class planned to be developed on the site The overall estimated transaction yield is resulting from the weighted average, for each asset class, between the expected GLA and its respective transaction yield.
Approval risk	0.00%	The assessment assumed that all authorizations will be obtained therefore no risk was considered in this respect.
Project risk	1.75%	Considering the legal specificities of the transaction (PPP legal framework), the potential delays in obtaining all authorizations/approvals as well as the potential findings during the due diligence phase, a component of construction risk as well inherent to a development project - it was assumed an overall project risk of 1.75%
Counterparty risk	5.00%	Considering the macroeconomic instability, the end of the ECB's quantitative easing, the recent widening spread, the forecasted interest rate growth as well as local financing conditions, an estimated of 5% counterparty risk for this transaction.
Discount rate	**14.38%**	

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

		Discount rate							
		12.88 %	13.38 %	13.88 %	14.38 %	14.88 %	15.38 %	15.88 %	16.38 %
Potential discount	0.00%	39.4	38.8	38.2	37.7	37.2	36.7	36.2	35.7
	10.00%	35.5	34.9	34.4	33.9	33.5	33.0	32.6	32.1
	20.00%	31.5	31.0	30.6	30.2	29.8	29.4	29.0	28.6
	33.33%	26.3	25.9	25.5	25.1	24.8	24.5	24.1	23.8
	40.00%	23.6	23.3	22.9	22.6	22.3	22.0	21.7	21.4
	50.00%	19.7	19.4	19.1	18.9	18.6	18.4	18.1	17.9

Trading property in India owned by joint controlled entity were valued using comparable method (refer to Note 6).

All trading properties carrying amounts equal their net realizable values.

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

NOTE 5:- TRADING PROPERTIES (Cont.)

The main features included in each valuation are:

(1) Comparable method:

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

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

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

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

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

- Adjustment because of location. The locations of the comparable sale properties and the subject property are compared to ascertain whether location and the immediate environment are influencing the prices paid. The better location a property is located in the more it is worth per square meter; and conversely the worse location a property is in the less it is worth per square meter. An adjustment is made to reflect such differences based on the valuers' professional experience. Extreme location differences may indicate that a transaction is not truly comparable and are disqualified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN ‘000 EUR

NOTE 5:- TRADING PROPERTIES (Cont.)

(6) 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, 2018 (MEUR)	Carrying amount December 31, 2017 (MEUR)
Lodz residential	Poland	2001	100	Ownership/ Perpetual usufruct	Planning permit valid	4,000	sold	0.4
Lodz plaza	Poland	2009	100	Perpetual usufruct	Planning permit pending	61,500	1.96	3.9
Casa radio	Romania	2007	75	Remained Lease period 37 years	Detailed Urban Plan ("PUD") valid	467,000 GBA (*)	(**)39.1	(**) 63.2
Miercurea Ciuc Plaza	Romania	2007	100	Ownership	No valid permit (Building Permit expired)	36,500	1.0	1.0
Piraeus Plaza	Greece	2002	100	Ownership	-	15,000	sold	3.3
Brasov Plot (2017- Other plots, grouped)						(***)	0.55	1.7
Total							**42.6**	**73.5**

(*) Gross Building area (sqm)

(**) Represents gross value including commitment for PAB construction, which is presented as non-current provision in amount of EUR 14.09 million as of December 31, 2018 (EUR 12.85 million as of December 31,2017).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 6:- EQUITY ACCOUNTED INVESTEES

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

Company name	Country	Activity	Interest of holding (percentage) as at December 31, 2018	2017
Elbit Plaza India Real Estate Holdings Ltd. ("EPI") (*)	Cyprus	Mixed-use large-scale projects	47.5%	47.5%

None of the joint ventures are publicly listed.

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

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

	2018	2017
Balance as at 1 January	19,530	30,160
Distribution received from equity-accounted investees, net (3)	(2,499)	(1,441)
Share in results of equity-accounted investees, net of tax (1)	1,443	(7,177)
Effect of movements in exchange rates	(798)	(1,697)
Dissolving of Equity accounted investee	-	(315)
Balance as at 31 December (2)	17,676	19,530

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

Project name (holding company name)	Year ended December 31 2018	2017
Bangalore (held by EPI) (*)	1,623	(4,408)
Chennai (held by EPI) (*)	-	(988)
	1,623	(5,396)

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

NOTE 6:- EQUITY ACCOUNTED INVESTEES (Cont.)

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

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

b. Material joint ventures:

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

	2018	2017
Current assets (*)	1,956	2,794
Trading properties-non current	46,390	45,060
Other current liabilities	(12,994)	(8,794)
Net assets (100%)	35,352	39,060
Group share of net asset (50%) (**)	17,676	19,530
Carrying amount of interest in joint venture	17,676	19,530

(*) Including cash and cash equivalents in the amount of EUR 1,812 thousand (2017 – EUR 2,592 thousands);

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

	2018	2017
Increase (write-downs) of trading properties	3,246	(10,792)
Other income (expenses)	(360)	(3,562)
Total net profit (loss) and comprehensive income (100%)	2,886	(14,354)
Group share of Profit (loss) and comprehensive income (50%)	1,443	(7,177)
Total results from investees	1,443	(7,177)

(1) Bangalore:

In March, 2008 EPI entered into a share subscription and framework agreement (the "Agreement"), with a third-party local developer (the "Partner"), and a wholly owned Indian subsidiary of EPI which was designated for this purpose ("SPV"), to acquire together with the Partner, through the SPV, up to 440 acres of land in Bangalore, India (the "Project") in certain phases as set forth in the Agreement. As of December 31, 2018, the Partner has surrendered sale deeds to the SPV for approximately 54 acres (the "Plot"). In addition, under the Agreement the Partner has also been granted with 10% undivided interest in the Plot and have also signed a Joint Development Agreement with the SPV in respect of the Plot.

