

ELBIT IMAGING LTD
Form 20-F
April 27, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES
EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934**

For the fiscal year ended December 31, 2017

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number 0-28996

ELBIT IMAGING LTD.

(Exact name of registrant as specified in its charter)

N/A

(Translation of registrant's name into English)

ISRAEL

(Jurisdiction of incorporation or organization)

7 MOTA GUR STREET, PETACH TIKVA 4952801, ISRAEL

(Address of principal executive offices)

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7 MOTA GUR STREET, PETACH TIKVA 4952801, ISRAEL

(Name, Telephone, E-Mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
ORDINARY SHARES, NO PAR VALUE	NASDAQ GLOBAL SELECT MARKET

Securities registered or to be registered pursuant to Section 12(g) of the Act:

NONE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

NONE

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 9,190,808 ordinary shares, no par value per share, as of December 31, 2017.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

YES NO

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INTRODUCTION

To date we operate primarily in the following fields of business:

Medical Industries – through our indirect holdings in two companies which operates in the field of life science: (i) InSightec Ltd. (“**InSightec**”) - InSightec operates in the field of development, production, and marketing of treatment-oriented medical systems, based on a unique technological platform combining the use of focused ultrasound and magnetic resonance imaging for the purpose of performing noninvasive treatments in human beings; (ii) Gamida Ltd. (“**Gamida**”) – Gamida operates in the field of research, development and manufacture of products designated for certain cancer diseases.

Plots in India – we have holdings in plots of land in India which are designated for sale (and which were initially designated for residential projects).

Plots in Eastern Europe initially designated for development of commercial centers - plots in Eastern Europe (and in Greece) held by our subsidiary Plaza Centers N.V. (“**PC**”) whose business strategy is to no longer develop commercial centers but to dispose its real estate assets at optimal market conditions.

References in this annual report to Elbit Imaging Ltd. and its subsidiaries are referred to herein as “EI,” “Elbit,” the “Company,” “our,” “we” or “us”.

Special Explanatory Note

Share and share price information in this annual report have been adjusted to reflect the 1-for-3 reverse share split effected by us on June 28, 2016.

FORWARD-LOOKING STATEMENTS

THIS ANNUAL REPORT ON FORM 20-F CONTAINS “FORWARD-LOOKING STATEMENTS,” WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE “**EXCHANGE ACT**”). FORWARD-LOOKING STATEMENTS INCLUDE STATEMENTS REGARDING THE INTENT, BELIEF OR CURRENT EXPECTATIONS OF THE COMPANY AND ITS MANAGEMENT ABOUT THE COMPANY’S BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS, PROJECTED CASH FLOW, INITIATION, TIMING, PROGRESS AND RESULTS OF RESEARCH, MANUFACTURING, PRECLINICAL STUDIES, CLINICAL TRIALS, AND OTHER RESEARCH AND DEVELOPMENT EFFORTS OF INSIGHTEC AND/OR GAMIDA, RELATIONSHIPS WITH EMPLOYEES, BUSINESS PARTNERS AND OTHER THIRD PARTIES, THE CONDITION OF ITS PROPERTIES, LOCAL AND GLOBAL MARKET TERMS AND TRENDS, AND THE LIKE. WORDS SUCH AS “BELIEVE,” “EXPECT,” “INTEND,” “ESTIMATE” AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS BUT ARE NOT THE EXCLUSIVE MEANS OF IDENTIFYING SUCH STATEMENTS. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE PROJECTED, EXPRESSED OR IMPLIED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS INCLUDING, WITHOUT LIMITATION, THE FACTORS SET FORTH BELOW UNDER THE CAPTION “RISK FACTORS.” ANY FORWARD-LOOKING STATEMENTS CONTAINED IN THIS ANNUAL REPORT SPEAK ONLY AS OF THE DATE HEREOF, AND WE CAUTION EXISTING AND PROSPECTIVE INVESTORS NOT TO PLACE UNDUE RELIANCE ON SUCH STATEMENTS. SUCH FORWARD-LOOKING STATEMENTS DO NOT PURPORT TO BE PREDICTIONS OF FUTURE EVENTS OR CIRCUMSTANCES, AND THEREFORE, THERE CAN BE NO ASSURANCE THAT ANY FORWARD-LOOKING STATEMENT CONTAINED HEREIN WILL PROVE TO BE ACCURATE. WE UNDERTAKE NO OBLIGATION TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS.

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For the reader's convenience, financial information for 2017 has been translated from various foreign currencies to the U.S. dollar (" \$" or "U.S. dollar"), as of December 31, 2017, in accordance with the following exchange rates:

Currency	\$1.00 as of December 31, 2017
1 New Israeli Shekel (NIS)	0.2884
1 Euro	1.1978
1 Great British Pound (GBP)	1.3504
1 Hungarian Forint (HUF)	0.0032
1 Czech Republic Koruny (CZK)	0.0392
1 Romanian LEI (RON)	0.2145
1 Polish Zloty (PLN)	0.2393
1 Indian Rupee (INR)	0.0131
1 Crore (10 million INR)	130,913

The U.S. dollar amounts reflected in these convenience translations should not be construed as representing amounts that actually can be received or paid in U.S. dollars or convertible into U.S. dollars (unless otherwise indicated), nor do such convenience translations mean that the foreign currency amounts (i) actually represent the corresponding U.S. dollar amounts stated, or (ii) could be converted into U.S. dollars at the assumed rate. The Federal Reserve Bank of New York does not certify for customs purposes a buying rate for cable transfers in New Israeli Shekel ("NIS"). Therefore all information about exchange rates is based on the Bank of Israel rates.

EXCHANGE RATES

The exchange rate between the NIS and U.S. dollar published by the Bank of Israel was NIS 3.523 to the U.S. dollar on April 23, 2018. The exchange rate has fluctuated during the six month period beginning October 2017 through April 23, 2018 from a high of NIS 3.55 to the U.S. dollar to a low of NIS 3.388 to the U.S. dollar. The monthly high and low exchange rates between the NIS and the U.S. dollar during the six month period beginning October 2017, through April 23, 2018 as published by the Bank of Israel, were as follows:

MONTH	HIGH 1 U.S. dollar =NIS	LOW 1 U.S. dollar =NIS
October 2017	3.542	3.491

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November 2017	3.544	3.499
December 2017	3.550	3.467
January 2018	3.535	3.388
February 2018	3.681	3.427
March 2018	3.514	3.431
April 2018 (until April 23 , 2018)	3.503	3.537

The average exchange rate between the NIS and U.S. dollar, using the average of the exchange rates on the last day of each colander month during the period, for each of the five most recent fiscal years was as follows:

PERIOD	AVERAGE EXCHANGE RATE
January 1, 2013 - December 31, 2013	3.609 NIS/\$1
January 1, 2014 - December 31, 2014	3.577 NIS/\$1
January 1, 2015 – December 31, 2015	3.885 NIS/\$1
January 1, 2016 – December 31, 2016	3.841 NIS/\$1
January 1, 2017 – December 31, 2017	3.599 NIS/\$1

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The following selected consolidated financial data of Elbit Imaging Ltd. and its subsidiaries are derived from our 2017 consolidated financial statements and are set forth below in table format. Our 2017 consolidated financial statements and notes included elsewhere in this report were prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”).

The 2017 consolidated financial statements were audited by Ernst and Young Israel – Kost Forer Gabbay and Kasierer (“**Ernst and Young Israel**”), a firm of certified public accountants in Israel and a member of Ernst and Young Global. See “Item 16F - CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT” for more information regarding the appointment of our new independent auditors. The consolidated financial statements for all years prior to 2016 presented in this filing were audited by Brightman Almagor Zohar and Co., a Member Firm of Deloitte Touche Tohmatsu. Our selected consolidated financial data are presented in NIS. A convenience translation to U.S. dollars is presented for 2017 only.

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The selected financial data for the years ended December 31, 2017, 2016, 2015, 2014 and 2013 which are presented in the table below are derived from our consolidated financial statements prepared in accordance with IFRS and do not include consolidated financial data in accordance with U.S. GAAP.

CONSOLIDATED STATEMENTS OF OPERATIONS IN ACCORDANCE WITH IFRS

(In thousands of USD, except share and per share data)

	2017 Convenience translation (\$'000)	2017 (NIS'000)	2016 (NIS'000)	2015	2014	2013
Income revenues and gains						
Revenues						
Revenues from sale of commercial centers	225,794	782,829	126,019	200,078	201,571	8,614
Total revenues	225,794	782,829	126,019	200,078	201,571	8,614
Gains and other						
Rental income from commercial centers	9,229	31,997	66,417	83,849	113,661	129,748
Gains from sale of investees	-	-	-	6,712	11,301	-
Gains from changes of shareholding in investees	-	-	-	-	-	-
Total gains	9,229	31,997	66,417	90,561	124,962	129,748
Total income revenues and gains	235,023	814,826	192,436	290,639	326,533	138,362
Expenses and losses						
Commercial centers	232,369	805,623	159,806	290,360	291,864	124,737
General and administrative expenses	4,306	14,930	10,257	16,678	39,785	60,643
Share in losses of associates, net	5,827	20,202	54,313	42,925	17,298	339,030
Financial expenses	32,390	112,296	124,354	207,721	207,729	306,929
Financial income	(522)	(1,811)	(1,056)	(2,154)	(6,317)	(3,930)
Change in fair value of financial instruments measured at fair value through profit and loss	-	-	(2,707)	2,568	71,432	68,407
Financial gain from debt restructuring	-	-	-	-	(1,616,628)	-
Write-down, charges and other expenses, net	29,166	101,120	162,318	99,292	544,371	784,075
	303,536	1,052,360	509,397	657,390	(450,465)	1,679,891
Profit (loss) before income taxes	(68,513)	(237,534)	(316,961)	(366,751)	776,998	(1,541,530)
Income taxes (tax benefits)	3,243	11,244	3,020	4,402	(2,287)	(30,937)
	(71,756)	(248,778)	(319,981)	(371,153)	779,285	(1,510,593)

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Profit (loss) from continuing operations						
Profit(loss) from discontinued operations, net	(44,102)	(152,903)	7,913	56,231	5,072	(54,418)
Profit (loss) for the year	(115,858)	(401,681)	(312,068)	(314,922)	784,357	(1,565,010)
Attributable to:						
Equity holders of the Company	(97,500)	(338,034)	(194,830)	(186,150)	1,008,999	(1,155,645)
Non-controlling interest	(18,358)	(63,647)	(117,238)	(128,772)	(224,642)	(409,365)
	(115,858)	(401,681)	(312,068)	(314,922)	784,357	(1,565,010)
Earnings per share - (in NIS)						
Basic earnings (loss) per share:						
From continuing operations	(5.80)	(20.14)	(22.05)	(21.73)	126.81	(2,675.22)
From discontinued operations	(4.80)	(16.64)	0.85	1.48	0.64	(109.69)
	(10.60)	(36.78)	(21.20)	(20.25)	127.45	(2,784.91)
Diluted earnings (loss) per share:						
From continuing operations	(5.80)	(20.14)	(22.05)	(21.73)	126.81	(2,675.22)
From discontinued operations	(4.80)	(16.64)	0.85	1.43	0.64	(109.69)
	(10.60)	(36.78)	(21.20)	(20.25)	127.45	(2,784.91)

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	2017 Convenience translation (\$'000)	2017 (NIS'000)	2016 (NIS'000)	2015 (NIS'000)	2014 (NIS'000)	2013 (NIS'000)
Current Assets	139,445	483,456	178,592	217,544	488,702	694,348
Non-current Assets	153,998	533,913	2,082,617	2,486,008	3,172,611	3,870,096
Total	293,443	1,017,371	2,261,209	2,703,552	3,661,313	4,564,444
Current Liabilities	244,266	846,874	1,209,627	806,251	358,985	4,794,477
Non-current Liabilities	92,092	319,282	1,002,967	1,593,237	2,589,091	178,597
Shareholders' equity Attributable to:						
Equity holders of the company	(56,082)	(194,435)	(88,489)	19,287	231,979	(1,032,637)
Non-controlling interest	13,167	45,651	137,103	284,777	481,258	624,007
Total	293,443	1,017,371	2,261,209	2,703,552	3,661,313	4,564,444

B. CAPITALIZATION AND INDEBTEDNESS

Not Applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not Applicable.

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D. RISK FACTORS

The following is a list of the material risk factors that may affect our business our financial condition, results of operations and our cash flows. We cannot predict nor can we assess the impact, if any, of such risk factors on our business or the extent to which any factor, or a combination of factors, may cause actual results to differ materially from those projected in any forward-looking statement. Furthermore, we cannot assess the occurrence, probability or likelihood of any such risk factor, or a combination of factors, to materialize, nor can we provide assurance that we will not be subject to additional risk factors resulting from local and/or global changes and developments not under our control that might impact our businesses or the markets in which we operate.

RISKS RELATING TO OUR MEDICAL COMPANIES IN GENERAL

Our medical companies are subject to extensive governmental regulation, which can be costly and subject their business to disruption, delays and potential penalties.

Our medical companies are subject to extensive regulation by the US Federal and Drug Administrative (“**FDA**”) and various other U.S. federal and state authorities and the European Medicines Agency and other foreign regulatory authorities. The process of obtaining regulatory approvals to market a drug or medical device can be costly and time-consuming, and approvals might not be granted for future products, or additional indications or uses of existing products, on a timely basis, if at all. Delays in the receipt of, or failure to obtain approvals for future products or new indications and uses, could result in delayed realization of product revenues, reduction in revenues and substantial additional costs. In addition, no assurance can be given that our medical companies will remain in compliance with applicable FDA and other regulatory requirements once approval or marketing authorization has been obtained for a product. These requirements include, among other things, regulations regarding manufacturing practices, product labeling, and advertising and post marketing reporting, including adverse event reports and field alerts due to manufacturing quality concerns. Our medical companies’ facilities are subject to ongoing regulation, including periodic inspection by the FDA and other regulatory authorities, and they must incur expense and expend effort to ensure compliance with these complex regulations. Failure to comply with all applicable regulatory requirements may subject our medical companies to operating restrictions and criminal prosecution, monetary penalties and other disciplinary actions, including, sanctions, warning letters, product seizures, recalls, fines, injunctions, suspension, shutdown of production, revocation of approvals or the inability to obtain future approvals, or exclusion from future participation in government healthcare programs. Any of these events could disrupt our medical business.

There is uncertainty regarding reaching the phase of commercial sales

Gamida is primarily involved in research and development stages of its products. InSightec's ExAblate system has obtained regulatory approvals for certain applications (including FDA and CE approval) which are sold to customers, and InSightec's research and development activities focus on additional applications to its existing products.

A company wishing to develop a medical product and receive approval to market it must pass through a series of trials catalogued according to various phases, and each of them may end in failure. In such circumstances, InSightec's and Gamida's research and development activities do not carry with them a certainty of succeeding and reaching the phase of commercial sales of their products. Furthermore, it is not possible to predict the results of the later-phase trials based on the results of the preclinical trials and the first clinical trials carried out in the same product. Furthermore, a large part of the costs is invested in research and development expenses before the company begins to derive revenue from the sales of the products in development. A failure in one of the trial phases may cause the loss of the entire investments. Furthermore, there is no certainty regarding the price that may be received for the products under development when they begin to be marketed.

Our medical companies need considerable funds for research and development in order to be successful

InSightec invests significant resources into the research and development of new applications for its existing products, and a significant part of Gamida's operations is in the research and development field. So long as InSightec and Gamida continue with their product development processes, their development costs will remain high, as will their need for considerable funds, and InSightec will not generate revenues for its new applications, and Gamida will not generate revenues from its products. Both InSightec and Gamida are dependent on the success of their respective research and development process, and if its research and development efforts, including clinical trials, fail in part or in whole, or significantly deviate from their objectives in terms of the development time or development costs, it could have a material adverse effect on InSightec and/or Gamida, as the case may be.

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The clinical trials may not be successful and may be delayed or discontinued

The continued development of the products/applications being developed by InSightec and Gamida is conditioned on the conduct of clinical trials and the success of these trials at each of the regulatory phases. The conduct of clinical trials depends on a range of factors, including the ability to recruit a satisfactory number of both ill and healthy candidates. The necessity to receive the consent of clinical research entities for the trials, approvals for the conduct of the trials, as well as the possibility for unpredicted side effects may negatively impact the success of our medical companies' successful completion of their clinical trials. All these may delay, or even cause a discontinuation of, the clinical trials, and lead to a postponement of the approvals and permits, as described above. Moreover, it is not possible to know when the clinical trials will be completed, if at all.

Our medical companies may experience difficulties and delays in recruiting candidates for clinical trials

Continued development of InSightec's and Gamida's products/applications and completion of the clinical trials depend, among other factors, on the recruitment of appropriate candidates for the aforementioned trials. A lower than expected rate and/or delay of the recruitment of trial candidates may be caused by a variety of factors, such as the low prevalence of patients fitting the trial criteria, competition between the companies for candidate participation in trials, changes in the candidates' willingness to volunteer for the trial, and a lack of budgets.

Our medical companies' operations (which include clinical trials) may lead to exposure to legal claims.

Our medical companies' activities in the field of medical equipment and devices development include clinical trials, which raise exposure to legal claims due to bodily injury or side effects resulting from the usage of such medical devices or treatment or the negligence or improper usage of such equipment by the medical staff performing the treatment. Any such claims could result in harm to our business and results of operations.

Our medical companies may be unable to adequately protect or enforce their rights to intellectual property, causing them to lose valuable rights.

InSightec's and Gamida's success and ability to compete depends in large part upon their ability to protect their proprietary technology. InSightec and Gamida rely on a combination of patent, copyright, trademark and trade secret laws, and on confidentiality and invention assignment agreements, in order to protect their intellectual property rights. The process of seeking patent protection can be long and expensive, and there can be no assurance that InSightec's and

Gamida's existing or future patent applications will result in patents being issued, or that InSightec's and Gamida's existing patents, or any patents, which may be issued as a result of existing or future applications, will provide meaningful protection or commercial advantage to InSightec and Gamida.

Violation of a third party's rights

Claims by competitors and other third parties that InSightec's or Gamida's products allegedly infringe the patent rights of others (e.g. if InSightec's and/or Gamida's employees or service providers have violated, or are violating, the intellectual property rights held, in the past or present, by their other employers) could have a material adverse effect on InSightec's or Gamida's business. Any future litigation, regardless of outcome, could result in substantial expense and significant diversion of the efforts of InSightec's and Gamida's technical and management personnel. An adverse determination in any such proceeding could subject InSightec and Gamida to significant liabilities or require InSightec or Gamida to seek licenses from third parties or pay royalties that may be substantial.

Lack of coverage by government entities and/or insurance companies for the products' costs

The payment mechanisms currently used in the USA and Europe and some other countries, according to which the cost of patient care is covered by government bodies and/or insurance companies, may affect InSightec's and Gamida's sales potential. Should insurance coverage for the costs of InSightec's and Gamida's products not be approved, this may lead to a reduction in these products' sales potential.

InSightec believes that third-party payors will not provide reimbursement on a national basis for treatments using the ExAblate, unless InSightec can generate a sufficient amount of data through long-term patient studies to demonstrate that such treatments produce favorable results in a cost-effective manner relative to other treatments. Furthermore, InSightec could be adversely affected by changes in reimbursement policies of private healthcare or governmental payors to the extent any such changes affect reimbursement for treatment procedures using the ExAblate. If InSightec is unable to obtain reimbursement on a national basis for treatments using the ExAblate, or if there are changes in reimbursement policies of private healthcare or governmental payors affecting the reimbursement for treatment procedures using the ExAblate, it could have a material adverse effect on InSightec.

For more information regarding reimbursement for InSightec's products see "Item 4B – Business Overview – InSightec – Insurance Coverage".

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Our medical companies are dependent on professional and skilled manpower

InSightec's and Gamida's success depends, among other factors, on the continued services of key personnel in the development, production, management and business development fields. The supply of professional and skilled manpower in InSightec's and Gamida's field of activity in Israel is small. Should InSightec and Gamida not be able to hire or retain the aforementioned employees, this could cause a delay in the development and production of their products.

Grants and benefits from government entities and limits on realization of holdings

InSightec and Gamida benefit from the budgets of government entities, such as the Israeli Innovation Authority. These grants and benefits impose limitations on the activities of recipient companies (e.g. restrictions on production outside Israel and a prohibition on sales of knowledge to foreign entities). Moreover, limitations exist on the possibility to sell InSightec's and Gamida's operations to foreign investors, which may limit the options for realizations of the Company's holdings in InSightec and/or Gamida. A violation of the limitations may subject InSightec and Gamida to a range of penalties, including financial and criminal penalties. Furthermore, changes in the budgets of the aforementioned government entities that may prevent or reduce the grants and/or benefits that InSightec and Gamida may receive in the future may substantially impact their operations and results. Moreover, foreign investments are affected, among other factors, by the preservation of foreign investment incentives by Israeli regulators, including tax incentives. In the event that the aforementioned incentives for foreign investments are discontinued and/or limited, this may negatively affect foreign investments in InSightec and Gamida, and therefore negatively affect their business results and the company's business results.

Limits on the realization of InSightec and Gamida holdings

InSightec and Gamida sometimes enter into agreements which impose restrictions on the holdings of parties to the agreement or on third parties, including the company, related to their holdings in InSightec and Gamida, such as refusal rights and tag along rights. The aforementioned restrictions may limit the company's ability to realize its holdings in InSightec and/or Gamida and even deter potential investors from entering into investment agreements with the Company in regards to InSightec and Gamida.

Developments in the pharmaceutical and medical research fields

The development of competing drug treatments in InSightec's and Gamida's fields of research and development may reduce or obviate entirely the need for their products.

Changes enabling the circumvention of InSightec's and/or Gamida's intellectual property

It is possible that, after development is completed and a patent is registered in InSightec's and/or Gamida's name, third parties may succeed in developing alternative products that will include a technological change that will enable them to circumvent InSightec's and/or Gamida's patent-protected rights. In such a case, it is possible that third parties may succeed in developing products competing with InSightec's and/or Gamida's without violating the patent-protected rights, which may increase competition for InSightec's and/or Gamida's products and reduce their expected profits.

Violation of rights that are protected by patents, or will be protected in the future by patents

It is possible that, after development is completed and a patent is registered in InSightec's and Gamida's name, third parties may act to produce InSightec's and Gamida's products while violating the patent-protected rights. In light of this, the production of InSightec's and Gamida's products in violation of their patent-protected rights may harm them, and cause a decline in the prices of their products and reduce their expected profits.

Risks inherent in marketing medical products

Certain risks are inherent in marketing medical products and/or medicine, such as side effects for a drug (when referring to Gamida's products) and other patient reactions to the drug, which in some cases are unpredicted. The realization of the aforementioned risks may delay the continued development activities, and impact InSightec's and Gamida's continued operations and product development.

InSightec and Gamida are dependent on further capital investments.

Until InSightec achieves broad market acceptance of the ExAblate and is able to generate sufficient sales to support its business and its research and development expenses, and until Gamida begins selling its products and generating positive cash flow, each of them will need to obtain additional capital investments to support its business in general and, in particular, its significant research and development costs and expenses. The current volume of sales and backlog of InSightec will not suffice to maintain its current cash burn-rate and expenditure levels. Each of InSightec's or Gamida's inability to obtain additional funding sources, particularly capital investments, might have a material adverse effect on its business and/or ability to continue its operations.

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InSightec's and Gamida's technology may become obsolete, which could materially adversely impact InSightec's and Gamida's future business and financial performance.

InSightec's and Gamida's success and ability to compete depends in large part upon their ability to develop and maintain unique and leading technologies and capabilities, providing medical solutions superior to alternative treatments and technologies. The discovery or development of more advanced, efficient or cost-effective treatments or technologies by third parties providing better solutions to the same diseases, could make InSightec's or Gamida's technologies or solutions inferior, obsolete or irrelevant. The rapid development and massive research and development activities in the medical areas in which these companies operate creates constant risk of such occurrence, which could adversely impact InSightec's and Gamida's future business and financial performance.

RISKS RELATING TO INSIGHTEC

Demand for InSightec products

As of the date of this annual report, and in light of InSightec's annual sales volume, there is no certainty that the demand for InSightec products will remain stable or grow. Furthermore, there is currently no certainty with regards to the rate of growth in the gynecology, oncology, and neurology markets, at which the current InSightec products are targeted. Increased demand for InSightec products depends also on the success of the marketing efforts, including overcoming various obstacles, with regard to which there is no certainty.

Technological compatibility

As of the date of this annual report, ExAblate is compatible only with certain Magnetic Resonance Imaging (MRI) systems of GE Healthcare, a division of the General Electric Company ("GE") and MRI systems of Siemens Healthcare GmbH ("Siemens"), which may limit InSightec's potential market.

In light of the above, we depend on collaboration with GE and Siemens to ensure the compatibility of the ExAblate with new models of GE and Siemens MRI systems and upgrades to existing GE MRI systems. If InSightec is unable to receive information regarding new models of the GE and Siemens MRI systems or upgrades to existing GE and Siemens MRI systems, and coordinate corresponding upgrades to the ExAblate to ensure continued compatibility with new and existing GE and Siemens MRI systems, its ability to generate sales of its system will be adversely affected. A termination of the cooperation with MRI manufacturers may cause a delay in the sale of InSightec products and a need

for additional funding in order to make its products compatible with the MRI systems of other manufacturers.

InSightec is dependent on GE

As at the date of this report, InSightec has regulatory authorizations to integrate systems manufactured by it only into MRI beds manufactured by GE. InSightec is in the process of obtaining authorizations to integrate the systems manufactured by Siemens. However, at this stage, prior to having obtained the authorizations as stated, InSightec is dependent upon GE.

If the ExAblate is subject to a product recall, InSightec will not be able to generate sufficient sales to support its business.

If the ExAblate does not comply with regulatory standards or if it is subject to reports of damaging effects to patients, it may be subject to a mandatory recall by the relevant authorities and sales may be stopped until it can clear regulatory approvals once again. A recall may harm the reputation of InSightec and its products and its ability to generate additional sales of the ExAblate which may be adversely affected. As of the date of this annual report, and to InSightec's best knowledge, no incidents that may lead to a product recall by the relevant authorities have been reported.

Incorporation of third-party software components in InSightec products

Third-party software components are found in InSightec's products which are subject to use limitations in accordance with their user license. Should InSightec fail to use the product in accordance with the license and the limitations established therein, InSightec may be sued for violations of the component developer's copyrights and/or may be required to hand over sensitive internal information to the public, which would benefit InSightec's competitors and harm its protected confidential data. Any demand to reveal InSightec's source code or exposure of InSightec to copyright violations would significantly damage its competitiveness and business outcomes.

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If the ExAblate systems do not achieve broad market acceptance, InSightec will not be able to generate sufficient sales to support its business.

InSightec must achieve broad market acceptance of the approved ExAblate systems among physicians, patients and third-party payors in order to generate sufficient sales to support its business. Physicians will not recommend the use of any of the approved systems unless InSightec can demonstrate that it produces results comparable or superior to existing alternative treatments. If long-term patient studies do not support InSightec's existing clinical results, or if they indicate that the use of the particular approved system has negative side effects on patients, physicians may not adopt or may not continue to use them. Even if InSightec demonstrates the effectiveness of the approved systems, physicians may still not use the systems for a number of other reasons. Physicians may continue to recommend traditional treatment options simply because those methods are already widely accepted and are based on established technologies. Patients may also be reluctant to undergo new, less established treatments. If, due to any of these factors, the approved ExAblate systems do not receive broad market acceptance among physicians or patients, InSightec will not generate significant sales. In this event, InSightec's business, financial condition and results of operations would be significantly harmed, and InSightec's ability to develop additional treatment applications for the ExAblate would be adversely affected.

RISKS RELATING TO GAMIDA

Gamida is dependent on the completion of the development of its products in the field of stem cell proliferation

Gamida develops unique products using unique technologies for the proliferation of stem cells. There is no certainty that the development activities will conclude successfully nor is there any certainty that the clinical trials conducted by Gamida will conclude successfully and accordingly that Gamida's products will be found to be effective and safe for use.

Gamida's is dependent on manufacturing sites

The manufacturing capability of Gamida depends upon the manufacturing site that it owns and the manufacturing site of its subcontractor. As of the date of this report, the manufacturing of NiCord for all the clinical trials conducted by Gamida is carried out at all of these manufacturing sites. Physical or other damage to the manufacturing sites, and mainly the manufacturing site of the subcontractor, that requires its unexpected closing, could materially adversely affect Gamida.

RISKS RELATING TO REAL ESTATE IN GENERAL

We and PC essentially ceased significant business development activities in the real estate sector, particularly in the fields of plots in India and commercial centers, which may have a material adverse effect on our operations and cash flow.

As a result of certain constraints imposed on us and PC within the framework of our respective Debt Restructurings, as well as other circumstances, such as lack of new financing and related matters, we did not initiate any new projects nor make any significant progress in projects that were under development. PC currently does not develop commercial centers and most of the plots purchased by PC in the past are designated for sale and not for development. Rather, we and PC are currently focused on enhancing parts of our backlog projects and selling them at favorable market conditions. In addition, we did not commence new cycles of entrepreneurship-development-improvement-realization, and focused only on our backlog projects with no new pipeline. Since we are highly dependent on the realization of our current assets as a source of cash flow to serve our debts, this change in corporate strategy and focus may adversely affect our operations, and may cause material adverse effects on our ability to generate future cash flow in order to meet our and PC's obligations.

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The fair value of our real estate assets may be harmed by certain factors that may entail impairment losses not previously recorded, which would affect our financial results.

Certain circumstances may affect the fair value of our real estate assets, including, among other things: (i) the absence of or modifications to permits or approvals required for the development of the plots, (ii) delays in completion of development works beyond the anticipated target, (iii) pending lawsuits that may affect our operations, whether or not we are a party thereto, (iv) full or partial eminent domain proceedings (with or without compensation) regarding such real estate assets; and (v) findings indicating soil or water contamination or the existence of historical or geological antiquities that may require us to absorb significant cleaning, purification or preservation costs; (vi) sale done under time constraints which prevents us from making a sale in optimal conditions. In addition, certain laws and regulations applicable to our business in certain countries where the legislation process undergoes constant changes may be subject to frequent and substantially different interpretations, and agreements which may be interpreted by governmental authorities so as to shorten the term of use of real estate, which may be accompanied by a demolition or nationalization order with or without compensation, may significantly affect the value of such real estate asset.

Real estate investments are relatively illiquid.

Substantially all of our portfolio's total consolidated assets consist of investments in undeveloped real estate properties. Because real estate investments are relatively illiquid, our ability to quickly sell one or more properties in the portfolio in response to changing economic, financial and investment conditions is limited. Moreover, the sale of any of the undeveloped assets to third parties will involve other difficulties compared to the selling of operational real estate assets, such as the lack of financing for development, the risk of not obtaining the building permits and approvals from the authorities and the like.

The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates, supply and demand for space, and trends, that are beyond our control. As our projects are subject to numerous factors that are not under our control, there is no assurance that our predictions and estimations of the timing in which we will be able to sell any property and/or the price or terms we set will actually materialize as predicted. There is no assurance that our predictions and estimations as to the length of time needed to find a willing purchaser and to close the sale of a property will be correct.