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

NOTE 6:- EQUITY ACCOUNTED INVESTEES (Cont.)

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

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

<u>New payment structure for sale of Project in Bangalore, India</u>:

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

The Purchaser and EPI have agreed that the purchase price will be amended to INR 338 Crores (approximately Euro 42.4 million) instead of the INR 321 Crores (approximately Euro 40.2 million) agreed in the previous agreement. As part of the agreement, INR 110 Crores (approximately Euro 13.8 million) were supposed to be paid by the Purchaser in instalments until the Final Closing. The Final Closing was scheduled on September 1, 2018, when the final instalment of INR 228 Crores (approximately Euro 29.8 million) were supposed to be paid to EPI.

In January 2018, the Purchaser has notified EPI that due to a proposed zoning change (initiated by the Indian authorities) which could potentially impact the development of the land, all remaining payments under the Agreement will be stopped until a mutually acceptable solution is reached on this matter. EPI has rejected the Purchaser's claims, having no relevance to the existing Agreement, and started to evaluate its legal options. INR 46 Crores (approximately EUR 6.06 million) were paid till March 2018.

In March 2018, the Company signed an amended revised agreement as follows: The Purchaser and EPI have agreed that the total purchase price shall be increased to INR 350 Crores (approximately EUR 44.5 million). The Final Closing will take place on 31 August 2019 when the final installment of circa INR 212 Crores (approximately EUR 26.9 million) will be paid to EPI against the transfer of the outstanding share capital of the SPV.

NOTE 6:- EQUITY ACCOUNTED INVESTEES (Cont.)

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

On February 4, 2019 Plaza announced that the Purchaser defaults on payments and that EPI is considering all legal measures available to it to protect its interest.

During March 2019, Plaza announced that the Purchaser has further paid to EPI INR 9.25 cores (approximately EUR 1.15 million), thereby having paid INR 80 crores (approximately EUR 10.26 million) as against approximately INR 92 crores (EUR 11.8 million) that was supposed to be paid by end of February 2019. The Parties continue to discuss regarding getting further payments. Plaza part from the consideration is 50%.

<u>Environmental update on Bangalore project - India:</u>

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. On March 2019, the Supreme Court has set aside the Order thereby restoring the position as it existed before the Order was passed by NGT.

<u>Net realizable value measurement of Bangalore project</u>

As for December 31, 2018 and 2017 the Group measured the net realizable value of the project. The net realizable value of the project is INR 235 crores (EUR 29.5 million); 2017 - INR 209.1 crores (EUR 27.4).

NOTE 6:- EQUITY ACCOUNTED INVESTEES (Cont.)

The plot in Bangalore is still in land stage and therefore the value of the plot has been derived using land comparable method. The valuation of the property reflects the interest that the partner still holds in the plot (10% as described above), the size of the plot and the non-contiguous land parcel. The local authorities have proposed a revised master plan for Bangalore under which it is proposed to change certain regulations pertaining to zoning of the plot which if given effect might adversely affect the development prospects on the plot. The Company being aggrieved by the proposed change was entitled to and has filed the necessary objections with the concerned authorities and believes that the current zoning regulations will be maintained. Management believes that the current discount rate used towards this end is an appropriate estimation in the current circumstances.

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

Parameter		**Premium (Discount)**
Applicable land value (INR Mn/acre)		96
Discount on account of Revised Master Plan 2015 Buffer zone norms (%)		-25%
Presence of minority shareholder		-20%
Discount on account of possible change in zoning (open space/parks)		-25%

(2) Chennai:

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

On September 16, 2015, EPI has obtained a backstop commitment from the Local Partner for the purchase of its 80% shareholding in the Chennai SPV by January 15, 2016, for a net consideration of approximately INR 161.7 Crores (EUR 21.1 million). Since the Local Partner had breached its commitment, EPI exercised its rights and acquired the Local Partner's 20% holdings in the Chennai Project SPV. Accordingly, as of the balance sheet date EPI has 100% of the equity and voting rights in the Chennai Project SPV.

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

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

The JDA may be terminated in the event that the required governmental approvals for establishment of access road to the Property has not been achieved within 12

NOTE 6:- EQUITY ACCOUNTED INVESTEES (Cont.)

(twelve) months period from the execution date of the JDA. The required approvals have not yet been obtained at the target date. Upon such termination, the Developer shall be entitled to the refund of the relevant amounts paid as Refundable Deposit and any other cost related to such access road or the title over the Property.

On July 5, 2018 EPI signed a term sheet ("Term Sheet") with the Developer for the sale of the Property for a total consideration of approximately Euro 13.2 million (INR 1,060 million). The closing of the transaction was expected in February 2019. As the transaction was not completed the Term Sheet was terminated by EPI.