In addition, current economic and capital market conditions might make it more difficult for us to sell properties or might adversely affect the price we receive for properties that we do sell. Finally, attempting to sell any of our investments in real properties at an accelerated pace due to cash flow needs may result in receiving a lower purchase price for such investments.

In addition, the number of prospective buyers interested in purchasing real estate properties may be limited. Therefore, if we want to sell one or more of the properties in our portfolio, we may not be able to dispose of the property within the desired time period and may receive less consideration than the book value of the property in our consolidated financial statements.

Environmental factors may have a significant impact on the budget, schedule, viability and marketability of our assets.

If and to the extent that we will engage in the development of any of our real estate assets (rather than sale it AS IS), we may encounter unforeseen construction delays or compliance defaults due to factors beyond our control such as delays or defaults caused by previously unknown soil contamination or the discovery of archeological findings which may have a significant impact on development budget and schedules and which may, in turn, have a detrimental effect on the viability or marketability of the development or cause legal liability in connection with a portfolio asset. We may be liable for the costs of removal, investigation or remedy of hazardous or toxic substances located on or in a site owned by us, regardless of whether we were responsible for the presence of such hazardous or toxic substances. The costs of any required removal, investigation or remedy of such substances may be substantial and/or may result in significant budget overruns and critical delays in construction schedules. The presence of such substances, or the failure to remedy such substances properly, may also adversely affect our ability to sell or lease such property or to obtain financing using the real estate as security. Additionally, any future sale of such property will be generally subject to indemnities to be provided by us to the purchaser against such environmental liabilities. Accordingly, we may continue to face potential environmental liabilities with respect to a particular property even after such property has been sold. Any environmental issue may significantly increase the cost of a development and/or cause delays, which could have a material adverse effect on the profitability of that development and our results of operations and cash flows.

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RISKS RELATING TO THE CASA RADIO PROJECT IN ROMANIA

PC's Casa Radio project in Romania may be subject to governmental expropriation or monetary sanctions.

In 2006, PC added the Casa Radio project in Romania to its portfolio. The nature of the development and exploitation rights granted to the joint venture company in relation to the Casa Radio site in Bucharest are for a period of only 49 years, and in the event that this term is not extended, the rights in relation to the site would revert to the Government of Romania. Additionally, there may be other regulatory risks relating to the Romanian government's right to expropriate the rights to the Casa Radio Site in Bucharest or that they will impose sanctions on PC with respect to the property, See "Item 4 – Information on the Company – History and Development of the Company – Recent Events – Casa Radio Project in Bucharest, Romania" for more information regarding the Casa Radio Site. Furthermore, these rights are subject to termination under certain circumstances by the Romanian government, such as in the event of a delay in the project timetable, and any termination prior to the expiration of such rights may have a material adverse effect on our business cash flow and our results of operations.

RISKS RELATING TO OUR PLOTS IN INDIA

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

Our strategy with respect to our plots in India is to dispose of such assets under the most optimal market conditions. Due to regulatory, physical and other limitations to develop our project in Bangalore, India, on December 2, 2015, we announced that Elbit Plaza India Real Estate Holdings Limited (in which we hold a 50% stake with PC) ("**EPI**") signed an agreement to sell 100% of its interest in a special purpose vehicle which holds a plot in Bangalore, India to a local Investor which should had been closed on September 30, 2016. The Local investor has failed to close the transaction in the agreed time line. As a result of this breach, the local investor was required to carry out an agreed upon separation mechanism in such manner that EPI will have full title over the plot. Such mechanism include mainly the execution of certain title documents transferring and duly registering the 10% undivided interest in the plot that are being held by the local Partner in EPI's favor. Since the separation mechanism has not been executed by the Local investor, EPI forfeited from the escrow agent, the transfer deeds for land plots covering approximately 8.3 acres which had been provided to us as guarantees under the agreement.

On June 19, 2017, we announced that EPI has signed a revised agreement for the sale of the plot in Bangalore. As part of the agreement, part of the consideration will be paid by the Purchaser in installments until the Final Closing. The

final closing was set to take place on September 1, 2018. All other existing securities granted to EPI under the previous agreement will remain in place until the Final Closing.

On January 19, 2018 we announced that the purchaser announced that the remaining payments under the revised agreement will not be made due to certain change proposed by the Indian authorities that could potentially impact the development of the site.

On February 21, 2018 the Company announced that despite the purchaser's January 2018 announcement, the Purchaser paid the January installment in the amount of INR 5 Crores (circa €0.62 million).

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

If the Purchaser defaults before the final closing, EPI is entitled to forfeit certain amounts paid by the Purchaser as stipulated in the revised agreement. All other existing securities granted to EPI under the previous agreements will remain in place until the final closing. However, it should be noted that, in case of a breach by the Purchaser of the new agreement, we will still should achieve full separation from the local partner, which might be a long and tedious process and we are not certain that we will be able to achieve it. In case such separation would not be achieved it may cause a significant impairment to the value of the property and may cause significant difficulties to find another third party buyer to this plot taking into account that there is no clean title on the property. This may have a material adverse effect on our operations, cash flow and in turn, our ability to repay our debts in timely manner.

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Even if we are able to properly execute the separation mechanism (in particular with respect to the transfer of the local partner's 10% undivided interest in our favor) and/or exercise the guarantees placed by the local investor, there is no guarantee that we will be able to dispose of the land in the Bangalore project to a third party on efficient economic terms due to proprietary claims to certain parts of the Bangalore project, and other third party holdings on parts of the land within the Bangalore project thus making the holdings in the land a non-contiguous property. In addition, legal and regulatory restrictions placed by local authorities can materially impede our ability to dispose of the land on optimal commercial terms which may materially adversely affect our ability to dispose of the land to third parties which may jeopardize our business strategy, planning and operations, and could cause severe delays in disposition of the plots and could have a material adverse effect on our operations, cash flow and in turn, our ability to repay our debts in timely manner.

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

Our strategy in respect of our projects in India is to liquidate our assets at the most commercially optimal prices. However, we have entered into a Joint Development Agreement (“**JDA**”) transaction with a local developer in order to develop our project in Chennai, India. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Joint Development Agreement with respect to our Plot in Chennai, India”. As per the terms of the JDA, we are entitled to receive an agreed upon percentage of the proceeds from sales to third parties of villas and plots developed by the local developer.

As of the date of this current report, the commencement of the project is still subject to obtaining an access road to the project which as of the date of this filing has not yet been obtained, and the Company is examining its options.

In addition, our ability to sell the project to other third party developers is limited since new developers would likely to ask that we terminate our JDA with the local developer, which is possible only under certain events detailed in the JDA.

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

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

Our project in Chennai, India is subject to a JDA with a local partner. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Joint Development Agreement with respect to our Plot in Chennai, India”. The Chennai, India project is to be developed by the local partner who is responsible for the construction of the Chennai, India project at its own costs, as well as marketing the Chennai, India project to third party buyers. Any significant decline in the financial capabilities of the local partner might cause delays in the construction and marketing of the Chennai, India project by the local partner in the expected timeline. In addition, any significant decline in the reputation of the local partner could cause delays in the marketing of the project to third party buyers. Since the local partner has another project in Chennai in close proximity to our Chennai, India project, there may be a conflict of interest in the construction and marketing of our Chennai, India project since the local partner may have other business interests that are inconsistent with ours.

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

Our plots located in India are subject to a highly regulated legal regime which is burdensome for foreigner investors

Our plots are located in India, and are subject to the Indian Foreign Exchange Management Act, 1999, and the regulations framed thereunder with respect to the construction development sector in India. That sector is governed by provisions of the Foreign Exchange Management Act and the consolidated Foreign Direct Investment (“**FDI**”) policy issued by the Department of Industrial Policy and Promotion (“**DIPP**”) of the Indian Ministry of Commerce and Industry, and updated/revised from time to time through various Press Notes (“**FDI Policy**”). The latest release with respect to the FDI Policy was a Consolidated FDI Policy circular issued by the DIPP, with effect from August 28, 2017. These regulations forbid the sale of undeveloped land in view of blocking speculative real-estate investments by foreigners, and require a minimum lock-in period of 3 years for each tranche of an investment. Additional regulations promulgated under the FDI Policy and the Reserve Bank of India (“**RBI**”) subject the repatriation of capital to strict regulatory procedures and time-consuming bureaucratic processes. Failure to comply with the requirements of the FDI Policy or RBI regulations will require us to receive governmental approvals which we may not be able to obtain or which may include limitations or conditions that will make the investment unviable or impossible, and non-compliance with investment and/or repatriation restrictions may result in the imposition of penalties and the inability to dispose of our projects. Such limitations block or limit our ability to separate and walk away from unsuccessful joint ventures, terminate land acquisition contracts, dispose of land inventory that the development thereof is not economical for us or control the timing of such disposition. In addition, that legislation is subject to continuous rapid and unexpected changes that can jeopardize our business strategy, planning and conduct, and can cause severe delays in timetables for the disposition of the plots and could have a material adverse effect on our operations, cash flow and in turn, our ability to repay our debts in timely manner. For additional information regarding the relevant regulation to our business in India see “Item 4B – Business Overview – Governmental Regulation.”

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Real estate legislation in India does not assure clear title and ownership status.

Under Indian law, the registration of ownership in land with the land registration offices does not automatically guarantee the absence of third party rights to such land. In contrast to other countries, India does not have a central title registry for real property. Title registries are maintained at the state and district level and, since the process of storing such records digitally has only recently started, such records may not be available online for inspection. In addition, because it is common practice in some parts of India (especially in villages) for transfers of title upon deaths of family members and in certain other circumstances to be made only by notation in local revenue records, changes in the ownership of land may not be registered with the relevant land registry in a timely manner or at all. Title registries and local revenue records may not be updated or complete. As such, legal defects and irregularities may exist in the title to the properties on which our existing facilities and/or future facilities are or may be located. While we utilize all reasonable efforts to ensure integrity of title in the real estate properties acquired by us, the system of recording ownership and rights in and to immovable property is not conclusive. Our rights in respect of such properties may be threatened by improperly executed, unregistered or insufficiently stamped conveyance instruments, unregistered encumbrances in favor of third parties, rights of adverse possessors, ownership claims of family members of prior owners, or other defects of which we may not be aware. These defects may arise after land is acquired by us, and are not necessarily revealed by due diligence, due to various factors, including incomplete land records, transactions without registered documents, the decentralized nature of land registries and local revenue records, property-related litigation in India and family disputes in previous sellers' families. Any defects or irregularities of title may result in litigation and/or the loss of development rights over the affected property. With respect to projects on leasehold land, revocation/expiry of the lease and any defect or irregularity in the lessor's title may result in loss of our rights over affected property. This would have an adverse effect on our business and results of operations.

The new order issued by the National Green Tribunal and the proposed Master Plan may significantly limit the ability of a prospective purchaser to develop the land in the most efficient way and may significantly affect our ability to dispose of such asset and complete our strategy relating to our plots in Bangalore.

On May 4, 2016, the National Green Tribunal (“NGT”) issued a new order in which it directed that specified areas surrounding bodies of water are to be treated as “no construction zones”. See “Item 4B – Business Overview – Governmental Regulation – Plots in India – National Green Tribunal – New Order”.

Our project in Bangalore is in proximity to the Varthur Lake and has several water drains crossing it, and may therefore be subject to the NGT order. Consequently, a third party prospective buyer may claim that the new NGT order may cause significant limitations on the development of the project which in turn may limit our ability to dispose of this property at its fair market value or at all. Such issues may have a material adverse effect on our cash flow position and the value of this property in our consolidated financial statements.

On February 2018 the Company was informed about the preparation of a new master plan in the State of Karnataka, India ("Master Plan") which effects major portions of the Varthur Land. Under the Master Plan a major portion of the Varthur Land is classified as "buffer/valley/open space/park". This could change if an objection filed is considered and accepted, and this may significantly affect our ability to dispose of such asset and complete our strategy relating to our plots in Bangalore. For additional information see "Item 4B – Business Overview – Governmental Regulation – Plots in India – Master Plan".

Our Partner has filed objections to the Master Plan to seek the re-classification of the proposed zoning of the buffer zone and the zoning of areas within the buffer zone.

We may have difficulties disposing our projects in India which may significantly affect our ability to complete our strategy relating to our plots in India

Due to regulatory and legal restrictions in India which make it difficult to register the transfer of ownership rights in our Indian projects, our ability to secure full title to our projects in India may be significantly restricted.

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There are ongoing court cases with respect to third party proprietary claims to certain parcels of land within our projects in India which further impede our ability to dispose of the asset. Physical and geographical limitations, such as the lack of an access road leading to the Chennai project territory, NGT order claims, theft of sand and destruction of property, and third party holdings throughout our Indian project territory (which we are unable to purchase from such third parties at all or on reasonable market terms) may also impede our ability to dispose of projects on optimal commercial terms.

We have capital needs and additional financing may not be available.

If and to the extent that we will engage in the development of any of our real estate assets (rather than sale it AS IS), we require up-front expenditures for land development and construction costs for our existing plots in India which are designated for sale. Accordingly, we require certain amounts of cash and financing for our operations in India. We cannot be certain that our own capital will be sufficient to support such future development or that such external financing would be available on favorable terms, on a timely basis or at all. Furthermore, any changes in the global economy, real estate or business environments in which we operate, any negative trend in the capital markets, any restrictions on the availability of credit and/or decrease in the credit rating of PC, might have a material adverse effect on our ability to raise capital.

GENERAL RISKS

Most of our assets (including those of our subsidiaries) are managed in foreign currencies while our liabilities (including those of our subsidiaries) are denominated in NIS.

We are impacted by exchange rate fluctuations as a significant part of our cash flow is dependent on our assets and investments which are acquired and managed in foreign currencies (mainly EUR, US Dollar and Rupee) while our debts (mainly our Notes, Elbit Medical Notes and PC Notes) are mainly incurred in NIS. As a result of this currency discrepancy, the proceeds from the realization of our assets and investments may significantly fluctuate and we may be adversely affected by such discrepancy. Currently we do not have any material hedges against exchange rate fluctuations. If a devaluation of the foreign currency against the NIS will occur when we will realize these assets and investments our cash flow may be significantly harmed and it may cause us not to serve our indebtedness in full and on timely manner. In addition such exchange rate fluctuations will affect our shareholders equity and our net asset value in the event we will have currency exchange losses that are attributed to the profit and loss or directly to our shareholders equity in accordance with accounting standard.

Delays in the realization of our assets could result in significant harm to our financial condition and our ability to repay our indebtedness in a timely manner.

Our business objective is to create value with our assets and, as a result, following the realization of such assets, to create value for our company. Our cash flow is dependent upon maintaining synchronization between the realization timetables to the payment schedules of our indebtedness. Delays or inability to realize our assets could harm our cash flow and our ability to serve our indebtedness.

Difficulties in realizing our assets may be attributed to a number of factors, including: (i) regarding our medical companies - The conditions for realizing the holdings have not yet matured, with an emphasis on the existence of significant improvement potential; (ii) regarding our real estate business - delays in obtaining permits and licenses from municipal and planning authorities, a tougher approach and stricter demands by banks and financial institutions for the financing of potential purchasers and other factors beyond our control. We are dependent on realizing a significant part of our assets in order to serve our debts in a timely manner. There is no assurance that we, Elbit Medical and PC will succeed in the realization of our assets in synchronization with the maturity date of our debts, which may lead us to an event of default under our various notes (the “**EI Notes**”) and/or the Elbit Medical notes (the “**Elbit Medical Notes**”) and/or PC’s notes (the “**PC Notes**”).

Conditions and changes in the local and global economic environments may adversely affect our business and financial results including our ability to comply with certain financial covenants.

Adverse economic conditions in the markets in which we operate can harm our business. Such adverse economic conditions may result in economic factors including diminished liquidity and tighter credit conditions, leading to decreased credit availability, as well as declines in economic growth, employment levels, purchasing power, and the size and amount of transactions.

In particular, adverse economic conditions may have the following consequences on our business: (i) slowdown in our business resulting from potential buyers experiencing difficulties in raising capital from financial institutions in order to finance the purchase of our assets from us, which may significantly impact our cash flow and our ability to serve our debts in a timely manner (ii) decrease in asset values that are deemed to be permanent, which may result in impairment losses and possible noncompliance with certain financial covenants in credit and loan agreements to which we are a party, (iii) negative impact on our liquidity, financial condition and share price, which may impact our ability to raise capital in the market, obtain financing and other sources of funding in the future on terms favorable to us, which would harm our ability to finance the development of our projects and engage with co-investors, and (iv) imposition of regulatory limitations on financial institutions with respect to their ability to provide financing to companies such as us and/or projects such as those in which we are engaged and/or to potential buyers of our assets, while creating a credit crunch. If such financial and economic uncertainty shall occur, it may materially adversely affect our results of operations and cash flow.

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We are highly leveraged.

We are highly leveraged and have significant debt service obligations. As of the balance sheet date our consolidated debt toward note holders amount to NIS 1083 million (\$312 million), out of which a corporate -level debt (i.e.: debts of the Company on a standalone balance sheet) amounted to NIS 572 million (approximately \$165 million).

As a result of our substantial indebtedness: (i) we could be more vulnerable to general adverse economic and industry conditions; (ii) we may find it more difficult to obtain additional financing to fund future working capital, capital expenditures and other general corporate requirements; (iii) we may not be able to refinance our outstanding indebtedness, and (iv) we may have limited flexibility in planning for, or reacting to, changes in our business and in the industry.

We cannot guarantee that our projected cash flow will actually materialize in a manner that will allow us to serve our debt in a timely manner or fund our planned capital expenditures. In addition, we may need to refinance some or all of our indebtedness on or before maturity. We cannot guarantee that we will be able to refinance our indebtedness on commercially reasonable terms or at all.

Our ability to satisfy our obligations under certain notes depends on the value of our assets.

Although the use of borrowings is intended to enhance the returns on our invested capital when the value of our underlying assets increases, it may have the opposite effect where the value of underlying assets falls. Any fall in the value of any of our assets, may significantly reduce the value of our equity investment in the entity which holds such asset, meaning that we may not make a profit, may incur a loss on the sale or impairment of any such asset and/or increase the likelihood of breaching certain financial covenants and trigger potential cross defaults. The occurrence of one or more of these factors may have a material adverse effect on our business, financial condition, prospects and/or results of operations and cash flow.

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

We are subject to compliance with various laws and regulations, including the Foreign Corrupt Practices Act (the “FCPA”) and similar worldwide anti-corruption laws, including Sections 290-295 of the Israeli Penal Code, which

generally prohibit companies and their intermediaries from engaging in bribery or making other improper payments to foreign officials for the purpose of obtaining or retaining business or gaining an unfair business advantage. The FCPA also requires proper record keeping and characterization of such payments in our reports filed with the SEC.

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

On March 12, 2018 the Company announced that the Securities and Exchange Commission ("SEC") approved an offer of settlement that was submitted to it by the Company regarding concerns of a violations of the books and records and internal accounting controls provisions of the FCPA. For additional information See "Item 4- Information on the Company – History and Development of the Company – Recent Events – Approval of an Offer of Settlement with the SEC in the matter of Alleged Violations of FCPA".

Under the terms of the Notes we have limited flexibility in distributing dividends due to prepayment obligations.

The Notes include mandatory prepayment provisions in the event we pay a dividend or make any other distribution before the full redemption of the Notes, such that we will be obligated to prepay an amount equal to the amount distributed by us, in the following order: (i) first, towards all unpaid amounts under the Series H notes, and (ii) secondly, towards all unpaid amounts under the Series I notes. Such provisions may substantially limit our ability to distribute dividends to our shareholders. In addition, such limitation could prove burdensome and limit our ability to raise equity investments due to the limited ability to avail our shareholders of the return of such investments by way of dividends or distributions.

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We have no controlling shareholders who are able to influence the composition of our Board of Directors.

Our largest shareholders include affiliates of York Capital Management Global Advisers LLC and affiliates of Davidson Kempner Capital Management LLC who beneficially own an aggregate of approximately 19.6% and 14.3% respectively, of our outstanding ordinary shares. To our knowledge, these shareholders are not party to a shareholders' agreement between them or with any other shareholders. As a result, we have no controlling shareholder able to influence the composition of our Board of Directors. Consequently, following the next annual general meeting of our shareholders, a Board of Directors comprised of new individuals may be elected. Such new Board of Directors may have significantly different corporate strategies than our current Board of Directors, which may cause a material change in our operations and financial results.

The market price of our ordinary shares may suffer from fluctuation and may decline significantly.

There are a number of different major groups of shareholders with different and possibly opposing interests who may at any time sell their shares in the Company. There may be an adverse effect on the market price of our shares as a result of a substantial number of shares being sold or available for sale. If our shareholders sell substantial amounts of our ordinary shares, the market price of our ordinary shares may fall. Our ordinary shares are generally freely tradable, and the potential sales of such shares could cause the market price of our ordinary shares to decline significantly. This might also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

We are restricted from receiving dividends from Elbit Medical, PC and other subsidiaries.

The Elbit Medical Notes and the PC Notes include certain limitations on the distribution of dividends as well as subordination provisions, which would significantly limit our ability to generate cash flow from Elbit Medical and PC and may significantly affect our cash flow and operations. In addition, other subsidiaries of ours are subject to limitations on the payment of dividends by virtue of legal or regulatory restrictions in their respective jurisdictions. These limitations may have material adverse effects on our cash flow and in turn our ability to service our debts in timely manner.

If Elbit Medical or PC fail to comply with the provisions of the Elbit Medical Notes or the PC Notes, respectively, they may enter into liquidation or we may lose our control over Elbit Medical or PC

Both Elbit Medical and PC have a considerable amount of debt to serve in the coming year to the Elbit Medical Noteholders and the PC Noteholders. If Elbit Medical or PC will not be able to meet its obligations under the Elbit Medical or PC Notes the applicable party will enter into a default under its Notes and there is no obligation or assurance that we will be able to further support Elbit Medical or PC. Such defaults may lead to creditors realizing liens imposed on the assets of Elbit Medical and PC. In addition, PC's audited financial statements for the year ended December 31, 2017 includes a going concern note. Such default may result in massive dilution of our holdings causing us to lose our control over PC or the liquidation of PC, which would result in the loss of our investment in PC. Furthermore, PC is already in default under its Notes and its Noteholders may decide to exercise their rights to exercise the liens they have on PC's assets.

Our EI Notes and PC Notes are subject to changes in the consumer price index which may have a negative impact on our earnings, balance sheet and cash flows.

The principal and interest of most of our and PC debt instruments are determined by reference to the Israeli consumer price index (the "CPI"), which may entail significant risks not associated with similar investments in a conventional fixed or floating rate debt security. The historical value of the CPI is not indicative of future CPI performance and its value is affected by, and sometimes depends on, a number of interrelated factors, including direct government intervention and economic, financial, regulatory, and political events, over which we have no control. An increase in the CPI will result in additional financing expenses to our profits and losses and will have a negative impact on our cash flows. Currently we do not have any material hedges against fluctuations in the CPI.

The failure to comply with government regulation may adversely affect our business and results of operations.

Our business is subject to numerous national and local government regulations, including those relating to acquisition of real estate properties, building and zoning requirements, fire safety control, access for the disabled, environmental law and health board reviews and standards. In addition, we are subject to laws governing our relationships with employees, including overtime and working conditions. A determination that we are not in compliance with these regulations could result in the imposition of fines, an award of damages to private litigants and significant expenses in bringing our operations into compliance with such laws and regulations.

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Operating globally exposes us to additional and unpredictable risks.

We conduct our businesses in multiple countries. Our future results could be materially adversely affected by a variety of factors relating to international transactions, including changes in exchange rates, general economic conditions, regulatory requirements, dividend restrictions, tax structures or changes in tax laws or practices, and longer payment cycles in the countries in our geographic areas of operations. International operations may be limited or disrupted by the imposition of governmental controls and regulations, political instability, hostilities, natural disasters and difficulties in managing international operations. In the CEE region and India, laws and regulations, particularly those involving taxation, foreign investment and trade, title to securities, and transfer of title that are applicable to our activities, can change quickly and in a far more volatile manner than in developed market economies. We cannot assure you that one or more of these factors will not have a material adverse effect on our international operations and, consequently, on our business, financial condition results of operations and our cash flow. A failure to effectively manage the expansion of our business could have a negative impact on our business.

If we are characterized as a passive foreign investment company for U.S. federal income tax purposes, U.S. holders of ordinary shares may suffer adverse tax consequences.

Generally, if for any taxable year, after applying certain look through rules, 75% or more of our gross income is passive income, or at least 50% of the value of our assets, averaged quarterly, are held for the production of, or produce, passive income, we will be characterized as a passive foreign investment company (“PFIC”), for U.S. federal income tax purposes. Our PFIC status is determined based on several factors, including our market capitalization, the valuation of our assets, the assets of companies held by us in certain cases and certain assumptions and methodologies upon which we base our analysis. A determination that we are a PFIC could cause our U.S. shareholders to suffer adverse tax consequences, including having gains realized on the sale of our shares taxed at ordinary income rates, rather than capital gains rates, and being subject to an interest charge on such gain. Similar rules apply to certain “excess distributions” made with respect to our ordinary shares. A determination that we are a PFIC could also have an adverse effect on the price and marketability of our shares. If we are a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning our ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules.

Changes to the U.S. federal tax laws, including the recent enactment of certain tax reform measures, could have an impact on a shareholder’s investment in the Company.

U.S. federal income tax laws and the administrative interpretations of those laws may be amended at any time, potentially with retroactive effect. On December 22, 2017, P.L. 115-97 was signed into law making significant changes to U.S. federal tax laws. The impact of these provisions on the Company’s operations and on its investors is uncertain, and may not become evident for some period of time. Prospective investors are urged to consult their tax

advisors regarding the effect of these changes to the U.S. federal tax laws on an investment in our shares.

If we do not satisfy the NASDAQ requirements for continued listing, our ordinary shares could be delisted from NASDAQ and from the TASE.

Our listing on the NASDAQ Stock Market is contingent on our compliance with the NASDAQ's conditions for continued listing. One of such conditions is the timely filing of our Annual Report on Form 20-F with the Securities and Exchange Commission, in accordance with the requirement of the SEC.

For example, in May 2017, the Company received a notice from NASDAQ that it was not in compliance with Rule 5250(c)(1) because it failed to timely file the Form 20-F for the period ending December 31, 2016. The delay in filing the Form 20-F was the result of a disclaimer contained in the report of the auditor of Plaza Centers N.V. (an indirect subsidiary (45%) of the Company) in PC's annual financial statements for 2016. As a result of this disclaimer, the Company's auditor notified the Company that it was unable to provide an audit opinion regarding the Company's financial statements for 2016. After the Company submitted a plan to regain compliance and other information, among others, NASDAQ ultimately granted the Company an extension until November 13, 2017 to file its annual report on Form 20-F and thereby regain compliance with the Rule 5250(c)(1). The Company filed its annual report on Form 20-F on November 13, 2017.

If a delisting were to occur, and our shares did not thereafter qualify for trading on the Nasdaq Global Market or the Nasdaq Capital Market, trading in our shares in the United States may be conducted, if available, on the Over the Counter Bulletin Board or another medium. In the event of such delisting, an investor may find it significantly more difficult to dispose of, or to obtain accurate quotations as to the value of, our shares, and our ability to raise future capital through the sale of our shares could be adversely affected. Moreover, we would be unable to use the SEC's "short form" Form F-3 to register the offering and sale of securities, even for limited primary offerings. In addition, in the event of such delisting, we may be required to comply with enhanced reporting obligations under the Israeli securities laws, in addition to the reporting obligations under the U.S. securities laws, which could require additional management attention, increase our legal and accounting expenses and raise our exposure to sanctions for possible violations of Israeli securities laws.

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In addition, if a delisting or suspension from the NASDAQ were to occur, the Company's shares and Notes likely would be suspended or delisted from TASE.

If PC and Elbit Medical Technologies Ltd. do not satisfy the applicable stock exchange conditions for continued listing, their shares could be delisted.

The shares of PC are listed for trading on the main board of the London Stock Exchange under the symbol "PLAZ", on the main list of the Warsaw Stock Exchange under the symbol "PLZ", and on the Tel Aviv Stock Exchange under the symbol "PLAZ". The shares of our subsidiary Elbit Medical Technologies Ltd. are listed on the Tel-Aviv Stock Exchange under the symbol "EMTC". If PC or Elbit Medical Technologies Ltd. do not satisfy the conditions of the applicable stock exchange for continued listing (such as, but not limited to, free-float requirements), their shares could be delisted. Such occurrences would make the realization of those investments or any part thereof by us more difficult and could limit the possibility to attract new investors to those portfolios.

If the convertible notes issued by Elbit Medical are converted into ordinary shares of Elbit Medical, our holdings in Elbit Medical will be diluted.

On February 19, 2018, we announced that Elbit Medical completed a public offering of notes with a principal amount of NIS 180 million convertible into ordinary shares of Elbit Medical. The notes bear annual interest at 5% in the first two years and 10% in the remaining period and are convertible at any time until the maturity date of the notes, March 1, 2022, at a price per Elbit Medical ordinary share equal to NIS 1.47 in notes. In the event the entire principal amount of the convertible notes is converted into Elbit Medical ordinary shares, our holdings in Elbit Medical will be diluted and assuming no additional ordinary shares are issued by Elbit Medical, our holdings in Elbit Medical will be reduced to 58% of the issued share capital of Elbit Medical. In addition, the price per ordinary share of Elbit Medical may decline as a result of the issuance of a significant number of shares.

If Elbit Medical defaults in its obligations to the holders of its convertible notes, the holders may foreclose on Elbit Medical's holdings in InSightec and Gamida.

As described above, on February 19, 2018, we announced that Elbit Medical completed a public offering of notes with a principal amount of NIS 180 million convertible into ordinary shares of Elbit Medical. The notes bear annual interest at 5% in the first two years and 10% in the remaining period and are convertible into Elbit Medical ordinary share. The trust agreement of the notes includes certain limitations, including on the ability of Elbit Medical to distribute dividends and raise additional debt. In addition, the notes are secured by a pledge on a portion of Elbit Medical's holdings in InSightec and Gamida in a "value to loan" ratio of 200%. In the event Elbit Medical defaults in

its obligations to the holders of its convertible notes, the holders may foreclose on Elbit Medical's holdings in Insightec and Gamida, which would have a material adverse effect on our business.

Our Ordinary Shares are traded on different markets and this may result in price variations.

Our ordinary shares are traded on the Tel Aviv Stock Exchange and on the Nasdaq Stock Market. Trading in our ordinary shares on these markets will be made in different currencies (NIS on the Tel Aviv Stock Exchange and USD on the Nasdaq) and will take place at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). The trading prices of our ordinary shares on these two markets may differ due to these and other factors. Any decrease in the price of our ordinary shares on any of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

RISKS RELATING TO ISRAEL

Security and economic conditions in Israel may affect our operations.

We are incorporated under Israeli law and our principal offices are located in Israel. In addition, our operations in our other lines of business, such as Elbit Medical, operate in Israel. Political, economic and security conditions in Israel directly affect our operations. Since the establishment of the State of Israel in 1948, various armed conflicts have taken place between Israel and its Arab neighbors, Hamas (an Islamist militia and political group in the Gaza Strip) and Hezbollah (an Islamist militia and political group in Lebanon), and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel.

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In addition, acts of terrorism, armed conflicts or political instability in the region could negatively affect local business conditions and harm our results of operations. We cannot predict the effect on the region of any diplomatic initiatives or political developments involving Israel or the Palestinians or other countries in the Middle East. Recent political uprisings, social unrest and violence in various countries in the Middle East and North Africa, including Israel's neighbors Egypt and Syria, are affecting the political stability of those countries. This instability may lead to deterioration of the political relationships that exist between Israel and these countries and have raised concerns regarding security in the region and the potential for armed conflict. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons, and the Islamic State of Iraq and Levant (ISIL), a violent jihadist group, is involved in hostilities in Iraq and Syria and have been growing in influence. Although ISIL's activities have not directly affected the political and economic conditions in Israel, ISIL's stated purpose is to take control of the Middle East, including Israel. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon. This situation may potentially escalate in the future to violent events which may affect Israel and us.

Furthermore, some neighboring countries, as well as certain companies and organizations, continue to participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. Restrictive laws, policies or practices directed towards Israel or Israeli businesses could have an adverse impact on the expansion of our business. In addition, we could be adversely affected by the interruption or curtailment of trade between Israel and its trading partners, a significant increase in the rate of inflation, or a significant downturn in the economic or financial condition of Israel.

Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.

Service of process upon our directors and officers, all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, since the majority of our assets and all of our directors and officers are located outside the United States, any judgment obtained in the United States against us or these individuals or entities may not be collectible within the United States. Additionally, it may be difficult to enforce civil liabilities under U.S. federal securities law in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws on the grounds that Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing these matters.

Furthermore, our Debt Restructuring included an exemption from personal civil liability with respect to our then-current officers and directors, other than Mr. Mordechai Zisser, for actions and omission during the period preceding the consummation of the Debt Restructuring. This also limits the ability to pursue legal action against such individuals.

Provisions of Israeli law may delay, prevent or make more difficult a merger or other business combination, which may depress our share price.

Provisions of Israeli corporate law may have the effect of delaying, preventing or making more difficult a merger or acquisition involving us. The Companies Law generally provides that a merger be approved by the board of directors and a majority of the shares present and voting on the proposed merger. For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares not held by the other party to the merger (or by any person who holds 25% or more of the shares or the right to appoint 25% or more of the directors of the other party or its general manager) have voted against the merger. Upon the request of any creditor of a party to the proposed merger, a court may delay or prevent the merger if it concludes that there is a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the surviving company. Finally, a merger may not be completed unless at least (i) 50 days have passed since the filing of a merger proposal signed by both parties with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each merging company.

The Companies Law also provides that an acquisition of shares of a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become (i) a 25% or greater shareholder of the company unless prior to such acquisition there is already another 25% or greater shareholder of the company or (ii) a 45% or greater shareholder of the company unless prior to such acquisition there is already a 45% or greater shareholder of the company. These requirements do not apply if the acquisition (i) occurs in the context of a private placement by the company that received shareholder approval or (ii) was from a 25% or 45% shareholder, as the case may be. The tender offer may be consummated only if (i) at least 5% of the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer. In addition, under our amended articles of association, a person seeking to cross the 25% ownership threshold is required to offer to purchase at least 10% of our outstanding ordinary shares in such a tender offer. In any event, if as a result of an acquisition of shares the purchaser will beneficially own more than 90% of a company's shares, the acquisition must be made by means of a tender offer for all of the remaining shares. Shareholders may request an appraisal in connection with a tender offer for a period of six months following the consummation of the tender offer, but the purchaser is entitled to stipulate that any tendering shareholder surrender its appraisal rights.

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Finally, Israel tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than U.S. tax laws. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges its ordinary shares for shares in another corporation to taxation prior to the sale of the shares received in such stock-for-stock swap.

The described restrictions could prevent or make more difficult an acquisition involving us, which could depress our share price.

RISKS RELATING TO EASTERN EUROPE

We are subject to various risks related to our operations in Eastern Europe, including economic and political instability, political and criminal corruption and the lack of experience and unpredictability of the civil justice system.

Many of the Eastern European countries in which we operate are countries which were allied with the former Soviet Union under a communist economic system, and subject us to various risks. Certain Eastern European countries, in particular those countries that are not expected to join the European Union in the near future, are still economically and politically unstable and suffer from political and criminal corruption, lack of commercial experience, unpredictability of the civil justice system, land expropriation, changes in taxation legislation or regulation, changes to business practices or customs, changes to laws and regulations relating to currency repatriation and limitations on the level of foreign investment or development. These risks could be harmful to us and are very difficult to quantify or predict. We will be affected by the rules and regulations regarding foreign ownership of real and personal property. Such rules may change quickly and dramatically and thus may have an adverse impact on ownership and may result in a loss without recourse of our property or assets. Domestic and international laws and regulations, whether existing today or in the future, could adversely affect our ability to market and sell our properties and could impair our profitability. With respect to our operations in Romania, any foreign company or litigant may encounter difficulties in prevailing in any dispute with, or enforcing any judgment against, the Romanian government or officers or directors under the Romanian legal system. The joint venture in relation to the Casa Radio site in Bucharest is governed by the public-private partnership laws of Romania pursuant to which no projects have yet been implemented in Romania. There is a risk that the legal structure of this partnership may be challenged in the future and that the development and exploitation rights to be granted by the Romanian government to the joint venture company are more restrictive than currently anticipated, leading to us being unable to obtain the development profits predicted for the project. Recent political changes in Romania have resulted in delays in receiving required communications, regulatory approvals and permits from the Romanian government, which may affect our ability to develop and sell our projects there. Furthermore, third parties could challenge the Romanian government's decision, following the failure of the original partners to fulfill their obligations or to put the contract out to tender or to carry out a new site valuation. A successful challenge on either count could result in us having to enter a new tender process, which would lead to an increase in associated expenses and uncertainty.

Certain Post-Communist Eastern Europe countries initiated legislation that cancels and nullifies transactions involving real estate that were subject to confiscation, condemnation or eminent domain proceeding by the former communist regime. While we make every effort to conduct thorough and reliable due diligence investigations, in some countries where former communist regimes carried out extensive land expropriations in the past, we may be faced with restitution claims by former land owners in respect of project sites acquired by it. If upheld, these claims would jeopardize the integrity of our title to the land and our ability to develop the land.

We may be faced with restitution claims by former land owners in respect of project sites acquired by some countries by expropriation

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

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RISKS RELATING TO INDIA

Hostilities in India and other countries in Asia could have a material adverse effect on our financial conditions and results of operations.

India has from time to time experienced instances of internal terror attacks and hostilities with neighboring countries, including Pakistan and China. Military activity or terrorist attacks in the future could influence the Indian economy by disrupting communications and making travel more difficult and such political tensions could create a greater perception that companies operating in India are usually involved in higher degrees of risk. Events of this nature in the future, as well as social and civil unrest within other countries in Asia or within India, could influence the Indian economy and could have a material adverse effect on our financial condition and results of operations. In addition, India has from time to time experienced social and civil unrest due to religious strife.

Changes in the economic policies of the Government of India or political instability could have a material adverse effect on our business.

Since 1991, successive Indian governments have pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector and significantly reducing the roles of the state governments in the Indian economy as producers, consumers and regulators. The Indian Government has announced policies and taken initiatives that support the continued economic liberalization pursued by previous governments. However, this trend of liberalization may not continue in the future. The rate of economic liberalization could change, and specific laws and policies generally affecting, among other things, foreign investments, currency exchange, local taxation legislation, repatriation of profits and other matters affecting our investments, as well as specifically affecting the sectors of commercial activity in which we operate, could also change. A significant shift in India's economic liberalization and deregulation policies could materially adversely affect business and economic conditions in India generally, as well as our business operations in particular. In addition to potential economic instability, the Indian economy and business practices are relatively unsophisticated and lacking in experience, and there have been some instances of political and criminal corruption. Furthermore, India continues to suffer from high unemployment, low wages and low literacy rates. These risks could be harmful to us and are very difficult to quantify or predict. Indian governments are democratically elected, but are invariably comprised of a coalition of several political parties. The withdrawal of one or more of these parties from the coalition could cause the government to fall, resulting in political instability or stagnation pending new elections. Such events could delay or even halt the progress and development of the Indian economy and its receptiveness to foreign investment, and may have a material adverse effect on our business.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Elbit Imaging Ltd. was incorporated in 1996 under the laws of the State of Israel. Our shares are listed on the NASDAQ Global Select Market (ticker symbol: EMITF) and on the Tel Aviv Stock Exchange (“TASE”). Our executive offices are located at 3 Shimshon Street, Petach Tikva 4952801, Israel. You may reach us by telephone at (972-3) 608-6000 or by fax at (972-3) 608-6050.

For a summary of our recent acquisitions, dispositions and other activities and of our capital expenditures and divestitures during the years 2015, 2016 and 2017, and that are currently in progress, see “Item 5 – Operating and Financial Review and Prospects – Overview.”

Recent Events

InSightec’s Medical Updates

See “Item 4B – Business Overview – Medical Companies – Insightec – Clinical and Regulatory Development in InSightec’s Products”.

Gamida Medical Updates

See “Item 4B – Business Overview – Medical Companies- Gamida – Clinical and Regulatory Development”.

Approval of an offer of Settlement with the SEC in the matter of Alleged Violations of FCPA

On March 12, 2018, we announced that the SEC approved an offer of settlement that was submitted to it by the Company regarding concerns of a violations of the books and records and internal accounting controls provisions of the FCPA, as follows:

In March 2016, PC announced that its board of directors became aware of certain issues with respect to certain agreements that were executed in the past by PC in connection with the Casa Radio Project in Romania that may indicate potential violation of the requirements of the FCPA, including the books and records provisions of the FCPA.

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In addition, in April 2017, the Company's board of directors and PC's board of directors became aware of certain issues with respect to an agency and commission agreement from 2011 regarding the sale in 2012 of property in the U.S. jointly owned by PC and the Company. The characteristics of the said agreements could raise red flags that this agreements may be a potential violation of the requirements of the FCPA, including the books and records provisions of the FCPA.

Upon the discovery of each of the cases described above, the Company appointed an internal committees to examine these events and at the same time updated the SEC.

The internal committees has concluded their examination of these matters and submitted their recommendations to the Company's board of directors. The Company's board of directors fully adopted the committee's recommendations, and is working to implement them. Following discussions with the SEC regarding the potential violation of the requirements of the FCPA, the Company 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 (except as to the SEC's jurisdiction over it and the subject matter of these proceedings, which are admitted) the Company consented to the entry of an order containing the SEC's findings.

The SEC has determined to accept the Offer and ordered that:

Pursuant to Section 21C of the Securities Exchange Act of 1934 ("**Exchange Act**"), the Company 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.

The Company paid a civil money penalty in the amount of \$500,000 to the SEC for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3).

In determining to accept the Offer, the SEC considered remedial acts that the Company 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.

On March 29, 2018 we announced that further to our announcement regarding a settlement with the SEC involving concerns of violations of the books and records and internal accounting controls provisions of the Foreign Corrupt Practices Act of 1977), that a shareholder of the Company (the “**Plaintiff**”) has filed a motion with the Financial Department of the District Court in Tel-Aviv, Israel against the Company (the “**Claim**”) requesting the court to instruct the Company to disclose to the Plaintiff documents in connection with the events underlying the settlement.

The Company is currently examining the Claim with its legal advisors and intend to respond in due time. The Company is unable to estimate what will be the outcome of the Claim and/or how it will evolve.

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Issuance of a New Series of Notes by Elbit Medical and Payment of Debt from Elbit Medical to the Company

On February 19, 2018, the Company announced that Elbit Medical completed a public offering of notes convertible into ordinary shares of Elbit Medical and secured by a pledge on a portion of Elbit Medical's holdings in InSightec and Gamida.

The main terms of the Notes are: (i) the total amount raised was NIS 180 million; (ii) the maturity date is March 1, 2022; (iii) the notes bear annual interest of 5% in the first two years and 10% in the remaining period, payable twice a year - in March and September; (iv) each NIS1.47 par value in notes are convertible into one Elbit Medical ordinary share; (v) the trust agreement of the notes includes certain limitations, including on the ability of Elbit Medical to distribute dividends and raise additional debt; and (vi) the Notes are secured by a pledge on a portion of Elbit Medical's holdings in InSightec and Gamida in a "value to loan" ratio of 200%.

The use of proceeds from the Notes were as follows: (a) payment of all expenses in connection with the issuance of the notes (approximately NIS6 (approximately US\$ 1.7 million)); (b) NIS18 million (approximately \$ 5 million) to be deposited with the trustee and used for interest payments due on the notes for the first two years; (c) NIS 4 million (approximately \$ 1 million) for ongoing operational expenses; and (d) the remaining proceeds will be used to repay Elbit Medical's intercompany debt to the Company in the amount of approximately NIS 154 million (approximately \$ 43 million). The balance of Elbit Medical's debt to the Company, in the total amount of approximately NIS2 million (approximately USD 580 thousand) will be converted to approximately NIS2 million par value Notes. The Notes were not registered under the U.S. Securities Act of 1933.

On March 9, 2018 the Company announced that following the completion of the offering of Elbit Medical Notes, Elbit Medical had transferred approximately NIS 151 million (approximately \$ 43.7 million) to the Company as an early repayment on account of its debt to the Company. The balance of Elbit Medical's debt to the Company, in the total amount of approximately NIS 2 million (approximately \$ 580 thousand) will be converted into approximately NIS 2 million of par value notes.

Agreement to sell a Plot in Bangalore, India

On June 19, 2017 we announced that Elbit Plaza India Real Estate Holdings Limited ("EPI") signed a revised agreement in relation to the sale of a 100% interest in a special purpose vehicle which holds a site in Bangalore, India to third party purchaser. The purchaser and EPI agreed that the purchase price will be amended to INR 338 Crores (approximately €44.2 million and approximately \$47 million) instead of the INR 321 Crores (approximately €42 million and approximately \$47 million) agreed to in the previous agreement signed in December 2015. As part of the revised

agreement, INR 110 Crores (approximately €14.4 million and approximately \$15 million) will be paid by the Purchaser in installments until September 1, 2018, when the final installment of INR 228 Crores (approximately Euro 29.8 million) will be paid to EPI. If the purchaser defaults prior to such date, EPI will be entitled to forfeit certain amounts paid by the purchaser as stipulated in the revised agreement. All other existing securities granted to EPI under the previous agreement, signed in December 2015, will remain in place until the final closing.

On January 19, 2018 we announced that the purchaser announced that the remaining payments under the revised agreement will not be made due to certain change proposed by the Indian authorities that could potentially impact the development of the plot.

On February 21, 2018 we announced that despite the purchaser's January 2018 announcement, the purchaser paid the January installment in the amount of INR 5 Crores (approximately €0.62 million).

On March 22, 2018 an amended revised agreement was signed and the Purchaser and EPI have agreed that the total purchase price shall be increased to INR 350 Crores (approximately €45.8 million). Following the signing of the revised agreement the Purchaser paid EPI an additional INR 11 Crores (approximately €1.3 million) further to the INR 45 Crores (approximately €5.9 million) that were already paid during the recent year. An additional INR 82 Crores (approximately €10.8 million) will be paid by the Purchaser in unequal monthly installments until the final closing. The final closing is scheduled to take place on August 31, 2019 when the final installment of approximately INR 212 Crores (approximately €27.8 million) will be paid to EPI against the transfer of the outstanding share capital of the SPV.

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

InSightec Equity Round

See "Item 4B – Business Overview – Medical Companies – Insightec –Preferred stock investment round E".

Gadish Settlement

On September 27, 2017, we announced that the district court in Israel approved in principle a settlement with the plaintiffs in a November 1999 claim initiated against us and certain other third parties, including former directors of the Company and Elscint Ltd. (our former subsidiary), in connection with the change of control in our Company and

in Elscint and the acquisition of the hotel businesses and the Arena Commercial Center in Israel by Elscint in September 1999 from Europe Israel (our former controlling shareholder) (Gadish et al v. Elscint et al). This lawsuit was later certified in part as a class action.

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According to the settlement, the plaintiffs will receive compensation in the total amount of NIS 50 million (approximately \$14 million). The Company is expected to pay NIS 4.65 million (approximately \$ 1.3 million) of the said amount.

On January 17, 2018 the Company announced that the court has given its final approval of the settlement.

However, one of the plaintiffs initiated a motion for leave to appeal against the settlement claiming, rather superficially, that the settlement agreement is a result of a conspiracy in which the defendants “bought” the plaintiffs in order to dismiss their claim.

On April 20, 2018 The Supreme Court decided that the appellant is exempted from paying court fees but obligated to pay a 5,000 NIS deposit until May 6, 2018. Failing to pay the deposit could lead to striking out the appeal.

On that same day - April 20, 2018 - the District Court’s decided that the compensation for the plaintiffs will be held by the Plaintiff’s attorney in escrow and will not be distributed until it is clear that: (a) the appellant did not initiate an appellate procedure; or (b) an appellate procedure, if filed, and it ended without significantly changing the settlement agreement.

For further information with regards to the class action, please see Note 13A.(1) of our Annual Consolidated Financial Statements as of December 31, 2017.

Settlement between PC and its Israeli Noteholders

On September 27, 2017, we announced that PC announced that a dispute has arisen between PC's Israeli (Series A) bondholders and PC's Israeli (Series B) bondholders (the “**Bondholders**”) as to the allocation of funds received from sale of PC's real estate assets. Therefore PC announced that it intends to repay to its bondholders in Poland and the Bondholders (during October 2017), an aggregate amount of approximately €18,800,000 million, representing 75% of the funds Plaza received in the last quarter from sale of real estate assets.

On December 14, 2017, we announced that PC announced that the Israeli court has instructed that the mandatory repayment amounts due to the Bondholders should be allocated according to the ratios set out in PC’s restructuring

plan. The court has also acknowledged that PC is not an interested party in this bondholder dispute and has granted PC a protective order from any claims in this respect.

On December 21, 2017, we announced that PC announced that the Israeli (Series A) bondholders triggered the immediate repayment of the entire outstanding debt under the Series A trust deed.

On January 11, 2018, the Company announced that PC announced that a settlement agreement has been reached and approved between the Bondholders regarding the allocation of funds to be repaid by PC among the Bondholders. As part of the settlement agreement, the (Series A) Bondholders have agreed to withdraw their demand for immediate repayment which resulted from a dispute between the Bondholders as to the allocation of funds received from the sale of PC's real estate assets.

Sale of our holdings in the Radisson complex in Bucharest, Romania

In December 2017, we signed an amendment to the trust deed of (Series H) and (Series I) note according to which the collateral relating to Elscint Holding and Investment NV (“EH”) was canceled, and in return the Company undertook to use 75% of the net proceeds from the future sale of the Radisson Hotel Complex in Bucharest, Romania for an early repayment of Series H notes. In addition, the Company undertook to pledge the repayment of the vendor loan (which will be given to the purchaser) in favor of (Series H) and (Series I) bondholders.

On December 19, 2017, we announced that we completed the sale of our holdings in a SPV that held the Radisson Hotel Complex in Bucharest, Romania based on a property value of Euro 169.2 million so that the net proceeds received by the SPV was approximately Euro 81 million.

The following amounts were deducted from the net proceeds (as a result of which the SPV received total cash of approximately Euro 61.4 million): (i) the repayment of our outstanding loan to Bank Hapoalim Ltd. in the amount of approximately Euro 11.6 million (the “**Loan**”); (ii) €8 million used to finance a vendor loan which has been provided by the SPV to the purchaser for a period of three years, bearing interest at a rate of 5% per annum.

In accordance with the provisions of the Amended Trust Deed of our Series H and Series I notes, we used 75% of the net proceeds from the sale thereof for an early repayment of our Series H notes on January 5, 2018 in the total amount of NIS 240 million.

Completing the sale of plots in Timisoara and Constanta, Romania, by PC

On August 7, 2017, we announced that PC has completed the sale of a plot totaling approximately 32,000 sqm in Timisoara, Romania, for €7.25 million (approximately \$7.65 million) and a plot totaling approximately 30,000 sqm in Constanta, Romania, for €1.3 million (approximately \$1.37 million).

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Investment in Gamida

On July 10, 2017, we announced that an approximately \$40 million private financing investment round in Gamida has been completed (the “**Investment**”). The investment was led by Shavit Capital Fund joined by the pharmaceutical company Novartis and additional investors, including VMS Investment Group, Israel Biotech Fund, IHCV and Clal Biotechnology Industries (the “**Investors**”). Following the Investment, preferred shares were allotted to the Investors, based on \$120 million pre-money valuation to Gamida (the “**Allotted Shares**”). In addition, the investors received options to preferred shares in the amount of 60% of the Allotted Shares. The exercise price of the options is 120% of the shares price which have been paid on the Investment closing date. The options will expire 5 years after the Investment closing date. Elbit Medical didn’t take part in the Investment. Following the closing of the Investment, Elbit Medical holds approximately 17.87% of the share capital in Gamida (13.63% on a fully diluted basis). As of the date herein, there is no certainty that the Investors will exercise their options. Gamida informed the Company that the Investment proceeds will be used to (i) complete Nicord©’s Phase III clinical trial; (ii) to prepare for product commercialization by expanding its in-house manufacturing capacity; (iii) expanding Gamida’s presence in the US; (iv) continuing to develop additional pipeline products.

Sale of Torun Plaza

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

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

Sale of Land plot in Budapest, Hungary

On October 2, 2017, PC’s subsidiary concluded a transaction with an international investor, NEPI Rockcastle (the “**Buyer**”), regarding the termination of land use rights and a preliminary easement agreement which created certain easement rights over the Arena Plaza plot registered in favor of a PC’s subsidiary. In consideration for termination of the land use rights and the preliminary easement agreement, PC’s subsidiary received the net sum of EUR 2.5 million (NIS 10.4 million) and recorded revenue in the amount of EUR 2.5 million (NIS 10.4 million)

Sale of Belgrade Plaza commercial center

On March 2, 2017 we announced that PC has completed the sale of Belgrade Plaza commercial center to BIG Shopping Centers Ltd. (the “**Purchaser**”). The commercial center was opened in April 2017 and PC remained responsible for the development and leasing of the asset until the opening. Upon the completion of the transaction PC has received an initial advance payment of approximately €31.7 million (\$33 million) from the Purchaser for the sale of 100% of the SPV, further payments of EUR 13.35 (\$ 16 million) million has been received during September 2017.

Additional payments are contingent upon certain operational targets and milestones being met. The purchaser has provided a guarantee to secure these future payments. The final agreed value of Belgrade Plaza, will be calculated based on a general cap rate of 8.25% on the sustainable NOI after 12 months of operation, which PC estimates will be approximately €6.2-6.5 million per annum. Parts of 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.

Sale of Suwałki Plaza commercial center

On February 1, 2017, we announced that PC completed the sale of Suwałki Plaza shopping and entertainment center in Poland to an investment fund for € 42.3 million (approximately \$45 million). PC received approximately €17 million (approximately \$18 million) net cash, after the repayment of the bank loan, and other working capital adjustments

Acquiring bank loan for PC's plot in Brasov, Romania

On December 6, 2016, we announced that PC has acquired a bank loan of approximately €10 Million (approximately \$10.5 million), which is held against PC's plot in Brasov, Romania, for the total consideration of €1.35 million (approximately \$1.42 million). The transaction represents a discount of approximately 86.5% on the outstanding bank loan and the lender has transferred all the collateral granted with respect of the loan to PC, while also releasing PC from its recourse loan. As part of the terms of the transaction, the Lender has been granted a purchase option for a term of three years, to acquire the plot for €1.1 million.

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Klepierre Settlement

On December 6, 2016, we announced, that we and Klepierre S.A. (“**Klepierre**”) reached a settlement relating to the International Court of Arbitration’s ruling on July 7, 2016, with respect to a transaction agreement between the parties, according to which PC is liable for an indemnification claim totaling approximately €2 million (approximately \$2.1 million), including costs arising from the legal process. Since Klepierre is deemed a creditor under PC’s ongoing Restructuring Plan, payment of the principal amount due by PC under the indemnification claim is deferred to July 2018. However, due to our guarantee under the original transaction and according to Dutch law, we were obliged to pay the amount determined by the International Court of Arbitration. The settlement states, inter alia, that we will pay €1.2 million (approximately \$1.3 million) to Klepierre and Klepierre shall release all of its claims against us, and our fully owned subsidiary, Elbit Ultrasound (Luxembourg) B.V./S.À.R.L. (who was also guarantor to PC) and PC.

Sale of Riga Plaza Center

On September 15, 2016 we announced that PC completed the sale of Riga Plaza shopping and entertainment center in Riga, Latvia, to a global investment fund. The agreement reflects a value for the business of €93.4 million (reflecting 100%) (approximately \$99 million). Following a price adjustment mechanism and costs incurred in respect of the completion of the sale, PC received €17.8 million (approximately \$19 million) in cash after repayment of banks loan (representing PC’s share of the sale of the business), with an additional €0.7 million (approximately \$0.74 million) expected to be received within 24 months of the closing of the transaction.

Debt repayment agreement and Sale of Zgorzelec Plaza Commercial Center

On September 14, 2016 we announced that PC completed the sale of the shares in Zgorzelec Plaza commercial Center in Poland. PC had previously signed a Debt Repayment Agreement (“**DRA**”) with the financing bank (the “**Bank**”) of Zgorzelec Plaza commercial Center in Poland, which provides that, among other things, PC will make a payment of €1.1 million (approximately \$1.16 million) (in escrow) to the Bank and the Bank will deposit (in escrow) Release Letters for: (i) releasing a mortgage in favour of the Bank from a plot of land of PC in the city of Leszno, Poland; (ii) releasing of a recourse right obligation (of €1.1 million) under the corporate guarantee of PC and an additional subsidiary of PC; (iii) subordination agreement; and (iv) submission for enforcement on the loan. A share purchase agreement was signed between PC and an appointed shareholder nominated by the Bank, after which the remainder of the DRA process was completed, including delivery of Release Letters to PC, and removing a mortgage over an asset of PC in Leszno, Poland (valued at €0.8 million). PC recognized an accounting profit of approximately €9.2 million, stemming from the release of €23 million of the outstanding (and partially recourse) loan (including accrued interest thereof), against an outstanding asset valued at €12.7 million (approximately \$13.4 million) and other working capital adjustments.

Notes buy-back plans

Notes	Date of approval of the plan	Maximum amount approved for the buyback	Amount of notes repurchased (in par value)	Actual amount used for the buyback
(Series H)	October 12, 2015	NIS 50 million	56 million	NIS 50 million
(Series H)	February 1, 2016	NIS 40 million	43 million	NIS 40 million
(Series H)	June 1, 2016	NIS 40 million	34 million	NIS 36 million
(Series H)	August 18, 2016	NIS 50 million	15 million	NIS 15 million
(Series I)	February 28, 2018	NIS 50 million	42 million	NIS 49 million
(Series H)	March 15, 2018	NIS 57.6 million	7 million	NIS 7 million

Since the issuance of the Notes (in February 2014) until the date of this annual report, the Company has published 5 programs for the repurchase of up to NIS 237.6 million of Series H notes. As of the date of this report the Company has purchased par value NIS 155 million Series H notes for a total cash considerations of NIS 148 million.

Non-Exclusive Cooperation Agreement with Siemens

See “Item 4B – Business Overview – Medical Companies – Insightec – Cooperation agreement with Siemens”.

Joint Development Agreement with respect to our Plot in Chennai, India

On August 2, 2016, we announced that a subsidiary of EPI (“**SPV**”) signed a Joint Development Agreement (“**JDA**”) relating to the plot in Chennai, India project, owned 100% by EPI. Under the terms of the JDA, the SPV will confer the property development rights to a reputable local developer (the “**Developer**”) who will carry full responsibility for all of the project costs and liabilities, as well as for the marketing of the scheme. The JDA also stipulates specific project milestones, timelines and minimum sale prices. Development will commence subject to the obtainment of the required governmental/municipal approvals and permits, and it is intended that 67% of the land will be allocated for the sale of plotted developments (whereby a plot is sold with the infrastructure in place for the development of a residential unit by the end purchaser), while the remainder will comprise residential units fully constructed for sale.

The SPV will receive 73% of the total revenues from the plotted development and 40% of the total revenues from the sale of the fully constructed residential units. In order to secure its obligation, the Developer will pay a total refundable deposit of INR 35.5 Crores (approximately €4.8 million), with INR 10 Crores (approximately €1.35 million) paid following the signing and registration of the JDA, INR 17 Crores (approximately €2.3 million) payable when planning permission for the first phase of the development project is obtained (the “**Project Commencement Date**”), and the remaining INR 8.5 Crores (approximately €1.15 million) payable six months after the Project Commencement Date.

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Termination of lease agreement - plot in Tiberius, Israel.

On August 1, 2016, we announced that we received from the Israeli Land Administration (“**ILA**”) an amount of approximately NIS 7 million (approximately \$1.8 million) (in addition to the amount of approximately NIS 13 million, which related to the release of bank guarantees discussed below) following the termination of our lease agreement with respect to a plot near Tiberius, Israel. The lease agreement was signed on July 2007, with the ILA, according to which, we leased a plot of approximately 44,600 square meters near Tiberius, Israel for a term of 49 years (through 2056). Following the termination of the lease agreement, the ILA released two bank guarantees in the aggregated amount of approximately NIS 13 million, (approximately \$3 million) which have been provided to the ILA in order to secure our undertakings under the lease agreement. In addition, on December 1, 2016 we announced that the LA reimbursed to us a gross amount of approximately NIS 27 million (approximately \$7 million) with respect to development fees paid by us on account of the plot.

Sale of Plot and Related Real Estate in Belgrade, Serbia

On June 29, 2016, we announced that PC completed the sale of its wholly owned subsidiary, which holds the “MUP” plot and related real estate in Belgrade, Serbia, for €15.75 million (approximately \$16.2 million) that were paid in several installments until October 2017. MUP is a prominent development site at the location of the former Federal Ministry of Internal Affairs, at the entrance to Belgrade’s old town and on the city’s main thoroughfare.

Reverse Share Split

On June 28, 2016, our shareholders authorized a reverse share split at a ratio of one-to-three in order to increase the per share trading price of our ordinary shares to satisfy NASDAQ’s Listing Rule 5450(a)(1) which requires that listed stocks maintain a closing bid price in excess of \$1.00 per share for continued listing on the NASDAQ. For more information, see “Item 3 – Risk Factors – General Risks – If we do not satisfy the NASDAQ requirements for continued listing, our ordinary shares could be delisted from NASDAQ.”

Sale of Plot in Lodz, Poland

On June 28, 2016, we announced that PC signed an agreement for the sale of a 20,700 square meter plot of land in Lodz, Poland, to a residential developer, for €2.4 million (approximately \$2.5 million). Following this transaction, the Company owns a remaining 4,000 sqm site.

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

Sale of Liberec Plaza Commercial Center

On March 31, 2016, we announced that PC has completed the sale of its subsidiary holding Liberec Plaza, commercial center in the Czech Republic, for €9.5 million (approximately \$10 million). Following net asset value adjustments related to the subsidiary's balance sheet, PC received net €9.37 million (approximately \$10 million).