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

<u>Net realizable value measurement of Chennai project</u>

The valuation of the property is based on the comparable method. As for December 31, 2018 and 2017 the Group measured the net realizable value of the project which was INR 1,351 million (EUR 16.93 million);

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

Parameter		**Premium (Discount)**
Applicable Land Value INR million/acre		18.08
Discount for shape and contiguity		-20%
Additional cost to be incurred at the site due to illegal excavation		-5%
Total discount on account		-58%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 7:- OTHER LIABILITIES

	December 31,	
	2018	2017
Prepayments (*)	202	325
Government institutions and fees	-	106
Salaries and related expenses	8	62
Accrued expenses	290	359
Tax liability (refer to Note 5(3)(d))	-	1,015
Other	-	11
Total	500	1,878

(*) Including EUR 107 thousand payable due to refundable deposit received regarding the sale of plot in Lodz, Poland and EUR 95 thousand prepayments in regard to plot sale in Miercurea Ciuc Plaza, Romania (In 2017 - EUR 300 thousand prepayments in regards to plot sale in Greece.

NOTE 8:- BONDS

a. Composition:

	Effective interest rate (*)	Contractual interest rate	Principal final maturity	Adjusted par value	Carrying amounts as at December 31 2018
Series A Bonds	11.58%	CPI+6%	2020	33,209	31,767
Series B Bonds	13.83%	CPI+6.9%	2020	47,260	44,931
				80,469	76,698

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

2019	51,488
2020	28,981
	80,469

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

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

(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").

NOTE 8:- BONDS (Cont.)

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

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

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

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

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

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

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

(b) Registering of Polish bonds for trade - the Company has committed to undertake best efforts to admit the Polish bonds for trading on the Warsaw Stock Exchanges and proceeding in this respect are ongoing.

(c) Deferred debt ratio of Series B bonds - were reduced to 68.24% from 70.44% following the cancellation of the treasury bonds. The ratio has been changed for Series B bonds in order to maintain a distribution ratio between the three series.

NOTE 8: - BONDS (Cont.)

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

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

- To the Polish bondholders: 8.33% of the Mandatory Repayment Amount – as per the ratio determined in the restructuring plan.

- To the Israeli series A bondholders: 21.23% of the Mandatory Repayment Amount - as per the ratio determined in the restructuring plan.

- To the Israeli series B bondholders: 31.16% of the Mandatory Repayment Amount - the proportional amount that corresponds to the ratio between the outstanding debts of the two Israeli series of bonds.

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

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

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

<u>2018</u>

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

- New repayment ratios between the two Israeli Series of Bonds (new ratio: Bond A- 39% Bond B- 61%);
- An increase in the level of the mandatory early repayments from 75% to 78% of the relevant net income;
- New repayment schedule;

NOTE 8: - BONDS (Cont.)

- An increase in the compensation to be paid to the Bondholders in the event of successful disposal of Casa Radio Project;
- A waiver of claims to the Company and its directors and officers; and
- To waive the request for publication of quarterly financial reports by the Company.

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

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

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

(1) The net cash flow received by the Company following an exit or raising new financial indebtedness (except if taken for the purpose of purchase, investment or development of real estate asset) or refinancing of real estate assets after the full repayment of the asset's related debt that was realized or in respect of a loan paid in case of debt recycling (and in case where the exit occurred in the subsidiary - amounts required to repay liabilities to the creditors of that subsidiary) and direct expenses in respect of the asset (any sale and tax costs, as incurred) , will be used for repayment of the accumulated interest till that date in all of the series (in case of an exit which is not one of the four shopping centers only 50% of the interest) and 78% of the remaining cash (following the interest payment) will be used for an early repayment of the close principal payments for each of the series (A, B, Polish) each in accordance with its relative share in the deferred debt. Such prepayment will be real repayment and not in bond purchase.

(2) On November 22, 2018 the Company announced based on its current forecasts, the Company expected to pay the accrued interest on Series A and Series B Bonds on December 31, 2018, in accordance with the repayment schedule determined in the Company's Restructuring Plan and Settlement Agreement with Series A and Series B Bondholders from 11 January 2018 (the “Settlement Agreement”). The Company noted that it will not meet its principal repayment due on December 31, 2018 as provided for in the Settlement Agreement. The Company may be able to partially pay the said principal depending, among other things, on the actual sale of assets and taking into consideration the cash needs in accordance with the scope of the forecasted activity.

In January 2019 Plaza announced that based on its current forecasts, the Company expects to repay on February 18, 2019 approximately EUR 400,000 to its Series A and Series B. The Company further intends to act for the postponement of the repayment of the remaining balance of the Bonds, all in coordination with the trustee of the Bonds and subject to the receipt of the Bondholders' approval as required by the relevant deeds of trust. The bondholders approved the deferral of payment to July 1, 2019 and the company paid principal of circa EUR 250,000 and Penalty interest on arrears of EUR 150,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 8: - BONDS (Cont.)

d. Covenants:

The bonds' covenants are detailed in Note 16(b).