Addendum to Loan Agreement with Bank Hapoalim

On March 22, 2016, we announced that we had signed an addendum to the loan agreement with Bank Hapoalim B.M. (the “**Bank**” and “**Loan Agreement**”), that will cancel and replace the previous loan agreement (the “**Addendum**” and the “**Loan**”). Under the Addendum, subject to the prepayment of €15.0 million (approximately \$16 million) to the Bank by March 31, 2016, the following new terms will apply to the loan: (i) the repayment schedule of the Loan will be as follows: €7 million (approximately \$8 million) will be repaid on November 30, 2016 and the balance will be repaid on November 30, 2017 instead of one single payment in February 20, 2017 in the existing Loan Agreement; (ii) we will not have prepayment obligations for the planned Notes repurchase program which will be executed by us during 2016 for an amount up to NIS 50 million (approximately \$13 million); and (iii) any net cash flow that will be received by us from the refinancing of the Radisson Blu hotel in Bucharest Romania in an amount up to €97 million shall not have repayment obligations, and shall be used by us at our sole discretion.

The loan was repaid in full through the sale of our holdings in the Radisson complex in Bucharest, Romania. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Sale of our holdings in the Radisson complex in Bucharest, Romania”

TABLE OF CONTENTS***Refinance of Hotel in Bucharest***

On March 10, 2016, we announced that our subsidiary Bucuresti Turism SA (Romania) (“**BUTU**”) entered into a definitive credit facility agreement with Raiffeisen Bank International A.G and Raiffeisen Bank S.A., leading international European banks, as lenders, (“**Lenders**”) to amend the facilities agreement between the parties entered into on September 16, 2011, as amended. According to the definitive facility agreement, the lenders will increase the loan under the facilities agreement up to €97 million (approximately \$102 million). The new facility can be drawn down in two Tranches, with the first Tranche in the amount of up to €85 million, (approximately \$89 million) and the second Tranche in the amount of up to €12 million (approximately \$13 million). The proceeds of the new facility shall be used, *inter alia*, to prolong the outstanding facility under the existing facility agreement in the amount of approximately €60 million (approximately \$63 million). The surplus of the new facility will be used for the repayment of all existing shareholder loans granted to BUTU by Elbit Group. On March 24, 2016, the first draw down in an amount of €85 million (approximately \$93 million) was closed. The net cash received by us was approximately € 24.4 million (approximately \$27 million). On November 21, 2016, we announced BUTU reached the effective date for the drawdown of the second tranche of the loan in the amount of €12 million (approximately \$13 million).

PC Debt Restructuring

On November 18, 2013, our subsidiary PC announced that it had filed for reorganization proceedings (preliminary suspension of payments) with the District Court of Amsterdam in the Netherlands (the “**Dutch Court**”) and submitted a restructuring plan to the Dutch Court proposed to its creditors, which was further amended (the “**Amended PC Plan**”). The Amended PC Plan proposed, *inter alia*, that all principal payments of any unsecured debt due during 2013-2015 be deferred for three years from the date of approval of the Amended PC Plan by the Dutch Court (“**Approval Date**”). If within two years from the Approval Date PC manages to repay 50% of such unsecured debt, then the remaining principal payments shall be deferred for an additional one year. Under the Amended PC Plan, following the removal of the suspension of payments order by the Dutch Court, PC will be required to assign 75% of the net proceeds received from the sale or refinancing of any of its assets to early repayment of its unsecured debt, to be allocated among the holders of such unsecured debt. PC will be permitted to make investments only if its cash reserves contain an amount equal to general and administrative expenses and interest payments for such unsecured debt for a six-month period. The Amended PC Plan was made contingent upon a cash injection of approximately €20 million in PC, by way of a rights issuance (the “**Rights Offering**”), under which, we, PC, and its directors and officers would be fully released from all claims. On June 23, 2014, subject to the application of certain conditions precedent, we undertook to exercise (or procure that other persons will exercise) all of our rights in the proposed Rights Offering and to procure subscriptions for any unexercised portion of the Rights Offering (the “**Undertaking**”). On June 26, 2014 PC announced that a majority of its creditors voted to approve the Amended PC Plan, and on July 10, 2014, the Dutch Court approved the Amended PC Plan, with the Approval Date being July 18, 2014, upon which PC’s management resumed full control of PC’s business. On December 19, 2014, PC announced that it had successfully completed the Rights Offering.

On December 1, 2016, we announced that the holders of PC's Series A PC notes, Series B PC notes and Polish PC notes have approved the following proposed amendments by the required majorities, with immediate effect: The proposed amendments include, inter alia, the postponement of the early prepayments term, as determined in the Amended PC Plan, by up to four (4) months, and the reduction of the requested early prepayments term's total amount to at least NIS 382,000,000.

As part of the proposed amendments, PC will pay, on March 31, 2018, a one-time payment of 0.25% of PC's outstanding debt. In addition, PC agreed with the PC Noteholders that in the event of successful sale of the Casa Radio project in Bucharest, Romania (the "**Project**"), including by way of sale of PC's holdings in the Project (but excluding the injection of monies into the Project by a third party), prior to the full repayment of the relevant PC Notes, and in no event later than December 31, 2019, and provided that the net proceeds actually received by PC from such sale exceed €45 million (the "**Minimum Proceeds**"), PC will pay to the PC Noteholders additional one-time payment which is derived from the net proceeds actually received by PC on top of the Minimum Proceeds, which can be in a range of between €1 and approximately €11 million.

In addition, the Amended PC Plan includes other provisions which essentially prevent us from using the proceeds from realization of PC's projects for the development of PC's existing projects designated for development. As a result, any future development of existing projects by PC may not be executed due to insufficient cash for equity injection into such projects.

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On December 1, 2016, we announced that the holders of PC Notes have approved the proposed amendments to the restructuring plan of PC by the required majorities. Under the original restructuring plan, principal payments under the PC Notes 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 “**Extended Repayment Schedule**”). The restructuring plan further provides that, if PC does not prepay an aggregate amount of at least NIS 434 million on the principal of the PC Notes 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**”). The proposed amendments sought by PC are comprised of the 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 NIS382 million (approximately \$99 million) (a reduction of 12% on the original amount). In addition to the above, PC announced that as part of the approval of the proposed amendment, PC will pay on March 31, 2018 a one-time consent fee in the amount of approximately €488 thousand (approximately \$515 thousand) (which is equal to 0.25% of the PC’s outstanding debt under the PC Notes at that time). Additional provisions in the restructuring plan were amended, among others, with respect to: (i) consideration on account of potential sales of the Casa Radio project in Romania, (ii) non-compliance with the amended and restated restructuring plan, (iii) reduction of the deferred debt ratio for the Series B notes, and (iv) commitment of PC to register the Polish notes for trade.

Our Debt Restructuring

During 2013, our Board resolved to suspend all payments to its unsecured creditors and to negotiate with its unsecured creditors on a restructuring plan for the unsecured financial debts. On October 17, 2013, our unsecured financial creditors approved a Plan of Arrangement (the “**Arrangement**”) (as adjusted from time to time) and on January 1, 2014, the Israeli District Court approved the Arrangement. The closing of the Arrangement took place on February 20, 2014. The general terms of the Arrangement are: (i) in consideration of the extinguishment of our unsecured financial debts (i.e.: series A-G notes, series 1 note and our debts to Bank Leumi), we issued at the closing of the Arrangement the following instruments (A) New ordinary shares, representing immediately following such exchange 95% of our outstanding share capital on a fully diluted basis; and (B) Two series of new notes in the aggregate principal amount of NIS 666 million, (ii) the new shares and the new notes were allocated among the various unsecured financial creditors in proportion to the outstanding balance (principal, interest and CPI linkage) under each obligation as of the closing of the Arrangement. The new shares are listed for trading on both the Tel Aviv Stock Exchange and the NASDAQ Stock Market, and the new notes are listed for trading on the Tel Aviv Stock Exchange, and (iii) pursuant to the terms of the Arrangement, we amended our Articles of Association to include among other things that a decision to engage in a new field of business which is material to us, in which neither the we nor any of our subsidiaries is engaged and which new field of business is not complementary to our business or our subsidiaries, shall require the unanimous approval of all of the members of the board.

B. BUSINESS OVERVIEW

To date we operate primarily in the following fields of business:

Medical Industries – through our indirect holdings in two companies which operates in the field of life science: (i) InSightec Ltd. (“**InSightec**”) - InSightec operates in the field of development, production, and marketing of treatment-oriented medical systems, based on a unique technological platform combining the use of focused ultrasound and magnetic resonance imaging for the purpose of performing noninvasive treatments in human beings; and (ii) Gamida Cell Ltd. (“**Gamida**”) – Gamida operates in the field of research, development and manufacture of products designated for certain cancer diseases;

Plots in India – we have holdings in plots of land in India which are designated for sale (and which were initially designated for residential projects); and

Plots in Eastern Europe initially designated for development of commercial centers - plots in Eastern Europe (and in Greece) held by our subsidiary Plaza Centers N.V. (“**PC**”) whose business strategy is to no longer develop commercial centers but to dispose its real estate assets at optimal market conditions.

Following our sale of the Radisson Hotel Complex in Bucharet, Romania, the Company is no longer involved in the hotel industry. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Sale of our holdings in the Radisson complex in Bucharest, Romania”.

Medical Companies

Our medical portfolio is held by Elbit Medical Technologies Ltd. (an Israeli company traded on the TASE (“**Elbit Medical**”). Elbit Medical holds shares in two medical companies: InSightec and Gamida. As of the date of this annual report, we hold 89% of Elbit Medical’s share capital (88.7% on a fully diluted basis)

In addition to our holding in the shares of Elbit Medical, we provided throughout the years credit lines and services to Elbit Medical. As of December 31, 2017, Elbit Medical has a total of NIS 151 million (approximately \$43 million) outstanding loans and current accounts due to us. However, on February 2018, Elbit Medical raised a total of NIS180 million through a public offering of a new series of notes convertible into shares of Elbit Medical and used the proceeds to repay its debt to the Company.

For more information regarding the new convertible notes of Elbit Medical see “Item 4 – Information on the Company – History and Development of the Company – Recent Events – Payment of Issuance of a New Series of Notes by Elbit Medical and Payment of Debt from Elbit Medical to the Company”.

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As of the date of the report's publication, we hold, indirectly through Elbit Medical, approximately 22.0% of InSightec's issued capital (approximately 19% at full dilution.), as listed below:

Share types	Issued share capital	Number of stock held by the Company	Number of stock held by the Company of the same class of shares		Number of shares held by the Company of the same class of shares on a fully diluted basis	
Common stock	14,243,462	8,993,762	63.1	%	18.5	%
Type B preferred stock	14,037,888	9,039,612	64.4	%	64.4	%
Type B1 preferred stock	32,201,524	24,242,023	75.3	%	75.3	%
Type C preferred stock	27,519,390	-	-	-	-	-
Type D preferred stock	48,473,238	-	-	-	-	-
Type E preferred stock	55,970,149	-	-	-	-	-
Employee options	35,696,755	-	-	-	-	-
Total	228,142,406	42,275,397	22.0	%	18.5	%

In addition, the Company holds 450,000 Ordinary Shares of InSightec.

The following is a summary of certain provisions in the articles of association of InSightec:

Dividends

The Articles of Association provides that the holders of Series E, Series D and Series C Preferred Shares, in that order, have dividend preference based on the original issue price for their shares plus 8% per annum.

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Liquidation Preference

Upon the occurrence of an exit event (including, among others, (i) the sale, lease, exchange, grant of a perpetual exclusive license or other transfer or disposition of all or substantially all of the property, assets or business of InSightec, (ii) liquidation, dissolution nor winding up of InSightec, (iii) any consolidation or merger or any other business combination of InSightec with or into another corporation or other business organization in which the majority of the shareholders of InSightec do not beneficially own the majority of the equity interest of the surviving company after such transaction; (iv) any sale of shares or other transaction or series of transactions which results in any person or group of persons, other than the holders of Ordinary Shares and Preferred Shares beneficially owning securities of the company representing 50% or more of the voting securities of the company then outstanding and (v) purchase of all remaining shares by a shareholder or an affiliate:

(a) The holders of the Series E Preferred Shares shall be entitled to receive, prior to and in preference to any distribution of any of the assets or surplus funds of InSightec to the other shareholders, an amount per Series E Preferred Share equal to (\$2.68 plus any declared but unpaid dividends thereon).

(b) Thereafter, the holders of the Series D Preferred Shares shall receive an amount per Series D Preferred Share equal to \$1.7845 plus any declared but unpaid dividends thereon.

(c) Thereafter, the holders of the Series C Preferred Shares shall receive an amount per Series C Preferred Share equal to U.S. \$1.12 plus any declared but unpaid dividends thereon, subject to various adjustments.

(d) Thereafter, the holders of the Series B Preferred Shares and the Series B-1 Preferred Shares shall receive an amount per Series B Preferred Share and Series B-1 Preferred Share equal to U.S. \$6.00 (in the case of Series B Preferred Shares) and U.S. \$1.446 (in the case of Series B-1 Preferred Shares) plus any declared but unpaid dividends thereon.

(e) After the aforesaid preferences entire remaining assets and surplus funds of InSightec legally available for distribution, if any, shall be distributed ratably to all holders of Series E Preferred Shares, Series D Preferred Shares, Series C Preferred Shares and Ordinary Shares in proportion to the number of Ordinary Shares then held by each such holder of such class of shares on an as converted basis.

Notwithstanding the preferences stated in (d) and (e) above, if after distribution of the preferences pursuant to (a) - (c) above, the total value of the assets and funds to be distributed between all of the shares of InSightec on a pro rata, as converted, basis (without distribution of any preferences to the holders of Series B Preferred Shares or Series B-1 Preferred Shares) would result in the holders of each Series B Preferred Share and Series B-1 Preferred Share receiving an amount per Series B Preferred Share and Series B-1 Preferred Share equal to or greater than U.S. \$6.00 (in the case of Series B Preferred Shares) and U.S. \$1.446 (in the case of Series B Preferred Shares), then the provisions of (d) and (e) above shall not apply and the entire assets and surplus funds of InSightec legally available for distribution to the shareholders after distribution of the respective preference amounts for Series E Preferred Shares, Series D Preferred Shares and Series C Preferred Shares shall be distributed to all holders of shares of InSightec on a pro rata, as converted, basis, and in such case no preference amount shall be payable on the Series B Preferred Shares and the Series B-1 Preferred Shares.

Conversion

At any time, the holders of B Preferred Shares and Series B-1 Preferred Shares may convert all or any portion of their shares into the number of Ordinary Shares computed by dividing U.S. \$6.00 (per Series B Preferred Share) and U.S. \$1.446 (per Series B-1 Preferred Share) by the applicable conversion price which, subject to adjustments, shall originally be U.S. \$6.00 (per Series B Preferred Share) and U.S. \$1.446 (per Series B-1 Preferred Share). In addition, there are additional conversion rights with respect to other Preferred Shares that Elbit does not hold.

All preferred shares shall automatically convert upon a Qualified IPO, which is defined as the initial underwritten public offering pursuant to an effective registration statement under the Securities Act or similar laws in effect in the State of Israel that (i) raises at least \$75.0 million of gross proceeds, (ii) public offering which will result in the Ordinary Shares being listed either on the New York Stock Exchange or NASDAQ; and (iii) if such public offering were to occur prior to December 27, 2021, then such public offering would result in a per share issue price of not less than \$4.02 per Ordinary Share.

Subject to adjustments, each Series B Preferred Share shall be converted into Ordinary Shares upon the consent of holders of 66% of the outstanding Series B Preferred Shares, and each Series B-1 Preferred Share shall be converted into Ordinary Shares upon the consent of the holders of 66% of the outstanding Series B-1 Preferred Shares.

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The Series E Preferred Shares, the Series D Preferred Shares and the Series C Preferred Shares have broad based weighted average protection.

Other Restriction of Transferability of Shares in InSightec

The shares in InSightec (with certain standard exceptions) are subject to right of first refusal, co-sale and (if approved by 85% of the Preferred Shares voting together as a single class) drag-along rights.

Board of Directors

The number of directors in InSightec shall be not more than nine. Elbit Medical is entitled to appoint one member to the board so long as it holds in the aggregate 5% or more of the outstanding share capital of InSightec on an as-converted basis.

The Elbit Medical board member together with the board members appointed by KDT Medical Investments Corporation and York Global Finance II S.À R.L. are entitled to unanimously appoint four board members.

The CEO of InSightec will act as a director.

Special Consents/Veto Rights

Certain actions require the approval of the holders of at least 85% of the Preferred Shares voting together as a single class on an as converted basis, including the following: (a) the payment of dividends; (b) issuing shares which are equal to or senior to the Preferred Shares; (c) amending the terms of the Preferred Shares; (d) making any loans, advances to or guarantees, for the benefit of, or investments in third parties (subject to exceptions); (e) merging or consolidating with a third party (other than a wholly-owned subsidiary); (f) selling, leasing or otherwise disposing of all or substantially all of InSightec's assets or intellectual property; (g) liquidating, dissolving or effecting a recapitalization or reorganization; (h) acquiring any interest in any company or entering into any joint venture with consideration to be paid in excess of \$15,000,000; (i) making any material changes to its lines of business; (j) entering into any new leases or other rental agreements with consideration to be paid on an annual basis in excess of \$4,000,000; (k) issuing or selling any shares of its capital stock or rights to acquire shares of its capital stock; (l)

initiating an initial public offering other than a qualified IPO that will result in the Ordinary Shares being listed either on the New York Stock Exchange or NASDAQ; (m) establishing or adopting, or make any modification to, any stock ownership, stock option, stock bonus, stock purchase, restricted stock or other equity-based plan; (n) altering, increasing, decreasing or otherwise impacting or changing in any way, InSightec's authorized share capital; (o) consummating an exit event; and (p) any amendment to InSightec's Articles of Association.

In addition, various actions require the approval of the holders of at least 66% of the Series E Preferred Shares, including the following: (a) creating or authorizing the creation of, or issuing or obligating InSightec to issue shares or other securities (or any securities convertible into or exchangeable for securities ranking equal or senior to the Series E Preferred Shares), unless the same ranks junior to the Series E Preferred Shares in all respects; (b) any amendment of the employment terms or arrangements governing the engagement of InSightec's Chief Executive Officer, including hiring and termination (constructive or otherwise) of the employment of the Chief Executive Officer; (c) prior to December 27, 2021, consummating or consenting to or obligating InSightec to consummate at any time in the future any exit event, resulting in receipt of a price per share of Series E Preferred Shares of less than \$4.02; and (d) prior to December 27, 2021, initiating an initial public offering of capital stock of InSightec pursuant to an effective registration statement under the Securities Act, or pursuant to similar laws in any other jurisdiction other than a Qualified IPO.

Right to participate in fundraising

Each of the stakeholders has a right to participate in assignment of additional securities carried out by InSightec in order to protect his holdings from dilution.

Business Concept

InSightec develops and markets Exablate, the first FDA approved magnetic resonance imaging guided focused ultrasound treatment platform (“MRgFUS”) for a variety of neurosurgery, oncology and gynecology indications. Treatments are non-invasive and are performed in an ambulatory setting.

InSightec's objective is to transform the surgical environment for the treatment of a limited number of forms of benign and malignant tumors by replacing invasive and minimally invasive surgical procedures with an incision-less surgical treatment solution. The system is designed to deliver safe and effective non-invasive treatments while reducing the risk of disease, potential complications, as well as the direct and indirect costs associated with surgery.

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InSightec's MRgFUS technology integrates the therapeutic effects of focused ultrasound energy with the precision guidance and treatment outcome monitoring provided by MRI systems. Ultrasound is a form of energy that can pass harmlessly through skin, muscle, fat and other soft tissue, and is widely used in diagnostic applications. The ExAblate uses a phased-array transducer that generates a high intensity, focused beam of ultrasound energy, or a sonication, aimed at a small volume of targeted tissue. The focused ultrasound energy provides an incision-less therapeutic effect by raising the temperature of the targeted tissue mass high enough to ablate, or destroy it, while minimizing the risk of damage to overlaying and surrounding tissue.

InSightec believes that by combining the non-invasive therapeutic effects of focused ultrasound energy and the precise "real-time" data provided by the MRI system, it has developed an effective, non-invasive treatment solution for its approved applications.

InSightec also believes that its MRgFUS technology can be applied to the treatment of other medical conditions, providing similar advantages by presenting both physicians and patients with a safe and effective incision-less surgical treatment option for several medical conditions, including a number of indications for which there are currently few effective treatment options.

Investments in InSightec capital

Below are details regarding investments in InSightec capital in the last two years:

Preferred stock investment round D

As part of the agreement dated 26/06/2014, as amended from time to time, the Company, InSightec, and additional InSightec shareholders (including the current CEO, Mr. Maurice R. Ferré), its additional investors, and York Global Finance II S.a.r.l, a company owned by York Foundation, which has an interest in the Company (Hereinafter: "**York Foundation**"), have signed a series of agreements for a round of investment in InSightec for a total sum of 86.5 million United States dollars, by means of purchase of 48,473,238 Series D share of InSightec at a price of 1.78 United States dollars per share¹. A total of approximately 2 million dollars of the total investment amount has been invested during 2016.

On January 31, 2018, we announced that InSightec completed the second (and final) closing of its Series E investment round in a total amount of \$150 million, approximately \$90 million, in the first closing and approximately \$60 million

in the second closing in return for the issuance of 55,970,149 preferred Insightec stock from a new Series E (with a price of 2.68 dollars per share). The lead investor in the round was KDT Medical Investments Corporation (a subsidiary of Koch Industries, Inc.) which invested in total \$ 100 million in InSightec (York participated in this round as well in the total investment of \$ 6 million). Immediately following the closing, the Series E Preferred Shares of InSightec issued in the first and second closings represented approximately 29.1% (24.7% on a fully-diluted basis) of InSightec's share capital. Following the completion of the second closing, the Company holds (directly and indirectly through its subsidiary Elbit Medical) approximately 19.8% (16.7% on a fully-diluted basis) of InSightec's share capital.

As part of the investment agreement, it was agreed that holders of the preferred stock E will have privileges in cases of dividend distribution and material events. Furthermore, an amendment to the shareholders agreement was signed between the Investor and other major shareholders in InSightec and an amendment to InSightec's bylaws was approved.

Clinical and regulatory Development in InSightec's Products

ExAblate Neuro ("Brain System")

The ExAblate Neuro indication is designated to preform treatment for Essential Tremor, Tremor dominate Parkinson's disease and Neuropathic pain and others.

The brain system is based on the MRgFU technology, which relies on MRI imaging to plan, guide execution, and receive real-time response during treatment, adopted for use on the brain.

The patient interface in this system consists of a helmet-like acoustic projection system with the patient's head held within the helmet. The projector allows electronic shaping of the acoustic beam, as required for intracranial treatment.

¹ It will be clarified that the share price listed above, is after an adjustment carried out pursuant to the terms of the investment agreement, which resulted in the reduction of the share price by 8%, thus the share price was updated to 1.78 United States dollars per share (compared to the initial price of 1.94 United states dollars per share), and, moreover, participants in the agreement were assigned an additional 3,788,289 preferred stock.

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The brain system has been given approval for commercial use in the USA, Europe, Japan, Korea, Canada, Taiwan, and Israel for treatment of functioning disorders (essential tremors, tremors resulting from Parkinson's disease, and neuropathic pain). So far, about 600 patients have received treatment on a commercial basis.

In addition to the existing commercial approval, we continue the technological and clinical research and development in order to obtain approval for combination of the device with a Siemens MRI in Europe and in the USA. As of the date of this report, our products are approved for use in combination with MRI devices of General Electric Company Healthcare Division ("**GE Healthcare**"). Clinical studies for treatments continue at a range of research facilities in the USA, Europe, Asia and Canada.

The system is also used for clinical studies in the preliminary feasibility studies, e.g. treatment of advanced Parkinson's disease, epilepsy and compulsive functioning disorders, as well as drug-based and immunological treatment by means of temporary and transient opening of the blood-brain barrier for treatment of brain tumors and Alzheimer's disease.

As of the date of the publication of this report, 47 brain systems exist in leading hospitals around the world.

The following items describe the significant clinical and regulatory events regarding the ExAblate Neuro:

On January 17, 2018- we announced that InSightec's treatment of essential tremors through focused ultrasound guided MRI will be included as part of the health services covered under the Israeli National Health Insurance Law for year 2018.

On December 14, 2017, we announced that we were informed by InSightec, that the CMS updated the reimbursement code for ExAblate Neuro treatment for essential tremor, as follows: (i) on November 2016 the CMS decided to associate InSightec's ExAblate Neuro system (for essential tremor treatment), a reimbursement code with a payment level of \$ 9,751; (ii) beginning January 1, 2018, the primary procedure code for Movement Disorders (essential tremor) is assigned to a new technology level and will be paid at \$17,500.50 for medicare beneficiaries (if deemed medically appropriate); and (iii) the CMS decision is one of several steps toward gaining appropriate reimbursement for MRgFUS for essential tremor. This needs to be followed by CMS regional offices approval to the reimbursement for the ExAblate Neuro treatment for their patients.

On November 23, 2017 we announced that InSightec informed us that the Taiwanese Food and Drug Administration (TFDA) has approved its Exablate Neuro system for the treatment of essential tremor in patients who do not respond to medication.

On October 25, 2017, we announced that the FDA has approved the commencement of Phase III clinical trial for the treatment of neuropathic pain by InSightec's ExAblate Neuro system, for treating dyskinesia symptoms or motor fluctuations of advanced Parkinson's disease patients who have not responded to medication. InSightec estimates that Parkinson's disease afflicts millions of people worldwide, including approximately one million in the United States alone with 60,000 additional diagnoses each year. Treatment with the ExAblate Neuro is intended to improve motor function and reduce dyskinesia, one debilitating symptom that presents as uncontrolled, involuntary movement of the arms and/or legs.

On June 26, 2017, we announced that the FDA has approved the commencement of Phase I clinical trial for the treatment of neuropathic pain by InSightec's ExAblate Neuro system (the "**Trial**"). The Trial will include 10 patients and will be funded by the Focused Ultrasound Foundation. InSightec is the regulatory sponsor of the clinical Trial. The purpose of the Trial is to examine the safety and the efficiency of the treatment.

In April 2017, the FDA has extended its approval of InSightec's Exablate Neuro system for a non-invasive treatment of essential tremor in patients who have not responded to medication and now it's including the usage on 1.5 Tesla MRI systems (the former FDA approval, which was announced on July 12, 2016, was given for the usage of the ExAblate Neuro on 3 Tesla magnet strength MRI systems).

In March 2017, the first treatment was performed under Phase I clinical trial to investigate the use of MRI guided by Focused Ultrasound (MRgFUS) technology for opening the blood brain barrier in patients with early Alzheimer's disease. The treatment was conducted at Sunnybrook Health Sciences Centre in Toronto, Canada and used InSightec's ExAblate Neuro system. InSightec is the regulatory sponsor of the clinical trial.

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On July 12, 2016, we were informed by InSightec Ltd., that the FDA approved its Exablate Neuro system for a non-invasive treatment of essential tremor (ET) in patients who have not responded to medication. ExAblate Neuro uses focused ultrasound waves to precisely target and ablate tissue deep within the brain with no incisions or implants. The treatment is done under Magnetic Resonance Imaging (MRI) guidance for real time treatment monitoring. Essential tremor is the most common movement disorder, affecting more than 5 million people in the United States, and millions more worldwide. Hand tremor is the most common symptom, but tremors can also affect the head, arms, voice, legs, and torso. For these patients, performing everyday tasks presents a challenge and impacts their quality of life.

In May 2016 InSightec informed us that Health Canada approved its Exablate Neuro system for the treatment of ET. For further information see “Item 4 - Information on the Company – History and Development of the Company - Recent Events – Approval of Exablate Neuro by Health Canada”.

In November 2015 InSightec informed us that the Korean Ministry of Food and Drug Safety (MFDS) has approved its Exablate Neuro system to treat movement, pain and behavioral disorders which allows Korean patients suffering from neurological disorders which cause significant disability access to a new, non-invasive treatment option that does not require open surgery.

In November 2015, InSightec informed us that they are investigating the use of MR Guided Focused Ultrasound technology to temporarily open the blood brain barrier which is a protective barrier that restricts the passage of substances from the bloodstream into the brain, protecting it from toxic chemicals and preventing the delivery of essential medication to reach the brain.

In March 4, 2014, focused ultrasound was successfully used for the first time in the treatment of a brain tumor. The patient had a recurrent glioma, a portion of which was thermally ablated using InSightec’s ExAblate Neuro. The treatment was conducted at the FUS Center of University Children’s Hospital Zurich. Since then, three more patients were treated successfully in the treatment of brain tumor.

In October 2013, the Israeli Ministry of Health approved ExAblate Neuro for the treatment of neurological movement disorders including Essential Tremor and tremor-dominant Parkinson’s disease.

In December 2012, ExAblate Neuro, was awarded the European CE mark for the treatment of neurological disorders in the brain including essential tremor, Parkinson’s disease and neuropathic pain.

ExAblate for Body Platform (“Body System”)

The body system, like the brain system, is based on the MRgFU technology, which relies on MRI imaging to plan, guide execute, and receive real-time response during treatment. As of the date of the report, the body system is

adapted for use with MRI machines manufactured by GE Healthcare only.

The body system constitutes a multi-application treatment platform. The system is being sold to customers interested in treating various body applications, requiring the use of different types of transducers (a component converting a physical signal into an electric one). The system has been planned for treatment of uterine myoma, prostate cancer and metastatic growth in the bone in various configurations, and in the future also in cancer of the kidneys, pancreas, and liver (subject to performing clinical trials and obtaining all the required regulatory approvals). Some of the indications have received regulatory approval in various parts of the world, and some are still in the research and development stage.

The body system is a treatment system incorporating an MRI bed converted to contain a robotic system broadcasting a focused, high-energy (up to 1,000 Watt) ultrasound beam aimed at the area where the affected tissue (tumor) is located. The transducer heats the tissue in the beam's focus and destroys it non-invasively, and without damaging the tissues en route, and thus, essentially, eliminates the benign or malignant tumor.

In the second (second-generation) system, unlike the first system, the crib holding the patient can be separated and replaced based on the application for which treatment is required. This structure is expressed also in the product's pricing, with the principal sum being paid for the basic platform (treatment bed), and smaller sums will be paid for every application that the customer may wish to purchase, thus, enabling the customer to purchase all the products step by step.

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The following items describe the significant clinical and regulatory events regarding the Exablate for Body Platform:

In October 2015 InSightec informed us that the FDA approved InSightec's Exablate For Body Platform to treat symptomatic uterine fibroids and changed the labeling to allow consideration for women who desire to maintain fertility. The updated labeling specifies that ablation of uterine fibroid tissue can now be considered for women with symptomatic uterine fibroids, who desire to retain fertility and spare their uterus. InSightec estimates that such change in labeling provides younger women suffering from symptomatic fibroids access to a new, non-invasive treatment option that is safe, effective and keeps their uterus intact without compromising their existing ability to get pregnant. The approval is based on accumulated, documented clinical data on 118 patients' pregnancies post Exablate MRgFUS treatments.

In October 2004, InSightec received FDA approval to market the ExAblate For Body Platform in the United States for the treatment of uterine fibroids, a type of benign tumor of the uterus. InSightec also has regulatory approval to market the ExAblate For Body Platform for the treatment of uterine fibroids in Israel, Canada, Russia, Brazil, Mexico, Korea, Taiwan, Australia, New Zealand, Singapore, Japan, China and the European Union Economic Area ("EEA"), as well as for the treatment of breast cancer in Korea. In February 2013, the Clalit healthcare fund agreed to cover treatments executed at Sheba Medical Center using ExAblate For Body Platform technology to treat uterine fibroids. In May 2007, InSightec received CE marking for the pain palliation of bone metastases. In October 2012, the U.S. FDA approved ExAblate For Body Platform to treat pain from bone metastases in patients who do not respond or cannot undergo radiation treatment for their pain. In July 2013 ExAblate For Body Platform also received an extended European CE Mark for the local treatment of cancerous and benign primary and secondary bone tumors. In August 2013 InSightec received the approval of the Health Canada Administration, and in November 2014 the approval of Japanese Ministry of Health, for the treatment for pain result from bone tumors.

ExAblate for Body Platform is currently the only non-invasive treatment for uterine fibroids approved for use in Japan. InSightec is also in various stages of development and clinical research for the application of its MRgFUS technology to the treatment of other types of benign and malignant tumors. These additional applications are being developed to take advantage of the modular design of the ExAblate for Body Platform, which enables it to function as a common platform for multiple MRgFUS-based surgical applications. So far the brain system has been operated with MRI systems made by GE Healthcare only. In 2016 we signed a cooperation agreement with Siemens to develop an interface that allows operation with Siemens' MRI system. The system combined with a Siemens MRI is currently engaged in a process of evaluation and submission for regulatory approval, which commenced in early 2018.

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Products

Below is a table listing the main products of InSightec including products/applications in development stages:

The medical product	The indication for which the medical product is intended as of the date of the report	The stage of the medical product developments' as of the date of the report	Milestones expected in the coming 12 months	The nearest milestone and the expected date of its achievement	Cost estimate for achieving the nearest milestone	InSightec's estimate of the patient's financial participation in the development of the product
The brain system ³	Essential tremors ⁴	The following approvals exist: for the integration of the device in Europe and in the USA with the GE Healthcare MRI: Medical Device Approval ⁵ , CE, FDA ⁶ , TFDA, Taiwanese Food and Drug Administration, Japanese Ministry of Health, Canadian Food and Drugs Administration, and Korean Ministry of Health.	Approval of FDA and CE approval for the integration of the device with a Siemens MRI in Europe and in the USA.	December 2018	2M\$	The patient's financial participation is 10%
	Parkinson's disease	Medical Device Approval and CE approval exist. Submission of the treatment for Parkinson's disease tremors for FDA approval is planned. Additional studies for product development are described in the table in the development chapter.	Submission of the treatment for Parkinson's tremors treatment for FDA approval	Submission of the treatment for Parkinson's disease tremors for FDA approval is planned for the first part of 2018	None	The patient's financial participation is 10%
	Neuropathic pain	CE approval and Medical Device Approval exist.	No plans for FDA approval exist as of the date of the report.	None	None planned	The patient's financial participation is 10%
	Opening of the blood-brain barrier for treatments of tumors. Epilepsy	Preliminary programming studies after FDA approval is received for Phase I study and its implementation in the USA and additional countries.	Recruitment of 10 patients.	FDA approval for beginning of Phase 1 study during 2018.	Patient recruitment is funded by the executing site.	The patient's financial participation is 10%

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	Planned phase I preliminary feasibility studies.	Completing recruitment of the first 5 patients.	Recruitment of the first of 5 patients.	Patient recruitment is funded by the executing site.	The patient system. The 10,000 Ever treat in the app be a they To c treat surg doll is ap Doll The year meta fina meta estim App indu spin proc estim 5,000 The a ye in th annu in th doll App diag will InSi mari app Doll
	Uterine myomas ¹³ (including adenomyosis where approved exists)	FDA and CE approval and Medical Device Approval exist.	No expected milestones	No plans	No plans
Body system	Treatment of metastases and tumors in bone. ¹⁵	CE approval and Medical Device Approval exist for treatment of metastases and tumors in bone. FDA approval exists for treatment of metastases in bone. ¹⁶ *An additional configuration of the device (CBS) has CE approval only.	No expected milestones	No expected milestones	Negligible costs
	Prostate cancer	CE approval exists. FDA Phase I study protocol has been approved in the USA and in additional countries.	Patient recruitment for Phase I study to be completed in 2018	Patient recruitment for Phase I to be completed in 2018	\$ 2 million

Insightec's estimate is for the potential market segment for which treatment in its product only is appropriate. Except where this is stated explicitly, Insightec cannot evaluate the expected market segment for the medical product it is developing. The estimate for the disease's prevalence pertains only to the USA with the assumption that in different geographies the prevalence of the various indications will be similar, proportionately to the country's population.

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- InSightec is developing an innovative treatment, which is not a direct replacement of the treatment existing today.
- 3 Therefore, its estimates of the market's size are based on data and articles regarding the number of potential patients, and InSightec's evaluation regarding the number of patients for which treatment with the device is appropriate. For this reason, articles and publications central to each of the three indications are attached.
- 4 Insurance coverage for this application of the brain system has been approved, as stated in Section __ below.
- 5 Medical Accessories and Devices approved by the Ministry of Health (Hereinafter: "MAD")
- In April 2017, InSightec informed the company that the FDA's approval for commercial use of the brain system in the USA for treatment of essential tremors in patients that do not respond to drug treatment has been expanded to include also use of the brain system on 1.5-Tesla MRI systems. The FDA approval reported in the past, on
- 6 12/07/2016, was given for use of the brain system with a 3-Tesla MRI system. (This is the magnetic power of the MRI machine). The expansion of the FDA approval as stated above is expected to broaden the market of products with which InSightec's brain system is compatible, in a manner in which it will be possible to integrate it both in an MRI machine of 1.5 Tesla as well as in MRI machines of 3 tesla.
- 7 <http://www.essentialtremor.org/wp-content/uploads/2013/07/FactSheet012013.pdf>. The estimate for the disease's prevalence pertains only to the USA with the assumption that in different geographies the prevalence of the various indications will be similar, proportionately to the country's population.
- 8 <http://www.healthcommunities.com/parkinsons-disease/incidence-prevalence.shtml>
- 9 The estimations regarding the amount of patient's requiring a surgical treatment is based on InSightec's own estimates.
- 10 The data is based on InSightec estimates.
- 11 The data is based on InSightec estimates.
- 12 The data is based on InSightec estimates.
- 13 Insurance coverage for this application has been approved.
- 14 1) <http://www.ahrq.gov/research/womenh2.htm>;
- 2) http://www.cdc.gov/chronicdisease/resources/publications/fact_sheets/cancer.htm;
- 3) Saigal CA, Litwin MS. Economic costs of early stage prostate cancer. *Pharmaeconomics* 2002;20:869-78. figures (\$4.75B) interpolated for 2009 based on 1990 CPI (Consumer Price Index) of 193 and 2009 CPI of 379. www.bls.gov;
- 4) LaVallee RW, Simpson KN, LaVallee RL; International Society of Technology Assessment in Health Care. Meeting Breast cancer, bone metastasis and episodes of care: a basis for cost effectiveness analysis. https://www250.safesecureweb.com/hcvadvocate/hepatitis/About_Hepatitis_pdf/1.1_Hepatitis_C/Burden.pdf
- 15 Insurance coverage for this application has been approved.
- 16 It shall be clarified that no FDA approval has been received for treatment of tumors and the approval is to treat metastases in bone only.
- 17 Cancer induced bone pain. Kane et al. *BMJ* 2015; 350 doi: <http://dx.doi.org/10.1136/bmj.h315>
- 18 WHO Cancer report 2014
- 19 Kommu SS, Eden CG, Luscombe CJ, Golash A, Persad RA. Initial treatment costs of organ-confined prostate cancer: a general perspective *Int. J. Urol.* 2011 Jan;107(1):1-3
- 20 He et al. *European Urology* 2016; pii: S0302-2838(16)30883-1. doi: 10.1016/j.eururo.2016.11.031

TABLE OF CONTENTSRegulatory approvals

Below is a table listing the approvals received by InSightec products from the Ministry of Health in Israel:

Name of the product approved	Indication	Medical Device Approval number	Medical Device Approval date	Approval term
Body system	General surgery – treatment (heating destruction – ablation and pain removal) in soft tissue, including adenomyosis, uterine myomas, bone and nerve growth by focused heating of segments using ultrasonic energy.	8960000	August 2002	May 2019
Brain system	Functional disorders (essential tremor, Parkinson’s disease, neuropathic pain)	8960401	October 2013	December 2019

Below is a table listing the approvals received by InSightec products from the FDA²¹:

Name of the product approved	Indication	Approval process	Approval number	Approval date	Predicate device [bilingual text]
Body system	Uterine myomas	FULL PMA	P040003 ²²	October 2004	None
Body system	Metastases in bone	PMA	P110039 ²³	October 2012	None
Brain system	Essential tremor	PMA	P150038 ²⁴	July 2016	None

Below is a table listing the approvals received by InSightec products from the CE:

Name of the product approved	Indication	Notified Body	Approval number	Approval date	Approval term	Last date of notified body inspection and its results
Body system	Uterine myomas	DEKRA	2110597CE01	October 2002	January 2023	December 2017
Body system	Adenomyosis	DEKRA	2110597CE01	May 2010	January 2023	December 2017
	Bone tumors	DEKRA	2110597CE01	May 2007		

Body system				January 2023	December 2017
Body system	Uterine myomas, adenomyosis, bone tumors	DEKRA 2110597CE01	September 2009	January 2023	December 2017
Body system	Expanding bone treatment indications and approval for CBS system.	DEKRA 2110597CE01	June 2013	January 2023	December 2017
Body system	Prostate cancer	DEKRA 2110597CE01	December 2016	January 2023	December 2017
Brain system	Functional disorders (essential tremor, Parkinson's disease, neuropathic pain)	DEKRA 2110597CE01	November 2012	January 2023	December 2017
Brain system	Compatibility with 1.5 MRI	DEKRA 2110597CE01	October 2015	January 2023	December 2017
Brain system	Software update version 7.0	DEKRA 2110597CE01	April 2016	January 2023	December 2017

** The notified body inspection for each indication is carried out soon after the approval date. Beyond this, at least one inspection is carried out each year, and an overall inspection is carried out every 3 years, renewing the certificate.

²¹ The table present the regulatory approvals given granted by the FDA for InSightec systems and does not contain all the expansions and updates of technical systems made for the same indication over the years.

²² It shall be clarified that this approval has been granted 18 expansions since the date of its original issue, which do not substantially affect the Company.

²³ It shall be clarified that this approval has been granted 18 expansions since the date of its original issue, which do not substantially affect the Company.

²⁴ It shall be clarified that this approval has been granted 3 expansions since the date of its original issue, which do not substantially affect the Company.

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Below is a table listing the approvals received by InSightec products in Japan, China, Korea, Taiwan and Canada:

Japan

Name of the product approved	Indication	Approval process	Approval date	Predicate device [bilingual text]
Japan				
Body system	Uterine myomas	Full registration	August 2009	None
Body system	Bone metastases and UF updates	Partial change	November 2014	None
Brain system	Essential tremors	Full registration	December 2016	None
China				
Body system	Uterine myomas	Full registration	July 2013	Yes
Body system	Uterine myomas Compatibility with additional MR systems	Full registration	December 2014	Yes
Korea				
Brain system	Movement, pain, and psychiatric disorders	Full registration	November 2015	None
Body system	Uterine myomas, breast cancer	Full registration	November 2005	None
Body system	Adenomyosis	Partial change	June 2011	None
Body system	Metastases in bone	Full registration	March 2009	None
Taiwan				
Brain system	Essential tremor	Full registration	November 2017	None
Canada				
Brain system	Essential tremor	Full	May 2016	
Body system	Uterine myomas and metastases in bone	Full	August 2013	

Insurance coverage

As to InSightec's best knowledge, as of the date of the report, insurance coverage is available for (a) Treatment of uterine myomas, by a number of health insurers in the USA and in Europe and by the HMOs in Israel (included in the medicine basket); (b) treatment by pain caused by cancer metastases in bones by the body system, by a number of health insurers in the USA and in Europe and by the HMOs in Israel (included in the medicine basket); (c) Insurance coverage for treatment of essential tremor by the brain system, by a number of health insurers in the USA and in Europe and by the HMOs in Israel (included in the medicine basket);

In July 2016 a range of American insurance companies²⁵ providing insurance coverage for about 99.8 million members have published updates in their policies regarding treatment with the MRgFUS technology so as to include coverage for MRI-guided focused ultrasound treatment for pain caused by bone cancer. InSightec estimates that the aforementioned updates will enable access of these insurance coverage for treatments for this indication with InSightec's ExAblate, as a treatment option approved by the FDA.

In November 2016, the CMS has decided to give treatment of essential tremor using InSightec's brain system (hereinafter: **"the treatment"**) the status of a treatment for which refunds are available. This changes the treatment's status from the status of a treatment for which insurance compensation is not available to one that enables insurance compensations to a level of 9,751 dollars.

Later, the CMS decided that starting on 01/01/2018 the primary code for movement disorders (essential tremors) will be assigned to a new technology level enabling an insurance compensation of 17,500 dollars for those insured for whom the aforementioned treatment is appropriate.

²⁵ The publications are pursuant to a change of the insurance policy by insurance companies from the Blue Cross Blue Shield Association Health Care Service Corporation Group.

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The CMS decision is only one of the necessary conditions necessary to receive an insurance compensation for the treatment. Pursuant to the CMS approval, the approval of each of the regional CMS representatives in the USA is required in order to receive insurance compensation for patients for the treatment. As of the date, an approval from a CMS representative in one area only (National Government Services Medicare, Local Medicare Contractor (MAC) for jurisdiction 6andK²⁶) has been received and the Company is acting to receive the rest of the CMS representatives' approvals, but cannot estimate when whether these approvals will be received.

InSightec is acting to expand the number of health insurance providing insurance coverage as described above, as well as the geographical area where the aforementioned health insurance will be provided to insured patients. For this purpose, InSightec is acting in a range of avenues, as follows: (1) Working with hospitals in the USA and Europe and supporting them in the process of applying to local insurance companies in order to receive insurance coverage (2) Forming a call center for support for patients whose applications for coverage from the insurance companies that are insuring them; (3) Direct activity with insuring entities, as well as entities setting policy in the matters of insurance coverage. In addition, in this context InSightec is also evaluating the possibility to make use of existing insurance codes, to receive insurance coverage as described for oncological applications. Expenses for this InSightec activity are included in InSightec sales and marketing expenses, as described in the financial reports.

InSightec believes that third-party payors will not provide reimbursement on a national basis for treatments using the ExAblate, unless InSightec can generate a sufficient amount of data through long-term patient studies to demonstrate that such treatments produce favorable results in a cost-effective manner relative to other treatments. Furthermore, InSightec could be adversely affected by changes in reimbursement policies of private healthcare or governmental payors to the extent any such changes affect reimbursement for treatment procedures using the ExAblate.

Distribution and Marketing

InSightec has two main distributing channels; the first one is InSightec's independent business department and the second one is by distributors and local agencies among them is GE healthcare representatives (usually without exclusivity) and other distribution agreements with third parties. Distribution agreements are generally for a term of between one and five years, with an option to extend the agreement based on the performance of the distributor.

Accumulated orders

As of 31/2017, InSightec has accumulated orders resulting from obligating orders (Which can be canceled pursuant to the conditions of the contract with the distributor/client) for its products (in millions of dollars):

Period	Revenues
2018 – Q1	2.8
2018 – Q2	2
2018 – Q3	0.9
2018 – Q4	8.4
Total for 2018	14.1
Revenues for 2019	0.4
Total accumulated orders	14.5

Material agreements

InSightec is a party to a number of substantial agreements that are outside of the normal scope of business and were valid in the period described in this report, or affected its activities in this period:

Shareholders agreement

The Company, KDT, GE, MTA, the York Foundation, GEOC, Ferré, Focused Holdings LP, InSightec, and a number of additional shareholders are a party to a shareholder agreement, as amended from time to time, establishing the relationship between the parties and their rights.

The cooperation agreement with GE Healthcare

On December 5, 2012 an agreement for cooperation between InSightec and GE was signed, and subsequently amended. This agreement provides the following as of the date of the report.

²⁶ This region refers to the following states: Illinois, Minnesota, Maine, Massachusetts, New Hampshire, Connecticut, New York, Rhode Island Vermont and Wisconsin.

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InSightec appointed GE as a non-exclusive distributor of its products, for the period ending at the end of 2020. The Agreement sets prices for InSightec products and the rates of the sales commission, refunds, and supports development of ties to radiologists using its products.

It shall be noted that, until the agreement was first amended (in June 2014), the cooperation agreement included, among other provisions, a commitment of InSightec to grant GE exclusivity, so that InSightec's products would only be compatible with MRI machines made by GE. This exclusivity has been subsequently been terminated with the parties consent, and InSightec even entered into, in August 2016, a non-exclusive cooperation agreement with Siemens, an international company that is a leading manufacturer and developer of MRI imaging machines, for the purpose of adapting InSightec's systems for work with the MRI imaging machines made by Siemens, in order to expand the market of products that InSightec systems are compatible with.

That said, correct to the date of the report, InSightec's products are still only regulatory approved as compatible with GE MRI machines. From a technological point of view, InSightec is capable, subject to investing financial resources (the costs of developing hardware and software interface) and within an appropriate time period, to make changes to InSightec products so as to make them compatible also with other manufacturers' MRI machines, as well as receive regulatory approval for the new system. As per InSightec's estimate, it may require approximately two years in order to enable compatibility with non-GE imaging systems, and to create an agreement infrastructure for distribution of such products, similar to the relationship currently in place with GE Healthcare, also with another MRI system supplier. As per InSightec's estimate, a termination of the relationship with GE Healthcare will not cause its activity to stop, but may lead to a slowdown in activity during the aforementioned period of adaptation. For compatibility between InSightec's MRI guided Focused Ultrasound Systems (MRgFUS) and Siemens MRI scanners please refer to Section ___.

It has been established in the agreement that InSightec carries the sole liability for defects in the manufacturing, planning, and initial assembly of the products. Moreover, InSightec is obligated to compensate GE Healthcare, its employees and representatives, for any damage, costs, or obligations resulting from a third-party suit resulting from the contract between the parties. GE Healthcare, on the other hand, is obligated to compensate InSightec, its employees and representatives, for damages caused by GE Healthcare products and/or changes made to these products without InSightec's authorization. For the implementation of the provisions of this agreements, the parties have obligates themselves to purchase (each) an insurance policy to the extent of at least 5,000,000 dollars.

Moreover, the agreement originally established that InSightec will serve as a non-exclusive distributor of GE MR scanners, in order to enable InSightec to sell the scanners as part of its combined treatment system. This section was terminated with the consent of both parties in December 2017. The agreement establishes the price per unit and technological compatibility with InSightec products, to which GE is obligated

Cooperation agreement with Siemens

On August 15, 2016, we announced that InSightec Ltd. signed a non-exclusive cooperation agreement with Siemens, a leading manufacturer and developer of diagnostic imaging equipment in general and Magnetic Resonance scanners specifically, to develop compatibility between InSightec's MRgFUS and Siemens' MRI scanners (the "Systems") with the intention to expand the MRgFUS market globally. According to the co-operation agreement, the Parties will cooperate regarding the performance of R&D, integration, testing and approving the compatibility of the systems of the parties. Each party shall be solely responsible, at its own cost, to obtain the regulatory approval for its systems, and InSightec shall be solely responsible, at its sole cost, to obtain the regulatory approval for the combined system. Each party shall bear all of its internal and external costs relating to its performance under the co-operation agreement, except that InSightec shall reimburse Siemens an amount agreed upon in the co-operation agreement, for its R&D costs. The co-operation agreement also provides that each party shall act independently in the marketing and sales of its component portion of the Combined System, and determines the amount InSightec shall pay Siemens for sales of the Combined Systems and in case of sales for installed MR base.

The term of the co-operation agreement is five (5) years from the first commercial sale of the combined system and shall automatically renew for additional 1-year periods, unless either Party has provided a notice for its non-renewal or of its termination, in accordance with the terms of the co-operation agreement.

Business Strategy

InSightec's vision is global leadership in the field of non-invasive treatment using magnetic resonance guided focused ultrasound technology (MRgFUS), made available for broad use for the benefit and welfare of the patients.

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Insightec's strategy is focused on development of two product lines, a product line in the field of body systems (oncology and gynecology) and a line of products in the field of brain treatment systems (neurological disorders and tumors).

In the field of brain systems, Insightec intends to develop applications that will make use of advanced mechanisms of interactions between tissues and acoustic fields (for example, Targeted Drug Delivery), neuromodulation, and more. The brain applications currently supported by Insightec's current systems and those planned in the future are based on thermal ablation. Insightec utilizes the technology used in this system in non-invasive brain treatments. To the best of Insightec's knowledge, this field was a research field only in the first years of Insightec's activity. As technology allowing brain treatment without trepanation became possible, this field became central for Insightec.

In order to realize its vision, Insightec intends to continue developing the MRgFUS technology and the systems based thereon, which will allow the replacement of surgical procedures, minimally-invasive procedures, and radiation treatment. Moreover, Insightec intends to continue searching for strategic partners acting in the markets relevant for its products in order to cooperate with them on entering the markets in an efficient, low-cost, broad entry of its technology into the target markets. In addition, Insightec is also working to raise funding from existing shareholders or from new sources of funding, which will support the acceleration of business and other activities.

Insightec intends to develop a future surgical system that will replace the invasive operating room currently in use. The system will allow treatment in a variety of clinical applications, all of this while generating more value for its products and Insightec itself. Moreover, Insightec is evaluating the use of MRgFUS technology as an additional tool for Radiation Oncology departments, which will enable treatment of patients for whom radiation treatments are not currently providing a satisfactory response, or for whom a combination of MRgFUS treatment and radiation treatments will serve as a preferable treatment solution.

Insightec aspires to expand the marketing of its systems in additional countries in America, Europe, Asia and Oceania. For this purpose, Insightec intends to expand its distribution network, as well as evaluating various possibilities for marketing the product in the USA – by means of distribution agreements, direct marketing, or partnership with a strategic partner. Beyond that, Insightec intends to expand the volume of its activities in China and Japan, for which purpose Insightec has set up a fully owned subsidiary company in China and in Japan, and recruited a number of local employees.

Insightec aspires to complete the development of additional applications for its products, so that every product purchase can serve for the treatment of a great number of disorders, which will significantly increase the profitability of purchasing it.

Gamida Cell Ltd.**Holdings in Gamida's shares**

As of the date of the report's publication, we indirectly hold, through Elbit Medical, approximately 16% of the outstanding share capital (12% on a fully diluted basis) of Gamida, as listed below:

Share types	Issued share capital	Number of stock held by the Company	Number of stock held by the Company of the same class of shares		Number of shares held by the Company of the same class of shares on a fully diluted basis	
Common stock	549,990	450,000	81.8	%	43.5	%
Type B common stock	139,908	-	-		-	
Type A preferred stock	600,000	-	-		-	
Type B preferred stock	1,453,846	517,637	35.6	%	35.6	%
Type C preferred stock	2,827,430	990,460	35.0	%	25.0	%
Type D preferred stock	3,473,345	265,343 (5,380 following adjustment (*))	7.8	%	7.8	%
Type E-1 preferred stock	571,478	-	-		-	
Type E-2 preferred stock	1,023,312	436,681	42.7	%	42.7	%
Type F-1 preferred stock	4,274,363	-	-		-	
Type C preferred stock options	1,129,008					
Common stock options for investors, employees, and consultants	1,506,510	-	-		-	
Type F-2 preferred stock options	2,564,619					

(*) It should be noted that, as of the date of this filing, 265,343 of the abovementioned Type D preferred shares are convertible to 270,723 ordinary shares, and this comes following the increase in the conversion ratio resulting from the activation of the anti-dilution mechanism included in Gamida's Articles, within the scope of previous rounds of raising capital that Gamida has performed.

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The following is a summary of the material provisions in the Articles of Association of Gamida (and the rights attached to its shares):

Liquidation and Dividend Preference

Upon the occurrence of a distribution, liquidation or deemed liquidation, including (a) the merger or consolidation or other reorganization of the company with or into any other corporate entity; or (b) a sale or perpetual exclusive license (in any two of the following territories: (i) substantially all of North America, (ii) substantially all countries in Europe, taken as a whole, and (iii) substantially all other countries (i.e., other than North America and Europe, taken as a whole) or (c) other irrevocable disposition of all or of substantially all of the company's shares or intellectual property or assets, subject to certain exceptions:

(a) The holders of the Series F Preferred Shares shall first be entitled to receive \$9.44 for each Preferred F-1 Share and \$11.33 for each Preferred F-2 Share;

(b) Thereafter, the holders of the Series E Preferred Shares shall be entitled to receive \$3.1503 per each Preferred E-1 Share and \$3.7288 per each Preferred E-2 Share; provided that each of the holders of the Ordinary C Shares shall be entitled to receive out of the aggregate amount paid to the Series E Preferred Shares under this section an amount for each Ordinary C Share equal to the product of the aggregate amount paid to the Series E Preferred Shares under this section multiplied by the ratio that such Ordinary C Share bears to the total number of the outstanding shares of Gamida on a fully diluted basis (the "**Gamida Share Ratio**");

(c) Thereafter, the holders of the Series D Preferred Shares shall be entitled to receive \$6.3111 for each Series D Preferred Share; provided that each of the holders of the Ordinary C Shares shall be entitled to receive out of the aggregate amount paid to the Series D Preferred Shares under this section an amount for each Ordinary C Share equal to the product of the aggregate amount paid to the Series D Preferred Shares under this section multiplied by the Gamida Share Ratio;

(d) Thereafter, the holders of the Series C Preferred Shares shall be entitled to receive \$1.9553 for each Series C Preferred Share; provided that each of the holders of the Ordinary C Shares shall be entitled to receive out of the aggregate amount paid to the Series C Preferred Shares under this section an amount for each Ordinary C Share equal to the product of the aggregate amount paid to the Series C Preferred Shares under this section multiplied by the Gamida Share Ratio;

(e) Thereafter, the holders of the Series B Preferred Shares shall be entitled to receive \$1.8052 for each Series B Preferred Share; provided that each of the holders of the Ordinary C Shares shall be entitled to received out of the aggregate amount paid to the Series B Preferred Shares under this section an amount for each Ordinary C Share equal to the product of the aggregate amount paid to the Series B Preferred Shares under this section multiplied by the Gamida Share Ratio;

(f) Thereafter, the holders of the Series A Preferred Shares shall be entitled to receive \$1.3720 for each Series A Preferred Share; provided that each of the holders of the Ordinary C Shares shall be entitled to received out of the aggregate amount paid to the Series A Preferred Shares in this section an amount for each Ordinary C Share equal to the product of the aggregate amount paid to the Series A Preferred Shares in this section multiplied by the Gamida Share Ratio;

Under no circumstances shall the aggregate preference amounts payable in respect of any outstanding Preferred Shares, or that are underlying any outstanding convertible securities , as of July 3, 2017, exceed US\$ 36,078,000.

(g) After the aforesaid preferences the remaining distributable assets, if any, shall be distributed among the holders of Ordinary Shares, Ordinary B Shares, Ordinary C Shares and Preferred Shares on a pro rata, pari passu, and as-converted basis.

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Conversion

At any time, the holders of Preferred Shares may convert all or any portion of their shares into the number of Ordinary Shares computed by dividing the applicable original issue price paid for the class of Preferred Share held by such holders (“**Original Issue Price**”) by the applicable conversion price for such Preferred Share, which initially is the Original Issue Price (other than the Preferred D Shares for which the Original Issue Price is \$9.56 and the conversion price is \$9.37).

The preferred shares shall convert: (i) immediately prior to and conditioned upon the consummation of a public offering that yields gross proceeds of at least \$30,000,000 at a pre-money value of at least \$150,000,000, (ii) on the date specified in a written consent of the holders of at least a majority of voting power represented by the then issued and outstanding Preferred Shares (voting together as one class, on an as-converted basis), including the consent of the holders of at least a majority (or, in the case of the Preferred F Shares – 60%) of each of the series of Preferred Shares (other than the Series A Preferred Shares) then outstanding; or (iii) upon the date specified in a written consent of the holders of at least a majority (or, in the case of the Preferred F Shares – 60%) of the voting power represented by the then issued and outstanding shares of a certain series of Preferred Shares (with the shares of such series of Preferred Shares voting together as one class, on an as-converted basis), delivered to the Company, all issued and outstanding shares of such series of Preferred Shares shall automatically be converted.

The Preferred Shares have broad based weighted average protection formula (the Preferred F Shares are subject to a special anti-dilution mechanism).

Other Restriction of Transferability of Shares in Gamida

The shares in Gamida (with certain standard exceptions) are subject to a right of first refusal, co-sale and bring-along rights (if approved by 60% of the shares voting together as a single class).

Board of Directors

The number of Directors in Gamida shall not exceed 10 directors.

Any one or more shareholder(s) (with certain exclusions) who hold(s), together with its or their permitted transferees, shares of Gamida (other than Preferred F Shares) representing an aggregate of 11% or more of the voting power of Gamida on an as-converted basis, shall have the right to appoint, replace and remove one (1) director by virtue of such aggregate 11% holdings.

Special Voting Provisions/Veto Rights

Among other special voting rights, Gamida shall not effect a deemed liquidation in which holders of Gamida's Preferred Shares receive equity in a private corporation in consideration for the transaction, other than such a transaction in which holders of Preferred Shares receive no less than their entire preference amounts in cash and/or publicly-traded securities, without the consent or vote of 60% of the Preferred F Shares.

The board of directors shall not undertake certain actions, including the following, without consent of a majority of the members of the Board appointed by the holders of the Preferred F Shares or shareholders holding an aggregate of 11% or more of the voting power represented by the then issued and outstanding share capital: (a) make any fundamental changes to the business of Gamida; or (b) any transaction out of the ordinary course of business not contemplated by the company's budget then in effect.

Business Concept

Gamida deals in the research and development of medical products based on stem cells, the source of which is mainly from umbilical cord blood (hereinafter: "**Umbilical Blood**").

Gamida operates in the field of research, development and manufacture of products designated for bone marrow transplants in leukemia or lymph node cancer sufferers, non - malignant blood diseases such as Sickle Cell Anemia and Thalassemia, metabolic genetic diseases. In addition, Gamida is in further advanced stages of research development and manufacture of products for the immunological treatment of cancer sufferers by means of Natural Killer Cells²⁷ (hereinafter: "**NK Cells**") (hereinafter together: "**Field of Activities**").

The main product that Gamida is developing is the NiCord® (hereinafter "**NiCord**"), based upon the enrichment of umbilical cord blood with stem cells, in technology process that makes use of Nicotinamide molecules (hereinafter: "**NAM**"). It would be prudent to state that Gamida is working to develop additional products, which are also based on the NAM technology, including the CordIn and the NK cell product. These products are also in clinical development, but at a less advanced stage of development than the NiCord.