In respect of the Coverage Ratio Covenant ("CRC"), as defined in the restructuring plan, as at December 31, 2018 the CRC was 98.48%, in comparison with 118% minimum ratio required. As a result of covenants breach, the Company classified its bonds in the total amount of EUR 76,698 thousand as current liabilities in the financial statements as of 31 December 2018.

e. Credit rating:

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

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

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

NOTE 9:- INCOME TAXES

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 9:- INCOME TAXES (Cont.)

b. Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of tax losses in a total amount of EUR

111,669 thousand (2017: EUR 111,043 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, 2018, the expiry date status of tax losses to be carried forward is as follows:

Total tax losses carried forward	2019	2020	2021	2022	2023	After 2023
115,439	5,271	9,339	13,165	25,385	18,568	43,710

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.

c. Amounts recognized in profit or loss:

	Year ended December 31	
	2018	2017
Adjustment in respect of previous years taxes (refer to Note 5(3)(d))	1,013	(1,056)
Origination and reversal of time differences	-	55
Total	1,013	(1,001)

d. Reconciliation of effective tax rate:

	2018	2017
Dutch statutory income tax rate	25%	25%
Loss from continuing operations before income taxes	(39,378)	(25,562)
Tax benefit at the Dutch statutory income tax rate	(9,844)	(6,390)
Recognition of previously unrecognized tax losses	5	(229)
Effect of tax rates in foreign jurisdictions	3,043	862
Adjustment in respect of previous years taxes	(1,015)	1,056
Current year tax loss and other timing differences for which no deferred taxes are created (1)	5,622	3,070
Non-deductible expenses (exempt income)	1,176	2,632
Tax Expense (Tax Benefit)	(1,013)	1,001

(1) 2018 and 2017 - Mainly due to write-down of trading property not recognized for tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 9:- INCOME TAXES (Cont.)

e. The main tax laws imposed on the Group companies in their countries of residence:

The Netherlands:

a. Companies resident in the Netherlands are subject to corporate income tax at the general rate of 25%. The first EUR 200,000 of profits is taxed at a rate of 20%. Tax losses may be carried back for one year and carried forward for nine years.

b. The Dutch participation exemption gives a full exemption from corporation tax applies to benefits such as dividends and capital gains derived from a qualifying participation. The participation exemption generally applies if the parent Company holds at least 5 percent of the shares in the participation. The requirements to meet the participation exemption are as follows:

1. The parent Company has an interest of at least 5 percent in the participation; and

2. At least one of the following three tests is met:

   a) The parent Company's objective with respect to its participation is to obtain a return that is higher than a return that may be expected from normal active asset management ("Motive Test"); or

   b) The participation is subject to a "reasonable taxation" according to Dutch tax standards ("Subject-to-Tax Test"); or

   c) The direct and indirect assets of the participation generally consist of less than 50 percent of 'low taxed free passive investments' ("Asset Test").

NOTE 10:- EQUITY

		December 31,	
		2018	2017
	Remarks	Number of shares	
Authorized ordinary shares of par value EUR 1 each		10,000,000	10,000,000
Issued and fully paid		6,855,603	6,855,603

Share based payment reserve

Share based payment reserve is in respect of Employee Share Option Plans ("ESOP") in the total amount of EUR 35,376 thousand as of December 31, 2018 (2017 - EUR 35,376 thousand).

Translation reserve

The translation reserve comprises, as of December 31, 2018, all foreign currency differences arising from the translation of the financial statements of foreign operations in India.

Restriction of dividend

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

NOTE 10:- EQUITY (Cont.)

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

NOTE 11:- EARNINGS PER SHARE

The calculation of basic earnings per share ("EPS") at December 31, 2018 was based on the loss attributable to ordinary shareholders of EUR 38,365 thousand (2017: loss of EUR 26,563 thousand) and a weighted average number of ordinary shares outstanding of 6,856 thousand (2017: 6,856 thousand).

Weighted average number of ordinary shares:

In thousands of shares with a EUR 1 par value	December 31,	
	2018	**2017**
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,	
	2018	**2017**
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 12:- EMPLOYEE SHARE OPTION PLAN

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

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

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	

(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
	2018		2017	
	GBP		GBP	
Outstanding at the beginning of the year	43	235,520	43	235,520
Forfeited during the period - back to pool (**)		-		-
Outstanding at the end of the year	43	235,520	43	235,520
Exercisable at the end of the year		235,520		235,520

(*) The options outstanding at 31 December 2018 have an exercise price in the range of GBP 28 to GBP 54 (app. EUR 31.3 – EUR 60.4), and have weighted average remaining contractual life of tree years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

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

(**) The total accumulated share-based payment costs due to options exercise and forfeiture were 13,319 thousand as of December 31, 2018 and December 31, 2017.

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

During 2018 and 2017 there were no employee costs for the share options granted.

NOTE 13:- ADMINISTRATIVE EXPENSES

	Year ended December 31	
	2018	**2017**
Salaries and related expenses	1,092	2,870
Professional services	1,258	2,644
Offices and office rent	130	199
Travelling and accommodation	54	160
Depreciation and amortization	1	14
Others	187	259
Total	**2,722**	**6,146**

NOTE 14:- OTHER INCOME AND OTHER EXPENSES

	Year ended December 31	
	2018	**2017**
Other income (1)	254	757
Total other income	254	757
Other expenses	329	657
Total other expenses	329	657

(1) 2018 – Including EUR 225 thousand due to a settlement agreement with the buyer of Kragujevac shopping centre regarding refund of claim from the city of Kragujevac.
2017 - Including EUR 460 thousand following the sale of an office building in Budapest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN ‘000 EUR