²⁷ NK Cells are white blood cells which act to kill off body cells that have been infected with viruses or have developed into cancerous cells.

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Below are details regarding investments in Gamida's capital in the last two years:

In July 2017, Gamida completed a round of fundraising of a scope of approximately 40 million dollars (Hereinafter in this paragraph: "**The Investment**") in consideration for 4,274,363 f-1 shares. Immediately following the closing: (i) the Series F-1 Preferred Shares issued represented approximately 28.7% (21.9% on a fully-diluted basis) of Gamida's share capital; (ii) the options to Series F-2 Preferred Shares issued represented approximately 13.1 on a fully-diluted basis) of Gamida's share capital. The Investment was led by the Shavit Capital Fund, which was joined by Novartis and other investors, including the VMS Investment Group, IHCV, Israel Biotech Fund and the Company (hereinafter in this paragraph: "**The Investors**"). In return for the investment, Gamida issued preferred shares to the investors (hereinafter: "**The Allocated Shares**") pursuant to a value of 120 million dollars (before the money). The portion of the company in the investment was 1.5 million dollars. In addition, options were allocated to the investors to purchase preferred shares in a quantity constituting 60% of the number of the preferred shares allocated (hereinafter in this paragraph: "**The Options**"). The exercise price of the options is 120% of the preferred share price paid by the investors at the time of the completion of the investment. The options are exercisable during the course of a period of up to 5 years from the date of completion of the investment. It would be prudent to state that as at this date, there is no certainty that the investors will exercise the options.

Products

Following is a table detailing the main products being developed by Gamida:

Name of the Medical Product under Development	Outline for which the medical product under development is designated	Development stage of the medical product as at the date of the report	Milestones expected over the next 12 months	Next milestone and the expected date of achieving it.	Estimated cost of achieving the next milestone	Size of the potential target market – the number of sufferers, patients or procedures, and the annual financial scope of the potential target	Gamida's estimate regarding the date of commencement of the marketing of the medical product under development	Gamida's estimate regarding the expected market for the medical product under development and the assumptions obtained from the authorized
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						market of the medical product under development as at the date of publication of the report	to m
NiCord	Malignant Hematology diseases	Phase III	Continuation of recruiting patients for Phase III trials.	Completion of the recruiting of patients in Phase III trials in the second half of 2019.	About \$ 30 million	The market potential in the USA, Europe and Japan is estimated to be about 30,000 – 40,000 patients per annum requiring transplants from a unrelated ²⁸ . As at the date of the report, Gamida has no estimate regarding the annual financial scope of the target market.	Gan cons and conc mar rese orde exar matt
CordIn ²⁹	Non - malignant hematology diseases, genetic diseases	Phase I / II	The continuation of the recruitment of patients for Phase I / II trials, for Sickle Cell Anemia and Thalassemia (in a configuration of one or two units of cord blood)	Completion of the recruitment of patients for Phase I / II trials during the course of 2019	About \$ 1 million	About 100,000 patients per year are diagnosed in the USA with Sickle Cell Anemia. ³⁰ Each year about 2,000 – 3,000 new cases are diagnosed. ³¹ As at the report date, there is no estimate as to	Gan abili accu estim this spec mar (out mar whic proc aim

the financial
scope of the
target market.

Continuation of the recruitment of patients for Phase I / II Acute Aplastic Anemia and Myelodysplastic diseases.	Completion of the recruitment of patients in 2020	About \$ 1 million
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Name of the Medical Product under Development	Outline for which the medical product under development is designated	Development stage of the medical product as at the date of the report	Milestones expected over the next 12 months	Next milestone and the expected date of achieving it.	Estimated cost of achieving the next milestone	Size of the potential target market – the number of sufferers, patients or procedures, and the annual financial scope of the potential target market of the medical product under development as at the date of publication of the report	Gamida’s estimate regarding the date of commencement of the marketing of the medical product under development	Gamida estimate regarding expected market for the medical product under development under the assumption of obtaining authorization to market
Product based on NK Cells which have been enhanced using NAM technology	Malignant hematology diseases	Phase I	Continuation of recruitment of patients or Phase I trials in multiple myeloma and NHL type lymphoma.	Completion of the recruitment of patients in 2019	About \$ 2.5 million	Gamida has not, at this stage, estimated the size and / or the financial scope of the potential market.	Gamida has no ability to accurately estimate, at this stage, the date of receipt of the authorization to market.	Gamida ability to accurately estimate this stage specific market size (out of the market) which the product is aimed.

Due to the inherently unpredictable nature of the research and development processes, we are unable to estimate with any certainty the estimated cost of achieving the next milestone.

²⁸ WMDA Report 2015.

²⁹ Another product based on the technology, makes use of the NAM molecules and is adapted for treatment of non-malignant diseases.

³⁰<https://www.cdc.gov/ncbddd/sicklecell/data.html> August 19 2017 Centers for Disease Control Atlanta GA USA.

³¹Modell B & Darlison M. Global epidemiology of hemoglobin disorders and derived service indicators. Bull World Health Organ. 2008 June; 86(6): 480-487

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Clinical and Regulatory Development

Nicord

NiCord is the lead product of Gamida Cell for the treatment of patients with Hematological Malignancies such as Leukemia and Lymphoma who require a donor derived (allogeneic) bone marrow transplantation.

NiCord is composed from stem cells derived from umbilical cord blood which were expanded and enriched using Gamida's proprietary NAM technology.

NiCord is enrolling patients in a Phase III registration study. NiCord received a breakthrough Therapy designation from the FDA and Orphan drug designation from the FDA and EMA.

The following items describe the significant clinical and regulatory events related to NiCord®:

On March 20, 2018, Gamida presented new data on immune reconstitution (IR) from its phase I/II study of NiCord® in high-risk hematologic malignancies (the “**Study**”). The IR findings of a random subgroup of 22 adults patients (median age approximately 22 years) from the Study, as compared to 47 young patients (median age approximately 22 years) with hematologic malignancies treated by unmanipulated CB and unrelated bone marrow without ATG (the “**Comparison Group**”), were presented. The primary endpoint was the probability of achieving CD4+ IR within the first 100 days, a level indicating a significant reconstitution of the immunity system. Additional cellular components of the immunity system were evaluated. Key findings include:

- More than 90% of patients have met the primary endpoint (achieved successful CD4+ IR at 100 days after transplantation with NiCord).
- T-cell IR with NiCord was similar to that observed in the Comparison Group, in which younger patients typically achieved better results after stem cell transplantation.
- Immune reconstitution of NK cells, B cells and monocytes, was faster, in a statistically significant manner, after transplantation with NiCord when compared to the Comparison.

On February 28, 2017, Gamida announced that the first patient has been transplanted in Gamida's Phase 3 study of NiCord® which is in development as a cure for patients with blood cancer. The trial will evaluate the safety and efficacy of transplanting NiCord® as compared to transplanting un-manipulated cord blood in patients with hematological malignancies (blood cancers). The primary end point is the time estimation to neutrophil engraftment.

On January 17, 2018, Gamida announced its initiation of a Phase I study evaluating its proprietary NAM-expanded natural killer cells (NAM-NK Cells) in patients with relapsed or refractory CD20+ non-Hodgkin lymphoma (NHL) and multiple myeloma. The Phase I study will be conducted at the medical center of the University of Minnesota Health and is designed to determine the maximum tolerated dose of NAM-NK Cells. Secondary endpoints of the study include overall antitumor response and toxicity. The study is currently recruiting and will enroll approximately 24 patients aged 18 to 70 years old. Participants will undergo a lymphodepleting preparative regimen, and then receive two doses of NAM-NK Cells.

On December 12, 2017 the Company announced that Gamida has presented final results from the phase I/II trial evaluating NiCord® (the "**Trial**") at the annual meeting of the American Society for Hematology (ASH). The Trial that included 36 patients with hematologic malignancies, met its primary endpoint as well as safety and efficiency targets, as follows: (i) Participants treated with NiCord® had rapid and durable engraftment of neutrophils and platelets, as well as prompt immune reconstitution; (ii) The Trial met its primary endpoint - median time to neutrophil engraftment was 11 days (95% CI: 9-13 days); (iii) Patients treated with NiCord® had a median time to platelet engraftment of 34 days (95% CI: 32-42 days); (iv) NiCord® demonstrated an acceptable safety profile, with moderate/severe cGvHD of 9.8% at one year following transplantation. By day 100 20.2% of participants experienced grade 2-3 bacterial or grade 3 fungal infections; and (v) Results from the Trial participants were compared to a database of matched patients from the Center for Internal Blood and Marrow Transplant Research (CIBMTR). According to the CIBMTR data, patients who received UCBT had a median time to neutrophil engraftment of 21 days and a median time to platelet engraftment of 46 days. Gamida highlighted that the final results of the Trial supports the basis for the global phase III trial of NiCord®.

In March 2017, the orphan drug designation which has been granted by the European Medicines Agency's (EMA) Committee for Orphan Medicinal Products (COMP) regarding NiCord® has been broadened and now includes any treatment which is based on the transplant of blood system stem cells (haematopoietic stem cells). The EMA grants an orphan drug designation to promote the development of products that demonstrate promise for the treatment of rare diseases. EMA orphan drug designation provides 10 years of market exclusivity in the EU, as well as, prospective grants receiving easement and assistance with developing and registration of drugs for marketing.

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In December 12, 2016, Gamida announced that it has been cleared by the FDA to begin enrolling for the Phase 3, international, multicenter trial of Gamida's NiCord® for patients with high risk hematological malignancies (blood cancers) (the "Trial"). In addition, Gamida announced that clearance to begin enrolling for the NiCord study has also been received for an additional European territory. The Trial is planned to be a randomized-controlled study comparing transplantation of NiCord® to that of un-manipulated umbilical cord blood. A total of 120 patients will be enrolled at transplantation centers throughout the US and Europe. Gamida estimates that patient recruitment will take approximately two years to complete. The primary endpoint of the study is to examine the time from transplant to engraftment of neutrophils.

On October 10, 2016, Gamida announced that the FDA granted Breakthrough Therapy Designation status to NiCord®, due to improvement in absorption of neutrophils blood cells in bone marrow transplant for patients with high risk hematological malignancies (blood cancers). Breakthrough therapy designation is granted to a drug that is intended to treat serious or life-threatening diseases, and that preliminary clinical evidence indicates that the drug may demonstrate substantial improvement on a clinically significant endpoint(s) over available therapies. A breakthrough therapy designation entitles the company to various benefits, such as: (i) intensive FDA guidance; (ii) involvement of senior FDA managers in the process; and (iii) option for a FDA rolling review of Nicord® marketing approval application in the U.S (i.e. the FDA may agree to review parts of the application file which are submitted in phases, with no obligation of filling the whole file prior to the review commencement).

In December 2015, Gamida announced that following the initial data analysis of 16 patients who were treated with NiCord® in the Phase I/II study for treating patients with hematological malignancies (leukemia or lymphoma), NiCord® demonstrated absorption in all patients and in an average timeframe of 10 days. This timeframe is significantly shorter than absorption timeframes reported in transplanted untreated cord blood, where reported absorption timeframes averaged 23-27 days. The clinical study demonstrated a positive drug safety profile, and proper rehabilitation of blood systems post-transplant. On January 8, 2015, the first person was successfully transplanted with cryopreserved (frozen) NiCord® in Gamida's ongoing Phase I/II clinical study for blood cancer patients. After thaw the cryopreserved product maintained the advantage of NiCord® in demonstrating very rapid engraftment (white blood cell recovery). Gamida expects that this rapid engraftment will reduce the risk of opportunistic infections, will lower the morbidity associated with cord blood transplantation and shorten hospitalization.

On January 8, 2015, the first person was successfully transplanted with cryopreserved (frozen) NiCord® in Gamida's ongoing Phase I/II clinical study for blood cancer patients. After thaw the cryopreserved product maintained the advantage of NiCord® in demonstrating very rapid engraftment (white blood cell recovery). Gamida expects that this rapid engraftment will reduce the risk of opportunistic infections, will lower the morbidity associated with cord blood transplantation and shorten hospitalization.

In January 2014, orphan drug designation has been granted to NiCord® by The US Department of Health and Human Services, The FDA Office of Orphan Products Development, for treatment of several medical conditions. The Orphan Drug Act of 1983, or Orphan Drug Act, encourages manufacturers to seek approval of products intended to treat "rare diseases and conditions" with a prevalence of fewer than 200,000 patients in the U.S. or for which there is no reasonable expectation of recovering the development costs for the product. For products that receive Orphan Drug designation by the FDA, the Orphan Drug Act provides tax credits for clinical research, FDA assistance with

protocol design, eligibility for FDA grants to fund clinical studies, waiver of the FDA application fee, and a period of seven years of marketing exclusivity for the product following FDA marketing approval.

In February 14, 2013 Gamida announced successful results of NiCord's Phase I/II study for treating patients with hematological malignancies. On September 9, 2013 Gamida announced the successful transplantation of the first patient in Gamida's Phase I/II study of NiCord using a single unit of cord blood. Additional indications and products are in development for cancer, genetic diseases, immune therapy for cancer and refractory autoimmune diseases.

Cordin

Another product based on the technology used in the NAM molecules for the treatment by means of the transplants of umbilical cord blood enriched with stem cells in patients with non - malignant hematological diseases (such as: Thalassemia, Sickle Cell Anemia, and Aplastic Anemia).

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At the date of the publication of the report, Gamida is conducting a Phase I / II trial with CordIn, which is transplanted in patients with Sickle Cell Anemia, together with a unit of umbilical blood which has not undergone any treatment (in a configuration of two units of umbilical blood).

Furthermore, in July 2016, Gamida began Phase I / II trials on patients with Sickle Cell Anemia and Thalassemia using CordIn (in a configuration of one umbilical blood unit).

In addition, in August 2017, a transplant was performed on the first patients as part of the Phase I / II trial on patients with severe Aplastic Anemia, and Myelodysplastic diseases (Hypoplastic Myelodysplastic syndromes – MDS) using CordIn.

The following items describe the significant clinical and regulatory events related to CordIn:

On February 21, 2018, Gamida presented additional data from its phase I/II study in sickle Cell Disease (the “**Study**”) at the 2018 BMT Tandem Meetings (the “**Meeting**”). The results of 13 patients with SCD treated with CordIn in combination with an unmanipulated unrelated umbilical cord blood (UCB) were presented at the Meeting. The primary endpoint of the Study was evaluating the safety and efficacy of CordIn and cumulative incidence of neutrophil engraftment following transplantation. Key results include: (i) Rapid engraftment was observed in all 13 patients at a median of seven days (range: 6-20 days); (ii) 11 of 13 (84.6%) patients were alive at a median follow-up of 22 months (range: 1-63 months). Two patient deaths were observed due to secondary graft failure and severe GvHD respectively; (iii) 8 participants experienced grade II-IV acute GvHD; (iv) 2 participants experienced extensive chronic GvHD; (v) The 9 patients with long-term follow-up achieved transfusion independence with normal hemoglobin profile and no active GvHD.

It should be noted that as of this date, the Study has not been completed yet

in August 2017, a transplant was performed on the first patients as part of the Phase I / II trial on patients with severe Aplastic Anemia, and Myelodysplastic diseases (Hypoplastic Myelodysplastic syndromes – MDS) using CordIn.

in July 2016, Gamida began Phase I / II trials on patients with Sickle Cell type Hemoglobinopathy Anemia and Thalassemia using CordIn (in a configuration of one umbilical blood unit)

Material agreements

The Lonza Agreement

On February 13, 2016, Gamida entered into a framework agreement, for a five year period, with Lonza Walkersville Inc (“**Lonza**”) for the supply of service and operation of manufacturing facilities, as well as a service agreement for purposes of the manufacturing of NiCord and CordIn (mainly for the Phase III clinical trials of the NiCord product). The parties agreed that, in the event that Gamida will want to commercialize NiCord, the parties will discuss between them (with no obligations), the continuation of manufacturing for such commercial stage. The period of service agreement is until to December 2018 and Gamida has the option of extending the agreement period by an additional 6 months against additional payment. The total cost of the agreement is several millions of dollars. Gamida can terminate the agreement by means of a 6 month prior notice. Lonza can terminate the agreement as of December 31, 2017, by means of a 12 month prior notice. Likewise, the two parties can terminate the agreement by means of a two month prior notice in the event that the clinical trial is suspended by the FDA.

In Gamida’s opinion, in the case of the replacement of Lonza, a great deal of resources will be required, both from the aspect of locating alternate vendors that comply with the stringent standards as well as from the aspect of preparing a new production facility, the transfer of technology training workers, etc., which is estimated to be a period of approximately one year and, as a result, Gamida is liable to be dependent on this vendor.

The Kiryat Gat Premises Lease Agreement

In December 2017, Gamida entered into a lease agreement of a property in Kiryat Gat of 5,000 sq. m. designated for use as a production site for the commercial stage. The lease agreement is for a 10 year period and includes an option to extend it for an additional 5 years.

Plots in Eastern Europe initially designated for development of commercial centers

plots in Eastern Europe (and in Greece) held by our subsidiary Plaza Centers N.V. (“**PC**”) whose business strategy is to no longer develop commercial centers but to dispose its real estate assets at optimal market conditions.

Business Concept and Strategy

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

PC's financial reports for 2017 indicate the existence of a material uncertainty that casts significant doubt about PC's ability to continue as a going concern.

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Plots owned by PC

Casa Radio, Romania

One of PC's most significant projects is the Casa Radio project in Bucharest, Romania. The carrying amount of this project in the company's financial statements as of December 31, 2017, amounts to NIS 263 million (2016 - NIS 263 million).

In 2006 PC entered into an agreement according to which it acquired a 75% interest in a company ("**Project SPV**") which is under a Public Private Partnership ("**PPP**") agreement with the Government of Romania to develop the Casa Radio site in the center of Bucharest ("**Project**"). After signing the PPP agreement, PC 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. 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 expense.

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

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.

Discussions with Authorities on construction time table deferral

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

Additional information in respect of PC's trading property:

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. PC could be subject to significant delay penalties under the terms of the PPP agreement if it is determined that PC 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, PC may incur penalties and/or recover less than the carrying amount of the Casa radio asset recorded in the consolidated financial statements as at year end (€ 50.4 million). As of the date of approval of PC's consolidated financial statements for 2017 the Project SPV did not receive any termination notification by the public authorities.

PC 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.

PC also 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 PC'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 PC 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. PC's management believe that, in the case of termination, PC has a strong case to claim compensation for damages.

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Since 2016 PC's 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 PC for the development of the project and/or potential buyers for the Project. PC's management believes that reputable investors with considerable financial strength can enhance PC's negotiation position vis-à-vis the authorities and assist in advancing an amicable agreement with the relevant authorities with respect to the development of the project.

Whereas PC's management considers the risk of termination of the PPP agreement and/or the imposition of penalties by the authorities to be unlikely, the consolidated financial statements do not include any provision in respect to any potential future penalties in respect to the breach of the PPP agreement. The increased risk arising from the above matters has been reflected in the valuation of the Project.

Co-operation with the Romanian Authorities regarding potential irregularities

In 2015, PC's 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, PC's board appointed the chairman of its 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. PC's Board, among other steps, implemented a specific policy in order to prevent the reoccurrence of similar events and appointed the chairman of the audit committee to monitor the policy's implementation by PC's management. In addition, it was decided that in the future certain agreements will be brought to PC's board's approval prior to signing.

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

As mentioned above, when PC entered into an agreement to acquire 75% interest in the Project SPV it assumed a commitment to construct the PAB at its own expense for the benefit of the Romanian Government. Consequently, the statement of financial position includes a provision in the amount of EUR 12.8 million (\$ 15 million) in respect of the construction of the PAB (December 31, 2016: EUR 13.2 million). During 2017, the Company recorded income in total amount of EUR 0.4 million from change in PAB provision as part of write down of trading properties (in 2016 -

EUR 1.7 thousand).

In addition to the Casa Radio project, the following table provides additional information in respect of PC plots which are designated for sale, as of December 31, 2017:

Name of Project	Location	Designation	Title	PC Share %
Csiki Plaza	Miercurea Ciuc, Romania	Commercial and Entertainment Center	Ownership	100
Pireas Helios Plaza (1)	Athens, Greece	Offices/Retail	Ownership	100
Lodz Plaza (2)	Lodz, Poland	Retail and Entertainment Center	Perpetual Usufruct	100
Lodz (Residential)	Lodz, Poland		Ownership/Perpetual Usufruct	100
Brasov,	Romania	Retail and entertainment scheme	Ownership	100
Krusevac	Serbia	Retail and entertainment scheme	Ownership	100
Casa Radio	Romania	Mixed-use retail and leisure plus office scheme	Remained Lease period 37 years	75

(1) Following the preliminary agreement regarding the disposal of a plot in Piraeus, Greece, several amendments were signed during 2016-2017. The latest amendment deadline expired on January 20, 2018. In order to secure the prolonged validity of the initial agreement, the purchaser made advance payments in a total amount of EUR 0.3 million (non-refundable) to PC. The completion of the transactions are expected to be concluded during 2018 as an asset deal (instead of the original agreement regarding a share deal) with a lower sales price of EUR 3.35 million.

(2) On June 13, 2017, PC announced that it has signed a preliminary sale agreement for the sale of a 13,770 square meter plot at its second land holding in Lodz, Poland, (representing 22% of this holding) to a retail developer, for €1.2 million. The purchaser made a down payment of EUR 0.035 million and a second payment of EUR 0.085 million shall be paid when the purchaser obtains environmental permit for investing in the access road to the plot. The remaining balance minus 50% of the sum invested in the road (up to maximum amount of EUR 0.12 million) will be paid once a building permit is obtained for development of the plot which is expected to be granted till the end of 2018.

Plots in India

Joint Venture with PC in respect of Plots in India

Our plots in India are owned by our subsidiary, Elbit Plaza India Real Estate Holdings Limited ("**EPI**"). EPI is held 47.5% directly by us and 47.5% by our subsidiary PC (the remaining 5% are held by the Company's former Executive Vice Chairman (VC) of the Board). EPI holds two plots in India (in Bangalore and Chennai).

Business concept and strategy

Our business concept and strategy in respect of our Bangalore, India project is to transfer our proprietary interests in the plot to third parties.

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With respect to our Chennai, India project, our main goal and strategy is to find a commercially suitable exit from the project and liquidate our interest in the project in the most efficient manner. Until such time, we are developing, through a local Joint Development Agreement with a local partner, the plot in the Chennai, India project. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Joint Development Agreement with respect to our Plot in Chennai, India “.

Additional information in respect of the Chennai Project

In December 2007 EPI established a special purpose vehicle (“**Chennai Project SPV**”) which acquired 74.73 acres of land situated in the Sipcot Hi-Tech Park in Siruseri District in Chennai (“**Property**”).

On July 21, 2016, Chennai Project SPV signed a Joint Development Agreement with a local developer (“**Developer**” and “**JDA**”, respectively) with respect to the Property.

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

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

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

In order to secure its obligation, the Developer paid a total refundable deposit of INR 10 Crores (\$ 1.6 million) following the signing and registration of the JDA.

The JDA may be terminated in the event that the required governmental approvals for establishment of an access road to the Property has not been achieved within the 12 (twelve) month period from the execution date of the JDA. The

required approvals were not obtained by the target date (and as of this date they have not yet been obtained), but none of the parties has canceled the agreement at this juncture. Upon such termination, the Developer shall be entitled to a refund of the relevant amounts paid as refundable deposit and any other cost related to such access road or the title over the Property. The JDA may also be terminated by the Chennai Project SPV, inter alia, if the Developer has not obtained certain development milestone and/or breached the terms of the JDA.

Additional information in respect of Bangalore project

In March, 2008 EPI entered into a share subscription and framework agreement (the “**Agreement**”), with a third party local developer (the “**Partner**”), and a wholly owned Indian subsidiary of EPI which was designated for this purpose (“**SPV**”), to acquire together with the Partner, through the SPV, up to 440 acres of land in Bangalore, India (the “**Project**”) in certain phases as set forth in the Agreement. As of December 31, 2017, the Partner has surrendered sale deeds to the SPV for approximately 54 acres (the “**Plot**”). In addition, under the Agreement the Partner has also been granted with 10% undivided interest in the Plot and have also signed a Joint Development Agreement with the SPV in respect of the Plot.

On December 2, 2015 EPI has signed an agreement to sell 100% of its interest in the SPV to the Partner (the “**Sale Agreement**”). The total consideration upon completion of the transaction was INR 3,210 million (approximately EUR 42 million) which should have been paid no later than September 30, 2016 (“**Long Stop Date**”). On November 15, 2016, the Partner informed EPI that it will not be able to execute the advance payments.

As a result of the foregoing, the Company has received from the escrow agent the sale deeds in respect of additional 8.3 acres (the “**Additional Property**”) which has been mortgaged by the Partner in 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.

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

New payment structure for sale of Project in Bangalore, India

In June 2017, EPI signed a revised sale agreement with the former Partner according to which the parties have agreed that the purchase price will be amended to INR 338 Crores (approximately Euro 44.2 million) instead of the INR 321 Crores (approximately Euro 42 million) agreed in the previous Agreement. As part of the new agreement, INR 110 Crores (approximately Euro 14.4 million) will be paid in instalments until the final closing that is scheduled to take place on September 1, 2018 (the “**Final Closing**”), when the final instalment of INR 228 Crores (approximately Euro 29.8 million) will be paid to EPI.

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

In January 2018, the Partner 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 new agreement will be stopped until a mutually acceptable solution is reached on this matter. EPI has rejected the Partner's claims, having no relevance to the new agreement, and started to evaluate its legal options.

Since the signing of the revised new agreement, the Partner has paid non-refundable advance payments totaling INR 46 Crores (approximately € 5.9 million).

In March 2018, an amended to the agreement was signed and the Partner and EPI have agreed that the total purchase price shall be increased to INR 350 Crores (approximately €45.8 million). Following the signing of the new agreement, the Partner paid EPI an additional INR 9 Crores (approximately €1.3 million) further to the INR 46 Crores (approximately €5.9 million) that were already paid during the recent year. Additional INR 83 Crores (approximately €10.8 million) will be paid by the Partner in unequal monthly installments until the Final Closing that will take place on August 31, 2019 (the "**New Final Closing**") when the final installment of approximately INR 212 Crores (approximately €27.8 million) will be paid to EPI against the transfer of the outstanding share capital of the SPV.

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

Environmental update on Bangalore project - India

On May 4, 2016, the National Green Tribunal ("**NGT**"), an Indian governmental tribunal established for dealing with cases relating to the environment, passed general directions with respect to areas that should be treated as "no construction zones" due to its proximity to water reservoirs and water drains ("**Order**"). The restrictions in respect of the "no construction zone" are applicable to all construction projects.

The government of Karnataka had been directed to incorporate the above conditions in respect of all construction projects in the city of Bangalore including the Company's project which is adjacent to the Varthur Lake and have

several storm-water crossing it.

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

See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Agreement to sell a plot in Bangalore, India”.

Additional information in respect of the Kochi project

The Company has rights under certain share subscription agreement to hold 50% shareholding in Indian SPV (“**Project SPV**”). The Project SPV has entered into an agreement for the purchase of a land located in Kochi, India according to which it has acquired 13 acres (“**Property A**”) for a total consideration of INR 1,495 million (\$ 23 million) payable subject to fulfillment of certain obligations and conditions by the seller. Up to the balance sheet date the Project SPV has paid INR 718 million (\$ 11 million) to the seller in consideration for the transfer of title in Property A to the Project SPV and as advance towards for property. Our share in such acquisition amount to approximately \$ 6 million.

On January 14, 2016, the Company signed an agreement to waive any of its rights and interest in the Project SPV, subject to receipt of agreed upon consideration. The total consideration for the Company is INR 10 Crores (approximately €1.4 million and approximately \$1.5 million), which will be paid to the Company upon the closing of the transaction. The transaction is subject to certain conditions precedent, and closing will take place once these conditions are met and no later than June 30, 2018.

Revenues classified by geographical markets and by business segments

The following table sets forth our breakdown of revenues by each geographic market in which we operate, for each of the last three years (in NIS thousands):

				Convenience Translation in U.S. Dollars for
	2017	2016	2015	
				2017

Central and Eastern Europe	814,826	328,275	133,631	
India	-	-	150,296	235,023
Other and Allocations	-	-	6,712	-
Total Revenues	814,826	328,275	290,639	235,023

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The following table sets forth our breakdown of revenue by business segments for each of the last three years (in NIS thousands):

	2017	2016	2015	Convenience Translation in U.S. Dollars for 2017
Commercial and Entertainment Centers	814,826	210,014	309,302	235,023
Medical Companies*	117,488	96,333	69,432	33,888
Plots in India	-	-	-	-
Other and Allocations*	(117,488)	(113,911)	(88,095)	(33,888)
Total	814,826	192,436	290,639	235,023

* Other and Allocations includes equity method adjustments to eliminate revenues of our equity method investments that are reviewed on a full basis. See Note 18 to our consolidated financial statements.

InSightec

Most of InSightec's revenue is derived from sale of systems to hospitals and research centers that are generally funded by public budget.

Patents and Proprietary Rights; Licenses

PC is the registered owner of a European Community trademark "Plaza Centers + figures." The trademark is also registered in India.

InSightec's intellectual property includes ownership of 171 patents. In addition, InSightec has submitted 57 patent applications, which remain pending and in process. InSightec has registered trademarks for "ExAblate" and "InSightec" in the United States, European Union, Canada and Israel as well as "INSIGHTEC BRINGING THERAPY INTO FOCUS & DESIGN" (Old company logo) in the United States..

Gamida's patent portfolio is comprised of 7 issued U.S. patents, 25 issued non-U.S. patents, 2 pending U.S. patent applications, 10 pending non-U.S. patent applications, and 1 pending patent applications under the Patent Cooperation Treaty.

Competition

Medical Companies – InSightec

Competition to MRgFUS treatments includes traditional surgical modalities, minimally invasive surgery, and competing image guided high intensity focused ultrasound (HIFU) systems. Minimally invasive procedures involving tissue ablation methods include radiofrequency ablation where electromagnetic energy is inserted into the body with a special needle, microwave ablation, laser, cryoablation which ablates tissue through freezing, embolization of the blood vessels, and irreversible electroporation, are potential competitors of InSightec. Depending upon the medical indication treated, these methods may have regulatory approval in various geographies, including CE marking in Europe and FDA approval in the US.

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InSightec faces competition from both traditional and minimally invasive treatments of uterine fibroids and the other medical conditions that InSightec has targeted for its future applications. Traditional treatment methods for uterine fibroids and other medical conditions that InSightec has targeted for product development are more established, accepted and practiced widely among physicians, and reimbursed by healthcare insurance.

Competitive treatments for uterine fibroids, which are approved by the FDA and CE marked include hysterectomy, myomectomy, uterine artery embolization, and radiofrequency ablation. Competitive treatments for bone metastases include external beam radiation therapy, radiofrequency, cryoablation and microwave ablation.

Similar to uterine fibroids, InSightec's neurosurgery product faces competition from invasive or minimally invasive surgical options. For the approved indication of Essential Tremor, those options are invasive ablation techniques with radiofrequency energy delivered via an inserted probe, or chronic deep brain stimulation via an implanted brain electrode and pacemaker. For indications under development but not yet approved competition would be invasive respective surgery, non-invasive ablation with radiation (radiosurgery), or minimally invasive ablation with laser probes.

In recent years, GE's main competitors in magnetic resonance imaging, Philips and Siemens, have developed MRgFUS devices; Philips has designed and manufactures its own system, Sonalleve, whereas Siemens has partnered with Chongqing Haifu, a Chinese manufacturer of therapeutic ultrasound systems, a partnership that has since dissolved. In December 2009 Philips announced that their MRgHIFU Sonalleve device for treatment of uterine fibroids received CE Mark and is available commercially in Europe and other countries that recognize the CE regulation. In 2011 ECR Philips also announced that Sonalleve has been cleared for treating painful bone metastases. Due to inability to recruit patients for their FDA PMA uterine fibroids study, Philips stopped last year the FDA study. They are conducting a clinical trial for CFDA approval in China. This validates the uterine fibroid application for which InSightec's ExAblate received FDA approval in 2004. There are several ultrasound-guided HIFU approved in China, including Chongqing. According to recent publications more than 10,000 UF treatments were performed in China using these systems. Treatments however are limited to relatively small fibroids, and reports regarding the safety of the procedures significantly vary between less than 1% and more than 28% serious complications. At present, to our knowledge, the Chinese ULSgFUS companies have focused their marketing efforts in Asia.

In 2008, YDME (US-guided HIFU system) received FDA IDE to start a phase I pancreatic cancer study in the United States but terminated that study due to its own financial reasons.

Two US-guided systems for treatment of prostate cancer, Ablatherm (EDAP TMS) and Sonablate (SonaCare Medical) have registered a CE Mark. Recently SonaCare succeeded the changing of the category of their device into category II, and approved the Sonablate for treatment of prostate tissue.

Profound Medical offers a CE approved (since April 2016) transurethral MR-guided HIFU system, which is currently under FDA 510K evaluation for treatment of locally confined prostate cancer. The system was evaluated initially for whole gland ablation in patients with low risk prostate cancer that are currently not considered as candidates for any treatment, and is currently under evaluation for focal therapy in patients with low and intermediate risk prostate cancer.

In the area of treating brain disorders (tremor, tumors, CNS, mediated drug delivery) using MRgFUS, InSightec faces potential competition from the French company Supersonic Imagine. The company has been developing a product similar in capabilities to InSightec's ExAblate Neuro device. The Supersonic Imagine device is still in a pre-clinical development stage

Medical Companies – Gamida

NiCord®

NiCord® may face indirect competition from other pharmaceutical and biotechnology companies that develop products for the treatment of the diseases that we target. If these therapies are successful in curing these diseases, they may reduce the number of patients undergoing hematopoietic (blood) stem cell transplantation (HSCT) procedures. Other new medications may allow more patients to be eligible to transplant.

HSCT from cord blood in general may face additional competition from haplo-identical transplantation, another therapeutic approach currently being studied. This approach uses cells from a non-matched family related donor and is not currently regulated by the FDA. Companies like MolMed S.p.A. and Kiadis Pharma B.V. and Bellicum are developing technologies aiming to improve the clinical outcomes of haplo-identical transplantation.

Other companies are developing clinical-stage technologies that aim to improve the clinical outcomes of HSCT from cord blood by expanding HSCT from cord blood. These companies include Magenta, Nohla and Targazyme.

In addition, the bio-medical field is characterized by rapid development and massive research and development activities, having potential for direct or non-direct competition resulting from the discovery or development of more advanced, efficient or cost-effective treatments or technologies by third parties providing better solutions to the same diseases, while making InSightec's (or Gamida's) technologies or solutions inferior, obsolete or irrelevant. Such occurrence could adversely impact InSightec's (and Gamida's) future business and financial performance.

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CordIn

In the field of treatment of non - malignant hematology diseases and, in particular, Thalassemia and Sickle Cell Anemia, Gamida has, at this stage, two main competitors, who are at stages of clinical trials, BlueBird Bio and Bellicum. In addition, it is possible that the other technologies for the expansion of stem cells, will also suit a similar treatment use as that of CordIn.

Plots in India

Our plot in Bangalore, India is relatively larger in size when compared to other plots available in its vicinity. Further, our plot is irregularly shaped and non-contiguous as there are pockets of land parcels within our plot which are owned by third parties. Our plot is in close proximity to the Varthur Lake with water drains crossing it, and is therefore subject to the NGT order. Consequently, a third party prospective buyer may claim that the new NGT order may create significant limitations on the development of our plot. The presence of residential developments by reputed developers near our plot exposes us to increasing residential competition in the local market.

Our residential development in Chennai faces competition from other developers who have readily available inventory for sale, and have larger resources and larger market presence than our local partner. The Chennai market has been adversely impacted due to repeated floods in the last few years and certain political uncertainty in recent months. Our plot does not have a designated access road and there are high power tension lines running adjacent to our plots which may cause significant limitations on the development of our plot.

Governmental Regulation

Plots in Eastern Europe initially designated for Commercial centers

The development, construction and operation of commercial centers are subject to various regulatory directives, which vary according to the country of activity. Some countries require that a developer provide an environmental report for the land before building permit applications are examined. In certain European countries, antitrust permits must be obtained before a foreign investor is allowed to acquire shares of a local entity. In most Eastern European countries, construction work may only begin after the lapse of the objection period provided for third parties whose interests may be affected by such permits, at which time the contestation permit becomes final. If restitution claims made by former land owners in respect of project sites are upheld, these claims can jeopardize the integrity of title to the land

and the ability to develop the land. Generally, construction must commence within a specified period following issuance of the permit, otherwise, the construction permit may expire.

Plots in India

Foreign Exchange Management Act

In order for a nonresident entity (i.e. person resident outside India) to invest in the capital of an Indian company (under Indian Law, holding a real estate property by a nonresident entity can only be done through an entity) it needs to meet the provisions of the Foreign Exchange Management Act, in the construction development sector and certain conditions under the Foreign Direct Investment Policy (“**FDI**”). According to the FDI, a nonresident entity has two alternatives to invest in the capital of an Indian company: (i) Automatic Route that doesn’t require approval from Government of India for the investment; or (ii) Government Route, that requires prior approval of the Government of India.

The automatic route is subject to meeting certain restrictions pertaining, inter alia, to the following matters: (a) the investor will be permitted to exit on the earlier of (i) completion of the project, (ii) development of trunk infrastructure, i.e. roads, water supply, street lighting, drainage and sewerage, or (iii) expiry of 3 years (lock-in period); (b) project completion schedule; (c) conformance with local laws and applicable standards; (d) obtaining necessary approvals; (e) supervision by the state government/municipal/local body concerned, and (f) ability to sell developed plots only (developed plots has been defined to mean plots where trunk infrastructure i.e. roads, water supply, street lighting, drainage and sewerage has been made available).

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The Reserve Bank Of India (“**RBI**”) has from time to time, amended certain provisions under the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations (2000), relating to the pricing norms for issuance of shares by an Indian company to persons residing outside India. These regulations include provisions stipulating that the shares of an unlisted company have to be issued at a price not less than the fair valuation of the shares (calculated in accordance with international pricing methodology), in case of issuance on preferential allotment, and such issue price cannot be less than the relevant price. Also, in case of transfer of shares of an unlisted company from resident to non-resident, the relevant price will serve as the minimum price payable by the non-resident to the resident. In the case of transfer of shares of an unlisted company from a non-resident to a resident, the relevant price will serve as the maximum price payable by the resident to the non-resident. Furthermore, certain provisions of the Companies Act, 2013 have also recently been amended, which pertain to compliance by Indian companies in relation to the issue and allotment of shares on rights or preferential basis. These provisions include a new requirement of obtaining a valuation report from a registered value agency where shares are to be issued on a preferential basis.

National Green Tribunal – New Order

The new order by the National Green Tribunal (“**NGT**”) which passed on May 4, 2016, may significantly limit the ability of the prospective purchasers to develop the land in the most efficient way, and may significantly affect our ability to dispose of such asset and complete our strategy relating to our plots in Bangalore. The NGT established that the following areas are to be treated as “no construction zones”: (a) In the case of lakes, 75 meters from the periphery of the water body; (b) in the case of primary storm water drains, 50 meters from the edge of such primary storm water drains; (c) in the case of secondary storm water drains, 35 meters from the edge of such secondary storm water drains; and (d) in the case of tertiary storm water drains, 15 meters from the edge of such tertiary storm water drains.

An appeal was filed before the Supreme Court of India objecting to the new NGT order. Accordingly, the impact of the new NGT order cannot be fully determined until the Supreme Court of India adjudicates upon the matter. The issues and the uncertainty arising upon potential implementation of the new NGT order may impede the disposal of our Bangalore plot.

Master Plan

The local authorities have proposed a revised master plan -2031 (provisional) (under the provisions of Section 9 of the Karnataka Town and Country Planning Act, 1961 (the “**Act**”) for Bangalore under which it is inter alia 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.

The Act does not contemplate any compensation mechanism for persons affected by changes in master plans, as the zoning is supposed to achieve the common good.

Medical Companies

InSightec

The testing, manufacture and sale of InSightec's products are subject to regulation by numerous governmental authorities, principally the FDA, the EEC, and corresponding state and foreign regulatory agencies.

The U.S. Safe Medical Devices Act of 1990 (the "SMDA") includes various provisions which are applicable to each of the existing products of InSightec and may result in the pre-market approval process (a process whereby the FDA approves high risk or a new system that has no predicate devices that have been approved in the past) for such products becoming lengthier and more costly. Under the SMDA, the FDA can impose new special controls on medical products. These include the promulgation of performance standards, post-market surveillance requirements, patient registries, and the development and dissemination of guidelines and other actions as the FDA may deem necessary to provide reasonable assurance and effectiveness.

In June 1993, directive 93/42/EEC for medical devices was adopted by the EEC. In June 1998, this directive replaced the local regulation and ensured free transfer of qualified medical equipment among member states. Medical devices that meet the established standards, receive certification represented by the symbol "CE". There are two types of certifications that are granted: (1) general certification of a company and (2) CE certification for a specific product. InSightec decided to comply with Medical Device Directive 93/42/EEC ("MDD") and with the international standard ISO 13485 entitled "Medical Devices - Quality management systems - requirements for regulatory purposes". InSightec obtained a certification of compliance with the standard in May 2001, and is subject to annual audits by the European Notified Body to renew the certification in accordance with all applicable updates of the standard and the MDD.

The Japanese MHLW (Ministry of Health, Labor, and Welfare) with JPAL (Japan Pharmaceutical Affairs Law) also requires company registration and a device license. InSightec obtained a device license in September 2009. In December 2016 a full registration for was received for Essential Tremor.

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The Chinese CFDA requires the ExAblate to be registered as high risk as well under the relevant regulatory orders. ExAblate has been registered in the Chinese CFDA since July 2013.

The ExAblate has been registered in Canada's Food and Drugs Act and Regulations "Health Canada" since August 2013 and from May 2016 a registration for Essential Tremor was received.

Gamida

In the United States, the FDA regulates biological products under the Federal Food, Drug, and Cosmetic Act, or FDCA, and the Public Health Service Act, or PHS Act, and related regulations. Biological products are also subject to other U.S. federal, state, and local statutes and regulations, as well as non-U.S. statutes and regulations. The FDA and comparable regulatory agencies in state and local jurisdictions and in countries outside the United States impose substantial requirements upon the clinical development, manufacture and marketing of biological products. These agencies regulate research and development activities and the testing, manufacture, quality control, safety, effectiveness, packaging, labeling, storage, distribution, record keeping, reporting, approval, advertising and promotion of our products. These requirements and regulations vary from country to country. Failure to comply with the applicable regulatory requirements at any time during the product development process, including during clinical testing, during the approval process, or after approval, in Israel, the United States and any other country in which Gamida conducts its operations or sells its products may subject us to administrative or judicial sanctions.

Government regulation may delay or prevent marketing of product candidates for a considerable period of time and impose costly procedures upon Gamida's activities. The testing and approval process requires substantial time, effort, and financial resources, and Gamida cannot be certain that the FDA or any other regulatory agency will grant approvals for NiCord, CordIn, Gamida's NK cell product, or any future product candidates on a timely basis, if at all. The FDA's policies and the policies of comparable regulatory authorities in other countries may change and additional government regulations may be enacted that could prevent or delay regulatory approval of Gamida's current product candidates or any future product candidates or approval of new disease indications or label changes. We cannot predict the likelihood, nature or extent of adverse governmental regulation that might arise from future legislative, judicial, or administrative action, either in the United States or elsewhere.

C. ORGANIZATIONAL STRUCTURE

Our significant subsidiaries and companies in which we have a significant interest as of the date of this annual report are as follows:

NAME OF COMPANY	COUNTRY OF ORGANIZATION	DIRECT/INDIRECT OWNERSHIP PERCENTAGE	
Plaza Centers N.V.	The Netherlands	44.9	%(1)
Elscint Holdings and Investment N.V.	The Netherlands	100	%(2)
Elbit Medical Technologies Ltd.	Israel	89	%(3)
Elbit Plaza India Real Estate Holdings Limited	Cyprus	50	%(4)(5)
Elbit Ultrasound (Luxemburg) B.V./S.a r.l.	The Netherlands and Luxemburg	100	%

(1) Approximately 42.7% on a fully diluted basis.

(2) Under liquidation proceedings.

(3) Approximately 58% on a fully diluted basis.

(4) We hold 47.5% of the shares in EPI directly, and an additional 47.5% through PC. For additional information as to the joint venture signed between us and PC regarding EPI, see “Item 4B – Business Overview – Plots in India.”

5% of the equity in EPI was allotted to Mr. Avraham (Rami) Goren who served as our former Executive vice chairman of the Board. The shares allotted are entitled to distribution only following their return of Investment of the Company and PC plus agreed interest.

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D. PROPERTY, PLANTS AND EQUIPMENT

Our operational portfolio consists of various freeholds, leaseholds and other tangible assets. For details as to such real estate portfolio, see “Item 4B – Business Overview”. Below we present information regarding certain tangible fixed assets including leasehold properties that do not form part of our operational portfolio, but rather serve as basis for our and our subsidiaries’ offices and management, as of March 31, 2017.

On December 2017, we signed a lease agreement for approximately 121 square meters of space, including parking spaces, for management and administrative purposes in an office building in Petach Tikva, Israel. The annual aggregate rental fee (including management fees and index linkage pursuant to the lease agreement, and excluding VAT) to be paid by us will be approximately NIS 150,000 (approximately \$43,000).

PC’s headquarters are located in an office located on Bajcsy-Zsilinszky út, Budapest, Hungary. The rental area is 55 square meter plot. The annual aggregate rental fee (including management fees and index linkage pursuant to the lease agreement, and excluding VAT) to be paid by us will be approximately €26,100 (approximately \$31,264) on an annual basis.

On June 29, 2015 Elbit Plaza India Management Services Pvt. Ltd. signed a lease agreement for approximately 70 square meters of office space in Bangalore, Karnataka, India, for its management and administration activities. The term of the lease was until June 14, 2016, and was thereafter renewed by mutual consent of both parties until April 30, 2018. The annual lease payments payable by Elbit Plaza India Management Services Pvt. Ltd. is INR 2,90,400 (approximately \$4,470), with an annual increase in the monthly rental fees of 10%.

ITEM 4A. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

Overview

To date we operate primarily in the following fields of business:

Medical Industries – through our indirect holdings in two companies which operates in the field of life science: (i) InSightec Ltd. (“**InSightec**”) - InSightec operates in the field of development, production, and marketing of treatment-oriented medical systems, based on a unique technological platform combining the use of focused ultrasound and magnetic resonance imaging for the purpose of performing noninvasive treatments in human beings; (ii) Gamida Ltd. (“**Gamida**”) – Gamida operates in the field of research, development and manufacture of products designated for certain cancer diseases.

Plots in India – we have holdings in plots of land in India which are designated for sale (and which were initially designated for residential projects).

Plots in Eastern Europe initially designated for development of commercial centers - plots in Eastern Europe (and in Greece) held by our subsidiary Plaza Centers N.V. (“**PC**”) whose business strategy is to no longer develop commercial centers but to dispose its real estate assets at optimal market conditions.

PC’s financial reports for 2017 indicate the existence of a material uncertainty that casts significant doubt about PC’s ability to continue as a going concern.

Following our sale of the Radisson Hotel Complex in Bucharest, Romania, the Company is no longer directly involved in the hotel industry. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Sale of our holdings in the Radisson complex in Bucharest, Romania.”

Our revenues from the sale of real estate and trading property are subject to the execution and consummation of sale agreements with potential purchasers. In periods when we consummate a sale of a real estate asset we record revenues in substantial amounts and as a result we may experience significant fluctuations in our annual and quarterly results. We believe that period-to-period comparisons of our historical results of operations may not necessarily be meaningful or indicative and that investors should not rely on them as a basis for future performance.

Our functional currency is NIS and our consolidated financial statements are also presented in NIS. Since our revenues and expenses are recorded in various currencies, our results of operations are affected by several inter-related factors, including the fluctuations of the NIS compared to other currencies at the time we prepare our consolidated financial statements.

Financial data included in this discussion were derived from our consolidated financial statements and the analysis herein is based on our general accounting records and published statistical data. Such financial data have been rounded to the nearest thousand or million. Unless otherwise indicated, we have translated NIS amounts into U.S. dollars at an

exchange rate of NIS 3.467 to \$1.00, the representative exchange rate on December 31, 2017, and we have translated € amounts into U.S. Dollars and NIS at the respective exchange rates of \$1.1978 to €1.00 and NIS 4.1526 to €1.00, the representative exchange rates on December 31, 2017.

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The following activities affected our operational results for 2015, 2016 and 2017 and may continue to affect our operational results and cash flow in the coming years.

2018

On March 22, 2018 we announced that EPI signed a revised agreement for the sale of the SPV which holds a plot in Bangalore, India in consideration for approximately EURO 45.8 million. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Agreement to sell a plot in Bangalore, India”.

On March 15, 2018, we announced the Company’s buy-back plan for our Series H Notes. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Notes Buy-back plan.”

On March 12, 2018 we announced that the SEC approved an offer of settlement by the Company regarding concerns of a violations of the books and records and internal accounting controls provisions of the FCPA. See “Item 4- Information on the Company – History and Development of the Company – Recent Events – approval of an Offer of Settlement with the SEC in the matter of Alleged Violations of FCPA”.

On March 9, 2018 we announced a buy-back plan for the Company’s Series I Notes. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Note (Series I) Buy-back plan.”

On March 9, 2018 we announced that Elbit Medical had made an early repayment of its debt to the Company of approximately NIS 151 million (approximately \$ 43.7 million). See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Issuance of a New Series of Notes by Elbit Medical and Payment of Debt from Elbit Medical to the Company.”

On January 15, 2016, we announced that we signed an agreement to waive any of our rights and interests in a special purpose vehicle which holds a land plot in Kochi, India. The total consideration for us is INR 10 Crores (approximately €1.4 million), which will be paid to us upon the closing of the transaction. On March 20, 2018 we announced that the long stop date will be extended to June 30, 2018. See “Item 4 - Information on the Company – Business Overview – Plots in India – Additional information in respect of the Kochi project.”

2017

On December 18, 2017 we announced the completion of the transaction for the sale of our rights in the Radisson Hotel Complex in Bucharest, Romania. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Sale of our holdings in the Radisson Hotel Complex in Bucharest, Romania.”

On November 21, 2017 we announced that PC has completed the sale of the Torun Plaza shopping and entertainment center in Poland (the “**Project**”) to a private investment fund for a purchase price reflecting a total forecasted value for the Project of Euro 70.6 million (approximately \$ 84 million). See “Item 4- Information on the

Company – History and Development of the Company – Recent Events – Sale of Torun Plaza”.

On October 2, 2017 we announced that PC’s has concluded the transaction with an international investor, NEPI Rockcastle. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Sale of land plot in Budapest, Hungaria.”

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On September 27, 2017, we announced that the district court in Israel approved in principle a settlement with the plaintiffs in a November 1999 claim initiated against us and certain other third parties, including former directors of the Company and Elscint Ltd. (our former subsidiary), in connection with the change of control of our Company and Elscint and the acquisition of the hotel businesses and the Arena Commercial Center in Israel by Elscint in September 1999 from Europe Israel (our former controlling shareholder) (Gadish et al v. Elscint et al). This lawsuit was later certified in part as a class action. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Gadish Settlement”.

On August 31, 2017, we announced, in further to our announcement dated June 21, 2017, regarding the sale of Toruń Plaza commercial center in Poland, that the completion of the transaction has been postponed and is now expected to conclude in the fourth quarter of this year.

On August 7, 2017, we announced that PC has completed the sale of a plot in Timisoara, Romania, for €7.25 million and a plot in Constanta, Romania, for €1.3 million. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Completing the sale of plots in Timisoara and Constanta, Romania, by PC”.

On March 2, 2017, we announced that PC completed the sale of Belgrade Plaza shopping and entertainment center, to a subsidiary of BIG Shopping Centers Ltd. On September 14, 2017 we announced that Plaza has received a further payment of €13.4 million from the Purchaser. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Sale of Belgrade Plaza Commercial Center”.

On February 1, 2017, we announced that PC completed the sale of Suwałki Plaza shopping and entertainment center in Poland to an investment fund for €42.3 million (approximately \$45 million). See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Sale of Suwalki Plaza Commercial Center.”

2016

On December 6, 2016, we announced that PC has acquired a bank loan of approximately €10 Million (approximately \$10.5 million), which is held against PC’s plot in Romania, for a total consideration of €1.35 million (approximately \$1.43 million). See “Item 4 - Information on the Company – History and Development of the Company – Recent Events –“Acquiring bank loan for PC’s plot in Romania.”

On December 6, 2016, we announced, that we and Klepierre S.A. (“**Klepierre**”) reached a settlement relating to the International Court of Arbitration’s ruling on July 7, 2016, with respect to a transaction agreement between the parties, according to which PC is liable for an indemnification claim totaling approximately €2 million (approximately \$2.1 million), including costs arising from the legal process. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Klepierre Settlement.”

On December 1, 2016, we announced the proposed amendments to the Restructuring Plan of PC, that the holders of PC Notes have approved the proposed amendments by the required majorities. See “Item 4 – Information on the Company – History and Development of the Company – Recent Events – Amendment of the Restructuring Plan of PC.”

On September 15, 2016 we announced that PC completed the sale of Riga Plaza shopping and entertainment center in Riga, Latvia, to a global investment fund. The agreement reflects a value for the business of €93.4 million (approximately \$98.6 million) (reflecting 100%). See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Sale of Riga Plaza Center.”

On September 14, 2016 we announced that it completed the sale of the shares in Zgorzelec Plaza commercial Center in Poland. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Debt Repayment and Sale of Zgorzelec Plaza Commercial Center.”

On June 1, 2016 and August 18, 2016, we approved two new programs to repurchase up to NIS forty (40) million (approximately \$10.4 million) and NIS 50 million (approximately \$13.3 million), respectively of the Notes, which are traded on the Tel Aviv Stock Exchange. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Notes Repurchase Program.”

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On August 2, 2016, we announced that an Indian subsidiary (“**SPV**”) signed a Joint Development Agreement (“**JDA**”) relating to its 74.7 acre plot in Chennai, India. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Joint Development Agreement with respect to our plot in Chennai, India”.

On August 1, 2016, we announced that we received from the ILA an amount of approximately NIS 7 million following the termination of our lease agreement with respect to a plot near Tiberius, Israel. See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Termination of Lease Agreement – Plot in Tiberius”.

On June 29, 2016, we announced that PC completed the sale of the MUP plot and related real estate in Belgrade, Serbia, for €15.75 million (approximately \$16.6 million). See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Sale of Plot in Belgrade, Serbia”.

On June 28, 2016, we announced that PC signed an agreement for the sale of a 20,700 square meters Plot of land in Lodz, Poland, to a residential developer, for €2.4 million. See “Item 4 – Information on the Company – History and Development of the Company – Recent Events – Sale of Plot in Lodz, Poland”.

On March 31, 2016, we announced that PC has completed the sale of its subsidiary holding Liberec Plaza, a shopping and entertainment center in the Czech Republic, for €9.5 million (approximately \$10 million). See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Sale of Liberec Plaza Commercial Center”.

2015

On December 15, 2015, we announced, that our subsidiaries, S.C. Bucuresti Turism S.A. (“**BUTU**”) and Plaza Centers N.V. (“**PC**”) have signed a transaction for the sale of the Cina property in Bucharest, Romania in consideration for €4 million. The expected net proceeds, after related taxes and transaction costs, is approximately €2.26 million for Plaza and approximately €1.3 million for BUTU.

On November 4, 2015, we announced that we successfully closed a transaction for sell of Elbit Medical shares. At closing, we sold and transferred 41,000,000 Elbit Medical Shares (the “**Sold Shares**”) to a third party (the “**Purchaser**”).

In September 2015, we announced that our subsidiary EPI obtained a commitment for the purchase of the Chennai, India project which was due to be completed by January 15, 2016 (the “**Long Stop Date**”) for a total net consideration of INR 167 Crores (approximately €23 million). In line with the sale transaction agreement, since the local Indian partner (the “**Partner**”) failed to complete the transaction by the Long Stop Date, EPI exercised its right and received the Indian partner’s 20% holdings in the Indian company, Kadavanthara Builders Private Limited.

On September 29, 2015, we announced that PC won a tender to buy the loan in respect of the Liberec Plaza commercial center in the Czech Republic. The €20.4 million bank loan was granted by two commercial banks which PC has agreed to buy for €8.5 million reflecting a discount of 58%.

On June 11, 2015, we announced that we closed the Share Purchase Agreement with Astrid JV Sarl with regards to the sale of our entire (100%) holdings in our wholly owned subsidiary which owns and operates our hotels in

Antwerp, Belgium. The asset value reflected in the transaction was approximately €48 million for both hotels subject to working capital and other adjustments as specified in the agreement. The total net consideration paid to the Company's wholly owned subsidiary, following the repayments of the target's banks loan, and the aforementioned adjustments, was approximately €27 million.

On May 13, 2015, we announced that PC reached an agreement to sell Koregaon Park Plaza the retail, entertainment and office scheme located in Pune, India for approximately INR 250 crore. The net cash proceeds (after repayment of the related bank loan, other liabilities and transaction costs) from the sale were INR 51.6 crore (approximately EURO 11 million).

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On February 18, 2015, the shareholders of our subsidiary Bucuresti Turism S.A. (“**BUTU**”), whose shares were traded on the RASDAQ market, resolved, amongst other things, that BUTU will not take the necessary legal actions for the shares issued by it to be admitted for trading on a regulated market or to be listed on an alternate trading system. Our subsidiary which is the direct owner of the shares in BUTU voted in favor of the above resolution. On June 9, 2015, we announced that shareholders holding 21.48% of BUTU exercised their right to withdraw from BUTU. The total amount paid by BUTU for such withdrawal requests is approximately €13.9 million. An amount of €2 million was financed by BUTU from its own resources and the remainder in the amount of approximately €11.9 million was financed by us through a shareholder loan granted to BUTU. Following the expiration of the withdrawing term and following the payment of the aforesaid amount to the withdrawing shareholders, BUTU was delisted from the RASDAQ and all the shares acquired by BUTU during the delisting process were cancelled and the share capital of BUTU was decreased accordingly. Following the share capital decrease, we hold (indirectly) approximately 98% of BUTU’s share capital.

Critical Judgment in Applying Accounting Policies and Use of Estimates

General

In the application of our accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, and 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. In addition, in the process of applying our accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts recognized in our consolidated financial statements.

The following are the critical judgments and key sources of estimation that management has made while applying our accounting policies and that have the most significant effect on the amounts recognized in our consolidated financial statements.

Use of estimates

Write-down of trading properties

The recognition of a write down to our trading properties is subject to a considerable degree of judgment and estimates, the results of which, when applied under different principles, conditions and assumptions, are likely to result in materially different results and could have a material adverse effect on our consolidated financial statements.

This valuation becomes increasingly difficult as it relates to estimates and assumptions for projects in the preliminary stage of development in addition to the lack of transactions in the real estate market in the CEE and India for same or similar properties.

We are responsible for determining the net realizable value of our trading properties. In determining net realizable value of the vast majority of trading properties, we utilize the services of an independent third party recognized as a specialist in valuation of properties.

For special assumption see note 4B, and note 4C(1)(e) to our consolidated financial statements included elsewhere in this report.

Litigation and other contingent liabilities

We are involved in litigation, tax assessments and other contingent liabilities in substantial amounts including class actions concerns of a violation of the FCPA and potential legal proceedings (see note 4(C)(1), 13A and note 13B to our consolidated financial statements included elsewhere in this report). We recognize a provision for such litigation when it is probable that we will be required to settle the obligation, and the amount of the obligation can be reliably estimated. We evaluate the probability and outcome of such litigation based on, among other factors, legal opinions and consultation, and past experience. The outcome of such contingent liabilities may differ materially from management's estimation. We periodically evaluate these estimations and makes appropriate adjustments to the provisions recorded in the consolidated financial statements. In addition, as facts concerning contingencies become known, we reassess our position and make appropriate adjustments to the consolidated financial statements. In rare circumstances, when the case is unique, complicated and involves prolong and uncommon proceedings, we cannot reliably predict the outcome of said case.

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Accounting for income taxes

The calculation of our tax liabilities involves uncertainties in the application and/or interpretation of complex tax laws, tax regulations and tax treaties, in respect of various jurisdictions in which we operate and which vary from time to time. In addition, tax authorities may interpret certain tax issues in a manner different than that which we adopted. Should such contrary interpretive principles be adopted upon adjudication of such cases, the tax liabilities may be significantly increased. In calculating deferred taxes, we are required to evaluate: (i) the probability of the realization of our deferred income tax assets against future taxable income, and (ii) the anticipated tax rates in which our deferred taxes would be utilized.

Potential penalties, guarantees issued and expired building permits

Penalties and guaranties are part of the ongoing construction activities, and result from obligations we have towards third parties such as banks and municipalities. Our management is required to provide estimations regarding risks evolving from penalties that we may have to settle. In addition, our operations in the construction area are subject to valid authorizations and building permits from local authorities. Under certain circumstances we are required to determine whether the building permits we obtain have not yet expired. It may occur that building permits have expired which might impose on us additional costs and expenses, or delays, and may even cause us to abandon projects under construction. For additional information see also note 4(C) (1) to our consolidated financial statements included elsewhere in this report.

Fair value of hotel

Our fair value of the Radisson Hotel Complex is determined based upon the discounted cash flows (“DCF”) approach. The assumptions underlying this model, as well as the ability to support them by means of objective and reasonable market benchmarks so they can be viewed as assumptions that market participants may have used, are significant in determining the fair value of the hotels. The predominant assumptions that may cause substantial changes in the fair value are: the capitalization rate, exit yield rate, the expected net operating income of the hotel (which is mainly affected by the expected average room rate and the occupancy rate as well as the level of operational expenses of the hotels) the level of refurbishments reserve and the capital expenditures that need to be invested in the hotel. Our fair value of the Radisson Hotel Complex is performed by independent appraisals with a local knowledgeable in the hotels business.