NOTE 15: - FINANCE INCOME AND FINANCE COSTS

	Year ended December 31	
	2018	2017
Recognized in profit or loss		
Interest income on bank deposits	-	22
Interest from loans to related parties	24	221
Other finance income	64	334
Foreign currency gain other	148	-
Foreign currency gain on bonds	3,411	-
Finance income	3,647	577
Interest expense on bonds	(9,436)	(8,627)
Interest expense on bank loans	-	(1,339)
Foreign currency losses on bonds	-	(1,186)
Foreign currency losses other	(1,870)	-
Other finance expenses	-	(44)
Finance costs	(11,306)	(11,196)
Net finance costs	(7,659)	(10,619)

NOTE 16: - FINANCIAL INSTRUMENTS

Financial Risk Management:

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This Note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

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

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Company's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 16: - FINANCIAL INSTRUMENTS (Cont.)

a. Credit risk:

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's financial instruments held in banks and from other receivables.

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

Cash and deposits and other financial assets

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

b. Liquidity risk:

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

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

December 31, 2018

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

(*) Refer to Note 8.

December 31, 2017

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

(*) Refer to Note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 16: - FINANCIAL INSTRUMENTS (Cont.)

c. Market risk:

Currency risk:

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

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

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

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

			Reporting date	
	Average rate		Spot rate	
EUR	**2018**	**2017**	**2018**	**2017**
NIS 1	0.235	0.246	0.233	0.241

NIS denominated bonds - A change of 5 percent in EUR/NIS rates at the reporting date would have increase profit by EUR 3.65 million or increase loss by EUR 3.83 million, as a result of having issued NIS linked Bonds.

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

Interest Rate Risk (including inflation):

The Group's interest rate risk arises mainly from Bonds issued at fixed interest rate expose the Group to changes in fair value, if the interest is changing. As the Israeli inflation risk is diminishing to a level that management believes is acceptable (Israeli CPI 2018 - 0.8%; 2017 - 0.4%) and due to liquidity constraints, the Company has stopped using hedging of CPI in recent years.

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

A change of 3 percent in Israeli Consumer Price Index ("CPI") at the reporting date (and in 2017) would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

		Profit (loss) effect	
For the year ended December 31,	**Carrying amount of bonds**	**CPI increase effect**	**CPI decrease effect**
2018	76,698	(2,300)	2,300
2017	111,796	(3,354)	3,354

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 16: - FINANCIAL INSTRUMENTS (Cont.)

Profile

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

	Carrying amount	
	2018	**2017**
Fixed rate instruments		
Bonds	(76,698)	(116,914)
Other financial liabilities – Loan from EPI	(315)	-

Shareholders' equity management:

Refer to Note 13 in respect of shareholders equity components in the restructuring plan including dividend policy. The Company's Board of Directors is updated on any possible equity issuance, in order to assure (among other things) that any changes in the shareholders equity (due to issuance of shares, options or any other equity instrument) is to the benefit of both the Company's bondholders and shareholders.

Fair values:

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

	Carrying amount		Fair value(*)	
	2018	**2017**	**2018**	**2017**
Bonds at amortized cost - Polish bonds	-	5,119	-	4,022
Bonds A at amortized cost - Israeli bonds	31,767	45,963	9,388	30,493
Bonds B at amortized cost - Israeli bonds	44,931	65,832	14,365	49,536

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

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

NOTE 17:- CONTINGENT LIABILITIES AND COMMITMENTS

a. Contingent liabilities and commitments to related parties:

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

2. The Company maintains Directors' and Officers' liability cover, presently at the maximum amount of USD 60 million for a term of 18 months commencing on 1 November 1, 2017. Pursuant to the terms of this policy, all the Directors and senior manager are insured. The new policy does not exclude past public offerings and covers the risk that may be incurred by the Directors through future public offerings of equity up to the amount of USD 50 million.

b. Contingent liabilities and Commitments to others:

1. As part of the completion of the restructuring plan (refer also to Note 8), the Group has taken the following commitments and collaterals towards the creditors:

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

   b) Restrictions on amendments to the terms of the bonds- The Company shall not be entitled to amend the terms of the bonds, with the exception of purely technical changes, unless such amendment is approved under the terms of the relevant series and the applicable law and the Company also obtains the approval of the holders of all other series of bonds issued by the Company by ordinary majority Refer to Note 11 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, 2018 the calculated CRC is 98.48% (also refer to Note 8(d) regarding breach of covenant). In the event that the CRC is lower than the Minimum CRC, then as from the first cut-off date on which a breach of the CRC has been established and for as long as the breach is continuing, the Company shall not perform any of the following: (a) a sale, directly or indirectly, of a Real Estate Asset ("REA") owned by the Company or a subsidiary, with the exception that it shall be permitted to transfer REA's in performance of an obligation to do so that was entered into prior to the said cut-off date, (b) investments in new REA's; or (c) an investment that regards an existing project of the Company or of a subsidiary, unless it does not exceed a level of 20% of the construction cost of such project (as approved by the lending bank of these projects) and the certain loan to cost ratio of the projects are met.

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

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

d) Minimum Cash Reserve Covenant ("MCRC") - cash reserve of the Company has to be greater than the amount estimated by the Company's management required to pay all administrative and general expenses and interest payments to the bondholders falling due in the following six months, minus sums of proceeds from transactions that have already been signed (by the Company or a subsidiary) and closed and to the expectation of the Company's management have a high probability of being received during the following six months. MCRC is not maintained as of December 31, 2018.

e) Negative Pledge on REA of the Company - The Company undertakes that until the bonds have been repaid in full, it shall not create any encumbrance on any of the REA, held, directly or indirectly, by the Company except in the event that the encumbrance is created over the Company's interests in a subsidiary as additional security for financial indebtedness ("FI") incurred by such subsidiary which is secured by encumbrances on assets owned by that subsidiary.

f) Negative Pledge on the REA of Subsidiaries - The subsidiaries shall undertake that until the bonds have been repaid in full, none of them will create any encumbrance on any of REA except in the event that:

(i) the subsidiary creates an encumbrance over a REA owned by such subsidiary exclusively as security for new FI incurred for the purpose of purchasing, investing in or developing such REA; Notwithstanding the aforesaid, subsidiaries shall be entitled to create an encumbrance on land as security for FI incurred for the purpose of investing in and developing, but not for purchasing, an REA held by a different Group company (hereinafter: a "Cross Pledge"), provided the total value of the lands owned by the Group charged with Cross Pledges after the commencement date of the plan does not exceed EUR 35 million, calculated on the basis of book value (the "Sum of Cross Pledges"). When calculating the Sum of Cross Pledges, lands that were charged with Cross Pledges created prior to the commencement date of the plan or created solely for the purpose of refinancing an existing FI shall be excluded. The Group did not have cross-pledge as of December 31, 2018.

(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.

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

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

g) Limitations on incurring new FI by the Company and the subsidiaries - The Company undertakes not to incur any new FI (including by way of refinancing an existing FI with new FI) until the outstanding bonds debt (as of November 30, 2014) have been repaid in full, except in any of the following events:

(i) the new FI is incurred for the purpose of investing in the development of a REA, provided that: (a) the Loan To Cost ("LTC") Ratio of the investment is not less than 50% (or 40% in special cases); (b) the new FI is incurred by the subsidiary that owns the REA or, if the FI is incurred by a different subsidiary, any encumbrance created as security for such new FI is permitted under the negative pledge stipulation above; and (c) following such investment the consolidated cash is not less than the MCRC;

(ii) The new FI is incurred by a subsidiary for the purpose of purchasing a new REA by such Subsidiary, provided that following such purchase the cash reserve is not less than the MCRC.

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

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

i) 75% mandatory early repayment - Refer to note 11 and to other sections in this note regarding changes in crease of repayment to 78%.

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

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

Such indemnifications are limited in time and amount. No indemnifications were exercised against the Group till the date of the statement of financial position. The Company's management estimates that no significant costs will be borne thereby,in respect of these indemnifications.

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

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

In case Tesco leaves the mall before expiration of lease period the Company will be liable to repay the remaining consideration in amount of EUR 1.77 million as of balance sheet date, unless the buyer finds another tenant that will pay higher annual lease payment than Tesco. The management does not expect to bear a material loss.

4. Contingent liabilities due to legal proceedings:

The Company is involved in litigation arising in the ordinary course of its business. Although the final outcome of each of these cases cannot be estimated at this time, the Company's management believes, that the chances these litigations will result in any material outflow of resources to settle them is remote, and therefore no provision or disclosure is required.

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

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

In order to address this matter, Plaza's Board has appointed, on April 25, 2017, the chairman of the audit committee Mr. David Dekel, to investigate and examine the issues raised as part of a joint committee together with a special committee formed for the purpose by EI, and with the joint committee's external legal advisors. The internal committees have concluded their examination of these matters and submitted their recommendations to the Company's board of directors. The Company's board of directors fully adopted the committee's recommendations, and is working to implement them. Please also see Note 5(4)(d) in this respect, with respect to Elbit's settlement with the SEC.
Elbit, the Company's former parent company, announced in March 2016 that it appointed a special committee to examine these matters as they may contain potential violation of the requirements of the U.S. Foreign Corrupt Practices Act (FCPA), including the books and records provisions of the FCPA, and that it has approached and is co-operating fully with the US Securities and Exchange Commission (SEC).

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

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

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

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

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

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

6. Motion to reveal and review internal documents:

In March 2018, a Shareholder of the Company has filed a motion with the Financial Department of the District Court in Tel-Aviv to reveal and review internal documents of the Company and of Elbit Imaging Ltd., with respect to the events surrounding that certain agreements that were signed in connection with the Casa Radio Project in Romania and the sale of the US portfolio. Such events were previously announced by the Company and are detailed in notes 5(4)(d)and 17(5) of these annual financial statements. In July 2018, the Company has filed a response to the relevant court. On January 13, 2019, a Court hearing was held following which the judge decided that the board of directors of each of the two companies will examine the relevant facts and the allegations raised by the plaintiff and decide whether or not they should file a law suit against any of its officers. The two companies will submit their conclusion to both the court and the plaintiff (not later than May 12, 2019) and afterwards the plaintiff will notify the court weather or not he wishes to continue with the Motion.

7. Request to reveal documents:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 18:- RELATED PARTY TRANSACTIONS

Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

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

	Year ended December 31, 2018	Year ended December 31, 2017
Income		
Interest on balances with EI	24	47
Costs and expenses		
Recharges – EI	33.4	23.6
Compensation to key management personnel (2)	196	615
Performance linked benefits - management	6	302
Compensation to board members (1), (2)	321	370
Lease agreement for office in Bucharest	-	13

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

(1) 2018 – three board members; 2017 - four board members (out of which one non-executive director resigned in September).

(2) There was no change in the number of Company share options granted to key personnel in 2018. There are no other benefits granted to directors.

As of December 31, 2018, the Company identified York Capital Management Global Advisors, LLC ("York") and Davidson Kempner Capital Management LLC ("DK") among the Company's related parties.

DK holds 26.3% of the Company's outstanding shares of the Company as of the reporting date, following the finalization of the Restructuring plan. DK has no outstanding balance as of the reporting date with any of the Group companies. York is the main shareholder in EI, holding 18.94% of the outstanding shares of EI, and also has a direct holding of 3.43% 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, 2018, 2.97% out of the total Israeli bonds' series B debt of the Company. Interest paid on Bonds held by York at year-end were circa EUR 0.05 million.

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.

NOTE 18:- RELATED PARTY TRANSACTIONS (Cont.)

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 favor 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. EI has repaid the reimbursement amount of EUR 1.55 million in 2018 and an amount of circa EUR 0.226 million is recorded as other receivables from tax authorities. The parties are negotiating the expected payment.

NOTE 19:- EVENTS AFTER THE REPORTING PERIOD

a. Pre-Agreement for the sale of a Plot of Land in Brasov, Romania

On February 5, 2019 the Company signed a Pre-Agreement for the sale of a plot in Brasov, Romania for a total gross amount of EUR 620,000. The consummation of the Transaction (which will take place not later than January 15, 2020) is subject to the fulfilment of certain conditions, including, inter alia:

(i) the former financing bank of the Project did not exercise its right to purchase the Property until December 6, 2019; (ii) successful conclusion by the potential purchaser of its due diligence investigations; and (iii) the execution of definitive agreement.

During the period commencing on the date of the execution of the Pre-Agreement and ending on the earlier of: (i) January 15, 2020, or (ii) the date of the termination of the Pre-Agreement, the Company and its representatives have undertaken to refrain from negotiating with any other third party other than the Purchaser (and other than the bank as mentioned above) for the purpose of selling its Plot of land.

As of the date hereof, there can be no certainty that a definitive agreement will be signed and/or that the Transaction will be consummated.

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

Please refer to Note 6.

c. Non-binding agreement for the sale of the Company's indirect shareholdings in the Dambovita Center Project ("CASA RADIO")
Please refer to Note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

NOTE 20:- LIST OF GROUP ENTITIES

As of December 31, 2018, 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 Centers Establishment B.V.	Holding company	
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 – October 2017 concluded an agreement on the termination of land use rights
POLAND		
Directly wholly owned		
Lodz Centrum Plaza Sp. z o.o.	Owns plot of land	Lodz (Residential) project
Wloclawek Plaza Sp. z o.o.	Mixed-use project	Lodz Plaza project
O2 Fitness Club Sp. z o.o.	Inactive	O2 Fitness Club project; Company under liquidation in 2018
Kielce Plaza Sp. z o.o.	Inactive	Kielce Plaza project- Sold June 2017; Company under liquidation in 2018
Leszno Plaza Sp. z o.o.	Inactive	Leszno Plaza project - Sold July 2017; Company under liquidation in 2018
EDMC Sp. z o.o.	Inactive	Company under liquidation in 2018
Plaza Centers (Poland) Sp. z o.o.	Management company	Company under liquidation in 2018
Szczecin Plaza Sp. z o.o.	Inactive	
Wloclawek Plaza Sp. z o.o. SKA (previously Legnica Plaza Spolka z ograniczona odpowiedzialnoscia 1 S.K.A.)	Inactive	Company under liquidation in 2018
Indirectly or jointly owned		
EDP Sp. z o.o.	Inactive	50% held by Plaza Centers N.V. with Israeli-based partner
Lublin Or Sp. z o.o.	Inactive	50% held by Plaza Centers N.V. with Israeli-based partner
Hokus Pokus Rozrywka Sp. z o.o.	Inactive	50% held by Plaza Centers N.V. 50% held by P.L.A.Z.A B.V.
Fantasy Park Suwalki Sp. z o.o. w likwidacji	Inactive	100% held by Mulan B.V.; Company under liquidation
Fantasy Park Torun Sp. z o.o. w likwidacji	Inactive	100% held by Mulan B.V.; Company under liquidation
Fantasy Park Zgorzelec Sp. z o.o. w likwidacji	Inactive	100% held by Mulan B.V.; Company under liquidation
Fantasy Park Poznań Sp. z o.o. w upadłości likwidacyjnej	Inactive	100% held by Mulan B.V.; Company under liquidation
Fantasy Park Kraków Sp. z o.o.	Inactive	100% held by Mulan B.V.; Company under liquidation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

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

	ACTIVITY	REMARKS
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		
S.C. North Gate Plaza S.R.L.	Shopping center project	Csiki Plaza (Miercurea Ciuc) project
Indirectly or jointly owned		
S.C. Dambovita Center S.R.L.	Mixed-use project	75% held by Dambovita Centers Holding B.V. Casa Radio project
Plaza Bas B.V.	Holding company	50.1% held by Plaza Centers N.V.
Adams Invest S.R.L.	Residential project	95% held by Plaza Bas B.V. 5% held by Plaza Centers Management B.V. Valley View project
SERBIA		
Directly wholly owned		
Plaza Centers (Estates) B.V.	Inactive	
Plaza Centers Management D.O.O.	Management company	
Plaza Centers Holding B.V.	Inactive	
Plaza Centers (Ventures) B.V.	Inactive	
CZECH REPUBLIC		
Directly wholly owned		
Plaza Centers Czech Republic S.R.O.	Inactive	
BULGARIA		
Directly wholly owned		
Shumen Plaza EOOD	Inactive	Shumen Plaza project - Sold 03/2017; Company under liquidations in 2018
Plaza Centers Management Bulgaria EOOD	Management company	Company under liquidations in 2018
Plaza Centers Development EOOD	Inactive	Company under liquidations in 2018
CYPRUS - UKRAINE		
Directly wholly owned		
Tanoli Enterprises Ltd.	Inactive	
PC Ukraine Holdings Ltd.	Inactive	
Plaza Centers Ukraine Ltd.	Inactive	100% held by PC Ukraine Holdings Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN '000 EUR

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

ENTITIES DISPOSED OR DISSOLVED IN 2017 AND 2018		
	ACTIVITY	REMARKS
HUNGARY		
Plaza House Ingatlanfejelsztesi Kft.	Office building	David House - Sold 02/2017
POLAND		
Bytom Plaza Sp. z o.o. w likwidacji	Inactive	Company dissolved in 2018
Gdansk Centrum Plaza Sp. z o.o. w likwidacji	Inactive	Company dissolved in 2018
Gorzow Wielkopolski Plaza Sp. z o.o. w likwidacji	Inactive	Company dissolved in 2018
Jelenia Gora Plaza Sp. z o.o. w likwidacji	Inactive	Company dissolved in 2018
Katowice Plaza Sp. z o.o. w likwidacji	Inactive	Company dissolved in 2018
Płock Plaza Sp. z o.o. w likwidacji	Inactive	Company dissolved in 2018
Olsztyn Plaza Sp. z o.o. w likwidacji	Inactive	Company dissolved in 2018
Radom Plaza Sp.z.o.o.	Inactive	Company dissolved in 2018
Torun Centrum Plaza Sp. z o.o.w likwidacji	Inactive	100% held by Plaza Centers Administrations B.V.; Company under liquidation
Suwalki Plaza Sp. z o.o.	Operating shopping center	100% held by Plaza Centers Polish Operations B.V. Suwalki Plaza project - Sold 01/2017
Legnica Plaza - Sp. z o.o.	General Partner	General Partner of Legnica Plaza Spolka z ograniczona odpowiedzialnoscia S.K.A and Legnica Plaza Spolka z ograniczona odpowiedzialnoscia 1 S.K.A - Sold 10/2017
Legnica Plaza Spolka z ograniczona odpowiedzialnoscia S.K.A.	Operating shopping center	100% held by Bydgoszcz Plaza Sp. z o.o. Torun Plaza project – Sold 10/2017
Bydgoszcz Plaza Sp. z o.o.	Holding company	100% held by Plaza Centers Polish Operations B.V. - Sold 10/2017
Fantasy Park Bytom Sp. z o.o. w likwidacji	Inactive	100% held by Mulan B.V.; Company under liquidation
Fantasy Park Poland Sp. z o.o.	Inactive	Liquidated 01/2017
ROMANIA		
S.C Plaza Centers Management Romania s.r.l	Inactive	Liquidated in 2018
S.C. Elite Plaza S.R.L.	Shopping center project	Timisoara Plaza project - sold August 2017; Company dissolved
S.C. North Eastern Plaza S.R.L.	Shopping center project	Constanta Plaza project - sold August 2017; Company dissolved
S.C. Palazzo Ducale S.R.L.	Inactive	Company dissolved
SERBIA		
Accent D.O.O.	Inactive	Company dissolved
Leisure Group D.O.O.	Shopping center project	100% held by Plaza Centers (Estates) B.V. Belgrade Plaza (Visnjicka) project - Sold 02/2017
UNITED STATES OF AMERICA		
<u>Indirectly or jointly owned</u>		
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)
GREECE		
Helios Plaza S.A.	Shopping center project Shopping center project	Piraes Plaza – Sold 12/2018 Pireas Plaza project -sold 12/2018
CYPRUS-INDIA		
Permindo Ltd.	Holding company	100% held by PC India Holdings Public Company Ltd.
THE NETHERLANDS		
Plaza Centers Polish Operations B.V.	Holding company	Company dissolved in 2018
Plaza Centers administrations b.v.	Inactive	Company dissolved in 2018
Plaza Centers Connections B.V.	Inactive	Company dissolved in 2018
Plaza Centers Engagements B.V.	Inactive	Company dissolved in 2018
Plaza Centers Foundations B.V.	Inactive	Company dissolved in 2018
Plaza Centers Logistic B.V.	Inactive	Company dissolved in 2018
S.S.S. Project Management B.V.	Inactive	Company dissolved in 2018
Obuda B.V	Inactive	Company dissolved in 2018
Plaza Centers Holding B.V.	Inactive	Company dissolved in 2018
Plaza Centers Investments B.V.	Inactive	Company dissolved in 2018
Plaza Centers (Ventures) B.V.	Inactive	Company dissolved in 2018

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