Critical judgment in applying accounting policies

De facto Control

As for December 31, 2017 and 2016, we held approximately 44.9% of PC's share capital; DK hold approximately 26.3% of PC's share capital and the rest is widely spread through the public. We are of the opinion that based on the absolute size of our holdings, the relative size of the other shareholdings and due to the fact that PC's directors are appointed by a regular majority in PC's general meeting of shareholders, we have a sufficiently dominant voting interest to meet the power criterion, therefore we have de facto control over PC.

New accounting standards and interpretation issued that are not yet effective

For information on recently issued accounting standards, amendments to standards and clarifications which are applicable or expected to be applicable, to us, and which have not yet become effective see note 2X to our annual consolidated financial statements included elsewhere in this report.

A. Operating Results

Presentation method of financial statements

We are involved in investments in a wide range of different activities. Accordingly, management believes that its income statements should be presented in the "single-step form". According to this form, all costs and expenses (including general and administrative and financial expenses) should be considered as continuously contributing to the generation of overall income and gains. We also believe that our operating expenses should be classified by a function of: (i) those directly related to each revenue source (including general and administrative expenses and selling and marketing expenses relating directly to each operation); and (ii) overhead expenses which serve the business as a whole and are to be determined as general and administrative expenses.

PC's strategy in respect of its commercial centers was to dispose of the commercial centers upon completion, subject to certain exceptions. However, as of this date of this report, PC's strategy is to solve existing bureaucratic or legal issues and dispose its real estate assets. The Group is unable to clearly identify its actual operating cycle with respect to trading property. Under such circumstances, we decided to utilize for accounting reporting purposes an assumed operating cycle of 12 months. Revenues from these commercial centers are mainly derived from their disposal to third parties, while until a disposal occurs we collect rental income from our completed commercial centers. Therefore, rental income from commercial centers (from the first day of their operations until the sale thereof) may not be sustainable in the future upon PC selling the commercial centers as part of its business cycle.

Our revenues from the sale of commercial centers and other real estate properties are subject to the execution and consummation of sale agreements with potential purchasers. In periods when we consummate a sale of a real estate asset we record revenues in substantial amounts and as a result we may experience significant fluctuations in our annual and quarterly results. We believe that period-to-period comparisons of our historical results of operations may not necessarily be meaningful or indicative and that investors should not rely on them as a basis for future performance.

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All of the hotel's results are presented as discontinued operations. See "Item 4 - Information on the Company – History and Development of the Company – Recent Events – Sale of our holdings in the Radisson complex in Bucharest, Romania".

Translation of statements of income of foreign operations

The majority of our businesses, which operate in various countries, report their operational results in their respective functional currency which differs from the NIS (our reporting and functional currency). We translate our subsidiaries' results of operations into NIS based on the average exchange rate of the functional currency against the NIS. Therefore, a devaluation of the NIS against each functional currency would cause an increase in our reported revenues and the costs related to such revenues in NIS while an increase in the valuation of the NIS against each functional currency would cause a decrease in our revenues and costs related to such revenues in NIS.

Statements of income

The following table presents our statements of income for each of the three years ended December 31, 2017, 2016 and 2015:

	Year ended December 31			2017
	2017	2016	2015	Convenience translation (Note 2D)
	(in thousand NIS)			U.S.\$'000
	(Except for per-share data)			
Revenues and gains				
Revenues				
Revenues from sale of commercial centers	782,829	126,019	200,078	225,794
Total revenues	782,829	126,019	200,078	225,794
Gains and other				
Rental income from Commercial centers	31,997	66,417	83,849	9,229
Gain from sale of investees	-	-	6,712	-
Total gains	31,997	66,417	90,561	9,229
Total revenues and gains	814,826	192,436	290,639	235,023
Expenses and losses				
Commercial centers	805,523	159,806	290,360	232,369
General and administrative expenses	14,930	10,257	16,678	4,306

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Share in losses of associates, net	20,202	54,313	42,925	5,827
Financial expenses	112,296	124,354	207,721	32,390
Financial income	(1,811)	1,056	(2,154)	(522)
Change in fair value of financial instruments measured at fair value through profit and loss	-	(2,707)	2,568	-
Write-down, charges and other expenses, net	101,120	162,318	99,292	29,166
	1,052,360	509,397	(657,390)	303,536
Profit (loss) before income taxes	(237,534)	(316,961)	(366,751)	(68,513)
Income taxes expenses (tax benefits)	11,244	3,020	(4,402)	3,243
Profit (loss) from continuing operations	(248,778)	(319,981)	(371,153)	(71,756)
Profit (loss) from discontinued operations, net	(152,903)	7,913	56,231	(44,102)
Profit (loss) for the year	(401,681)	(312,068)	(314,922)	(115,858)

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	Year ended December 31			2017
	2017	2016	2015	Convenience translation (Note 2D) U.S.\$'000
	(in thousand NIS)			
	(Except for per-share data)			
Attributable to:				
Equity holders of the Company	(338,034)	(194,830)	(186,150)	(97,500)
Non-controlling interest	(63,647)	(117,238)	(128,772)	(18,358)
	(401,681)	(312,068)	(314,922)	(115,858)
Profit (loss) from continuing operations				
Equity holders of the Company	(185,132)	(202,724)	(242,709)	(53,398)
Non-controlling interest	(63,647)	(117,257)	(128,463)	(18,358)
	(248,779)	(319,981)	(371,172)	(71,756)
Profit (loss) from discontinued operation, net				
Equity holders of the Company	(152,903)	7,893	56,540	(44,102)
Non-controlling interest	-	20	(309)	-
	(152,903)	7,913	56,231	(44,102)
Earnings (loss) per share - (in NIS)				
Basic earnings (loss) per share:				
From continuing operation	(20.14)	(22.05)	(21.73)	(5.80)
From discontinued operations	(16.64)	0.85	1.48	(4.80)
	(36.78)	(21.20)	(20.25)	(10.60)
Diluted earnings (loss) per share:				
From continuing operation	(20.14)	(22.05)	(21.73)	(5.80)
From discontinued operations	(16.64)	0.85	(1.48)	(4.80)
	(36.78)	(21.20)	(20.25)	(10.60)

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2017 compared to 2016

Income - Revenues and Gains

Total income (revenues and gains) in 2017 amounted to NIS 815 million (\$235 million), compared to NIS 192 million in 2016.

Total revenues in 2017 amounted to NIS 783 million (\$225 million), compared to NIS 126 million in 2016. The decrease is mainly attributable to:

Revenues from the sale of commercial centers amounted to NIS 783 million (\$225 million) in 2017 compared to NIS 126 million in 2016. Our revenues in 2017 were attributable to the consummations of transactions for the sale (i) of Salwaki Plaza, Torun Plaza, Sport star Plaza and Timisoara plaza in Poland , Constanta Plaza in Romania, Shumen Plaza in Bulgaria and Arena Plaza Extension in Hungary. In 2016, such revenues were attributable to the sale of the Liberec Plaza in the Czech Republic in Serbia, Romania and Poland.

Total gains in 2017 amounted to NIS 32 million (\$9 million), compared to NIS 66 million in 2016.

(ii) The decrease of total gains in 2017 compared to those in 2016, mainly attributable to Rental income from commercial centers as a result of selling the commercial centers as detailed above.

Expenses and losses

Our expenses and losses in 2017 amounted to NIS 1,052 million (\$303 million), compared to income NIS 509 million in 2016. Set forth below is an analysis of our expenses and losses:

Expenses of commercial centers amounted to NIS 805 million (\$232 million) in 2017, compared to NIS 160 million in 2016. Such increase was mainly attributable to: (i) an increase in the amount of NIS 659 million in the cost of trading property sold, that was partially offset by. (ii) a decrease in operational expenses of commercial centers in the amount of NIS 8 million mainly due to the sales of the commercial centers during 2016 and 2017.

(ii) General and administrative expenses increased to NIS 15 million (\$4 million) in 2017, compared to NIS 10 million in 2016. The increase was mainly attributable to additional costs incurred by the Company due to the delay in filling of the Company's annual financial statements for December 31, 2016 and the replacement of its

auditors.

Share in losses of associates, net decreased to NIS 20 million (\$6 million) in 2017, compared to NIS 54 million in (iii) 2016. The decrease is mainly attributable to the Company's share in InSightec's losses and in Gamida's losses of which were taken in 2017 only in amounts that set the investments in InSightec and Gamida into zero.

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Financial expenses decreased to NIS 112 million (\$32 million) in 2017, compared to NIS 124 million in 2016. Such decrease of approximately NIS 12 million is mainly due to the followings:

a. Decrease in loss from foreign currency exchange rates and other in the amount of NIS 23 million (\$7 million). The exchange rate losses are mainly attributable to the effect of the variation in the exchange rate between the € and NIS on the PC Notes, which are recorded in NIS and are measured in €, as well as a decrease in the level of debt due to repayment of notes and on the company € loans which are recorded in € and are measured in NIS.

(vi)

b. Decrease in the interest and CPI-linked expenses in the amount of NIS 67 million (\$19 million) which was mainly attributable to a decline in PC debt due to the realization of assets and the repayment of loans in respect thereof, as well as early repayments of notes. Off set by:

c. In 2016 there was Gain from a buyback of bank loans and Notes (as mention above) in the amount of NIS 78 million.

Write-down, charges and other expenses, net, decreased to NIS 101 million (\$29 million) in 2017, compared to NIS 162 million in 2016. The write-down was mainly attributable to the write-down in PC's trading property in (vii) Eastern Europe and India in the amount of NIS 90 million (\$26 million) in 2017 compared to NIS 190 million in 2016. The following table provides information in respect of the write-down of the trading property in each of the years ended on December 31, 2017 and 2016:

Project name (City, Country)	Year ended	
	2017	2016
	(In thousand NIS)	
Non-Operational:		
Chennai (Kadavantara, India)	7,879	24,564
Banglore (Ayyas, India)	35,178	-
Helios Plaza (Athens, Greece)	-	2,992
Lodz Plaza (Lodz, Poland)	4,983	1,618
Krusevac (Krusevac, Serbia)	1,661	809
Casa radio (Bucharest, Romania)	40,305	130,376
Constanta (Constanta, Romania)	-	3,445
Ciuc (Ciuc, Romania)	-	3,842
Timisoara (Timisoara, Romania)	-	10,514
Lodz residential (Lodz, Poland)	415	
Kielce (Kielce, Poland)	-	4,448

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BAS (Romania)	-	3,235
Arena Plaza extention (Budapest, Hungary)	336	3,749
Others	-	-
	90,757	189,592
	90,757	189,592

The above expenses for 2016 were offset by income of NIS 35 million which was attributable mainly to firstly consolidation of the Bangalore project in India.

As a result of the foregoing factors, we recognized a loss before income tax in the total amount of NIS 238 million (\$68.6 million) in 2017, compared to loss before income tax in the total amount of NIS 317 in 2016.

Income taxes expenses amounted to 11 million (\$3 million) related to previous years in 2017 compared NIS 3 million in 2016.

The above resulted in a loss from continuing operations in the amount of NIS 249 million (\$72 million) in 2017, compared to a loss from continuing operations in the amount of NIS 320 million in 2016.

Loss from discontinued net operation amounted to NIS 153 (\$44 million) in 2017 compared profit from discontinued net operation amounted to NIS 8 million in 2016. The loss in 2017 was attributable mainly to realization of foreign currency translation reserves to profit and loss in the total amount of NIS 213 million .The discontinued operations was attributable to our former hotel operations.

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The above resulted in a loss of NIS 402 million (\$116 million) in 2017, of which a loss of NIS 338 million (\$97 million) was attributable to our equity holders and a loss in the amount of NIS 64 million (\$18 million) was attributable to the non-controlling interest. Loss of NIS 312 million in 2016, of which a loss of NIS 195 million was attributable to our equity holders and a loss in the amount of NIS 117 million was attributable to the non-controlling interest.

The deficit in the shareholders' equity attributable to our equity holder as of December 31, 2017 amounted to NIS 194 million (\$56 million). Our total deficit in the shareholder equity as of December 31, 2017 amount to NIS 149 million (\$43 million).

The following table provides supplemental information of our results of operations per segment, for the year ended December 31, 2017 (in NIS million):

Segment	Commercial Centers	Medical Industries	India plots	Other and Allocations	Total
Revenues	783	117	-	(117)	783
Rental income from commercial centers	32	-	-	-	32
Total revenues and gains	815	117	-	(117)	815
Costs and expenses	806	252	-	(252)	806
Other expenses (income), net	46	-	56		102
Segment profit (loss)	(37)	(135)	(56)	135	(93)
Financial (expenses) income, net	(5)	-	-	-	(5)
Share in losses of associates, net	-	(15)	-	(5)	(20)
Unallocated general and administrative expenses					(15)
Unallocated other expenses					(1)
Unallocated financial expenses					(107)
Financial income					(2)
Changes in fair value of financial instruments measured at FVTPL					-
Loss before income taxes					(238)
Income taxes					(11)
Loss from continuing operations					(249)
Income from discontinued operation					(153)
Loss for the year					(402)

2016 compared to 2015*Income - Revenues and Gains*

Total income (revenues and gains) in 2016 amounted to NIS 192 million, compared to NIS 290 million in 2015.

Total revenues in 2016 amounted to NIS 126 million, compared to NIS 200 million in 2015. The decrease is mainly attributable to:

- (i) Revenues from the sale of commercial centers amounted to NIS 126 million, in 2016 compared to NIS 200 million in 2015. Our revenues in 2016 were attributable to consummations of transaction for the sale of the Liberec Plaza in Czech Republic center and plots in Serbia, Romania and Poland. In 2015, such revenues were attributable to sale of Koregon commercial center in India and plots in Romania and Poland.

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(iii) Total gains and other in 2016 amounted to NIS 66 million, compared to NIS 84 million in 2015. Set forth below is an analysis of our gains and other:

a. Rental income from commercial centers decreased to NIS 66 million, in 2016 compared to NIS 84 million in 2015, mainly as a result of: selling the Koregaon Park commercial center in May 2015, the Liberece Plaza commercial center in March 2016 and the sell to the bank of the Zgorzelec Plaza commercial center in September 2016.

b. Gain from a sale of investee companies decreased to nil in 2016, compared to NIS 7 million in 2015. The gain in 2015 is attributable to the closing of Gamida's investment rounds with Novartis, as described above.

Expenses and losses

Our expenses and losses in 2016 amounted to NIS 509 million, compared to income NIS 657 million in 2015. Set forth below is an analysis of our expenses and losses:

Expenses of commercial centers amounted to NIS 160 million in 2016, compared to NIS 290 million in 2015. Such decrease was mainly attributable to (i) decrease in the amount on NIS 115 million in the cost of trading property sold. (ii) Decrease in operational expenses of commercial centers in the amount of NIS 15 million mainly due to the sale Liberece Plaza and Zgorzelec Plaza commercial centers during 2016 and the Koregaon Park commercial center during 2015.

(iii) General and administrative expenses decreased to NIS 10 million in 2016, compared to NIS 17 million in 2015. The decrease was mainly attributable to the efficiency measures taken to reduce the general and administrative costs in our headquarters.

(iv) Share in losses of associates, net increased to NIS 54 million in 2016, compared to NIS 43 million in 2015. The increase is mainly attributable to the sale of PC's 50% shareholding in in the commercial center in Riga, Latvia in September, 2016.

(v) Financial expenses decreased to NIS 124 million in 2016, compared to NIS 208 million in 2015. Such decrease of approximately NIS 84 million is explained mainly by follows:

a. Gain from a buyback of bank loans and Notes (as mention above) in 2016 in the amount of NIS 78 compared to NIS 55 gain in 2015;

b.

Decrease in interest and CPI-linked expenses in our headquarters of NIS 16 million as a result of the decrease in the level of our corporate debts following partial repayment of bank loan and buyback of debenture.

Decrease in loss from foreign currency translation exchange and other in the amount of NIS 44 million. The c. exchange rate losses are mainly attributable to the effect of the variation in the exchange rate between the € and NIS on the PC Notes, which are recorded in NIS and are measured in €.

Decrease in the interest and CPI-linked expenses of PC in the amount of NIS 10 million which was mainly d. attributable to capitalization of finance expenses on qualified asset and decrease in PC's interest on bank loans due to the sale of commercial centers during 2016 and 2015;

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(vi) Losses from changes in fair value of financial instruments (including derivatives, embedded derivatives and marketable securities) amounted to NIS 3 million in 2016 compared to gain in the amount of NIS 5 in 2015.

Write-down, charges and other expenses, net, increased to NIS 162 million in 2016, compared to NIS 99 million in 2015. The write down was mainly attributable to the write-down in PC's trading property in Eastern Europe (vii) and India in the amount of NIS 196 million in 2016 compared to NIS 87 million in 2015. The following table provides information in respect of the write down of the trading property in each of the years ended on December 31, 2016 and 2015:

Project name (City, Country)	Year ended	
	2016	2015
	(In thousand NIS)	
Operational:		
Koregaon Park (Pune, India)	-	6,547
Zgorzelec (Zgorzelec, Poland)	-	6,233
Liberec (Liberec, Czech Republic)	-	26,466
	-	39,246
Non-Operational:		
Chennai (Kadavantara, India)	24,564	-
Helios Plaza (Athens, Greece)	2,992	1,913
Sportstar Plaza Visnjicka (Belgrade, Serbia)	-	(23,814)
Lodz Plaza (Lodz, Poland)	1,618	9,460
Krusevac (Krusevac, Serbia)	809	3,401
Casa radio (Bucharest, Romania)	130,376	36,139
Constanta (Constanta, Romania)	3,445	1,701
Ciuc (Ciuc, Romania)	3,842	-
Timisoara (Timisoara, Romania)	10,514	1,110
Lodz residential (Lodz, Poland)	-	9,070
Kielce (Kielce, Poland)	4,448	723
BAS (Romania)	3,235	-
Arena Plaza extention (Budapest, Hungary)	3,749	5,323
Others	-	2,716
	189,592	47,742
	189,592	86,988

The above expenses for 2016 were offset by income of NIS 32 million which was attributable mainly to firstly consolidation of the Bangalore project in India.

As a result of the foregoing factors, we recognized a loss before income tax in the total amount of NIS 317 million in 2016, compared to loss before income tax in the total amount of NIS 367 in 2015.

Income taxes expenses amounted to 3 million in 2016 compared to tax benefits amounted to NIS 6 million in 2015.

The above resulted in a loss from continuing operations in the amount of NIS 319 million in 2016, compared to a loss from continuing operations in the amount of NIS 371 million in 2015.

Profit from discontinued net operation amounted to NIS 8 million in 2016, compared to loss from discontinued net operation amounted to NIS 56 million in 2015. In 2016 the discontinued operations was attributable to our former hotel operations. In 2015, the discontinued operations was attributable to our former Mango operational hotel operations.

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The above resulted in a loss of NIS 312 million in 2016, of which a loss of NIS 195 million was attributable to our equity holders and a loss in the amount of NIS 117 million was attributable to the non-controlling interest. Loss of NIS 315 million in 2015, of which a loss of NIS 186 million was attributable to our equity holders and a loss in the amount of NIS 129 million was attributable to the non-controlling interest.

The deficit in the shareholders' equity attributable to our equity holder as of December 31, 2016 amounted to NIS 88 million. Our total shareholder equity as of December 31, 2016 amount to NIS 49 million.

The following table provides supplemental information of our results of operations per segment, for the year ended December 31, 2016 (in NIS million):

Segment	Commercial Centers	Medical Industries	India plots	Other and Allocations	Total
Revenues	126	96	-	(96)	126
Rental income from commercial centers	84	-	-	(18)	66
Total revenues and gains	210	96	-	(114)	192
Costs and expenses	174	216	-	(230)	160
Other expenses (income), net	171	-	(9)	-	162
Segment profit (loss)	(135)	(120)	9	116	(130)
Financial (expenses) income, net	60	-	-	-	60
Share in losses of associates, net	-	(8)	-	(46)	(54)
Unallocated general and administrative expenses					(10)
Unallocated other expenses					(1)
Unallocated financial expenses					(185)
Financial income					(1)
Changes in fair value of financial instruments measured at FVTPL					3
Loss before income taxes					(317)
Income taxes					(3)
Loss from continuing operations					(320)
Income from discontinued operation					8
Loss for the year					(312)

B.Liquidity and Capital Resources**General**

Our capital resources include the following: (a) proceeds from sales of trading property and real estate assets subject to market condition (b) lines of credit obtained from banks, and others; (c) proceeded from sales of shares in the Group held companies in the medical field (d) available cash and cash equivalents.

Such resources are generally used for the following purposes:

- Interest and principal payments on the notes and loans (including purchase of our debts);
- (i)
and
- (ii) Payment of general and administrative expenses;

See ” - Overview” above for information on the major transactions and events carried out by us in 2015, 2016 and 2017, which resulted in material changes in our liquidity and capital resources.

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Liquidity

PC's strategy in respect of its commercial centers was to dispose of the commercial centers upon completion, subject to certain exceptions. However, as of this date of this report, PC's strategy is to solve existing bureaucratic or legal issues and dispose its real estate assets. Therefore, we do not foresee significant investments by us in the development of our real estate business in the years to come. Our medical business, however, require a substantial amount of cash in order to finance their R&D and other expenses. The major source to finance these operations will be by means of equity financing by other shareholders in these companies (both existing and new shareholders) while we will consider to partially participate (through our subsidiary – Elbit Medical) in these rounds subject to our cash resource at the that time as well as other factors.

The followings list describes major transactions and events in 2017, 2016 and 2015, which resulted in material changes in our liquidity:

Sources of Cash from Major Transactions and Events:

On March 22, 2018 we announced that EPI signed a revised agreement for the sale of the SPV which holds a plot in Bangalore, India in consideration for approximately EURO 45.8 million. See "Item 4 - Information on the Company – History and Development of the Company – Recent Events – Agreement to sell a plot in Bangalore, India".

On March 12, 2018 we announced that the SEC approved an offer of settlement that was submitted to it by the Company regarding concerns of a violations of the books and records and internal accounting controls provisions of the FCPA. See "Item 4- Information on the Company – History and Development of the Company – Recent Events - Approval of an offer of Settlement with the SEC in the matter of Alleged Violations of FCPA"

On February 2018 Elbit Medical completed a public offering of a new series of notes. The trust deed of the notes includes, *inter alia*, provisions prohibiting Elbit Medical from distributing dividends until full repayment of the notes, unless it deposit in the trust account sums in the amount of the outstanding balance of the notes.

On February 28, 2018 our Board of Directors approved a new plan for the repurchase of the Company's Series I Notes, for a total consideration of up to NIS 50 million (approximately \$ 14.3 million). On March 9, 2018 we announced that the Company's buy-back plan for its Series I Notes, approved by the Board of Directors on February 28, 2018, had been completed in the total amount of NIS 49 million. See "Item 4- Information on the Company – History and Development of the Company – Recent Events – Notes Buy-back plan"

On February 19, 2018 we announced that Elbit Medical completed a public offering of NIS 180 par value notes convertible into ordinary shares of Elbit Medical and secured by a pledge on a portion of Elbit Medical's holdings in

InSightec and Gamida. The proceeds (in the amount of NIS 180 million) were mainly used by Elbit Medical to repay its debt to the Company in the amount of approximately NIS 150 million. See "Item 4- Information on the Company – History and Development of the Company – Recent Events – Issuance of a New Series of Notes by Elbit Medical and Payment of Debt from Elbit Medical to the Company"

On January 17, 2018, we announced that the district court in Israel granted its final approval to a settlement with the plaintiffs in a November 1999 claim initiated against us and certain other third parties, including former directors of the Company and Elscint Ltd. (our former subsidiary), in connection with the change of control in our Company and in Elscint and the acquisition of the hotel businesses and the Arena Commercial Center in Israel by Elscint in September 1999 from Europe Israel (our former controlling shareholder) (Gadish et al v. Elscint et al). See "Item 4- Information on the Company – History and Development of the Company – Recent Events - Gadish Settlement".

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2017

On December 19, 2017, we announced that we completed the sale of our holdings in a SPV that held the Radisson Hotel Complex in Bucharest, Romania based on a property value of Euro 169.2 million so that the net proceeds received by the SPV was approximately Euro 81 million. €8 million were deducted from the net proceeds as it was used to finance a vendor loan which has been provided by the SPV to the purchaser for a period of three years, bearing interest at a rate of 5% per annum. See "Item 4 - Information on the Company – History and Development of the Company – Recent Events Sale of our holdings in the Radisson complex in Bucharest, Romania"

On August 7, 2017, we announced that PC has completed the sale of a plot in Timisoara, Romania, for €7.25 million (approximately \$7.65 million) and a plot in Constanta, Romania, for €1.3 million (approximately \$1.37 million). See "Item 4- Information on the Company – History and Development of the Company – Recent Events – Completing the sale of plots in Timisoara and Constanta, Romania, by PC"

On November 21, 2017 we announced that PC has completed the sale of the Torun Plaza shopping and entertainment center in Poland (the "**Project**") to a private investment fund for a purchase price reflecting a total forecasted value for the Project of Euro 70.6 million (approximately \$ 84 million). See "Item 4- Information on the Company – History and Development of the Company – Recent Events –Sale of Torun Plaza".

On October 2, 2017 PC's subsidiary concluded a transaction with an international investor, NEPI Rockcastle (the "**Buyer**"), regarding the termination of land use rights and a preliminary easement agreement which created certain easement rights over the Arena Plaza plot. In consideration for the net sum of EUR 2.5 million (NIS 10.4 million) and recorded revenue in the amount of EUR 2.5 million (NIS 10.4 million). See "Item 4- Information on the Company – History and Development of the Company – Recent Events – Sale of Land plot in Budapest, Hungary"

On March 2, 2017 we announced that PC has completed the sale of Belgrade Plaza commercial center to BIG Shopping Centers Ltd. See "Item 4- Information on the Company – History and Development of the Company – Recent Events – Sale of Belgrade Plaza commercial center"

On February 1, 2017, we announced that PC completed the sale of Suwałki Plaza shopping and entertainment center in Poland to an investment fund for € 42.3 million (approximately \$45 million). PC received approximately €17 million (approximately \$18 million) net cash, after the repayment of the bank loan, and other working capital adjustments. See "Item 4- Information on the Company – History and Development of the Company – Recent Events - Sale of Suwałki Plaza commercial center".

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2016

During 2016 PC has executed transactions for the sale of plots to third parties in Poland and Romania for the total amount of approximately €4 million (\$4 million).

On December 6, 2016, PC has acquired a bank loan of approximately €10 Million (approximately \$10.5 million), which is held against PC's plot in Brasov, Romania, for a total consideration of €1.35 million (approximately \$1.4 million). See "Item 4 – Information on the Company - History and Development of the Company -Recent Events – Acquiring bank loan for PC's plot in Brasov, Romania".

On December 1, 2016, the holders of PC Notes have approved a proposed amendments to the restructuring plan of PC. See "Item 4 – Information on the Company - History and Development of the Company -Recent Events - Amendment of the Restructuring Plan of PC".

On September 15, 2016 PC completed the sale of Riga Plaza shopping and entertainment center in Riga, Latvia, to a global investment fund. See "Item 4 – Information on the Company - History and Development of the Company -Recent Events – Sale of Riga Plaza Center".

On September 14, 2016 PC completed the sale of the shares in Zgorzelec Plaza commercial center in Poland. See "Item 4 – Information on the Company – History and Development of the Company – Recent Events – Sale of Zgorzelec Plaza Commercial Center".

On June 1, 2016 and August 18, 2016, we approved two new programs to repurchase up to NIS forty (40) million (approximately \$10.4 million) and NIS 50 million (approximately \$13.3 million), of our Notes. See "Item 4 – Information on the Company – History and Development of the Company – Recent Events – Notes Repurchase Program".

On August 2, 2016, a subsidiary of EPI ("SPV") signed a Joint Development Agreement relating to the Chennai, India project, owned 100% by EPI. See "Item 4 – Information on the Company – History and Development of the Company – Recent Events –Joint Development Agreement with respect to our plot in Chennai, India".

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On August 1, 2016, we received from the Israeli Land Administration an amount of approximately NIS 7 million (approximately \$2 million) following the termination of our lease agreement with respect to a plot near Tiberius, Israel. See "Item 4 – Information on the Company – History and Development of the Company – Recent Events – Termination of Lease Agreement – Plot in Tiberius”.

On June 30, 2016, PC has signed a Debt Repayment Agreement (“**DRA**”) with the financing bank (the “**Bank**”) of Zgorzelec Plaza commercial Center in Poland. As part of the DRA, PC paid of €1.1 million (\$1.2 million) (in escrow) to the financing bank of the commercial Center. The DRA stated that PC is obliged to make its best effort and cooperate with the Bank in trying to sell Zgorzelec Plaza commercial Center. Simultaneous with this, the financing bank will seek a third party to be an appointed shareholder to purchase the shares of Zgorzelec Plaza commercial Center for €1.

On June 29, 2016, PC completed the sale of its wholly owned subsidiary, which holds the “MUP” plot and related real estate in Belgrade, Serbia, for €15.75 million (approximately \$15.8 million). See "Item 4 - Information on the Company – History and Development of the Company – Recent Events – Sale of Plot in Belgrade, Serbia”.

On June 28, 2016, PC signed an agreement for the sale of a 20,700 square meters plot of land in Lodz, Poland, to a residential developer, for €2.4 million (approximately \$2.5 million). See “Item 4 - Information on the Company – History and Development of the Company – Recent Events – Sale of Plot in Lodz, Poland”.

On June 21, 2016, PC signed a €42.5 million loan agreement to support the development of Belgrade Plaza (Visnjicka) in the Serbian capital, Belgrade, from a consortium of banks led by the Hungarian bank OTP Bank Plc. As for the sale of Belgrade Plaza and the repayment of the loan agreement.

On March 31, 2016, PC has completed the sale of its subsidiary holding Liberec Plaza, a shopping and entertainment center in the Czech Republic, for €9.5 million (\$10 million).

2015

On June 11, 2015, we announced that we closed the Share Purchase Agreement with Astrid JV Sarl with regards to the sale of our entire (100%) holdings in our wholly owned subsidiary which owns and operates our hotels in Antwerp, Belgium. For more information see our Forms 6-K filed on May 10, 2015 and June 11, 2015 and see “Item 5 – Operating and Financial Review and Prospects – 2015”.

On May 13, 2015, we announced that PC reached an agreement to sell Koregaon Park Plaza the retail, entertainment and office scheme located in Pune, India for approximately INR 250 crore. See “Item 5 – Operating and Financial Review and Prospects – 2015”.

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The following table sets forth the components of our cash flows statements for the periods indicated:

	Year ended December 31,			
	2017	2017	2016	2015
	Convenience			
	translation	NIS	NIS	NIS
	in \$	Thousands	Thousands	Thousands
	thousands			
Net cash provided by (used in) operating activities	125,126	433,812	77,030	191,353
Net cash provided by investing activities	132,451	459,206	89,886	235,796
Net cash used in financing activities	(149,911)	(519,743)	(233,259)	(579,557)
Increase (decrease) in cash and cash equivalents	107,665	373,275	(66,343)	(152,408)

Cash flow in or from operating activities

Our cash flow from operating activities is affected by our policy in respect of PC's real estate assets which are classified as trading property since it is PC's management goal to sell these assets. Accordingly, our cash flow from operating activities includes all the costs of acquisition and construction of a trading property and also the proceeds from sale of trading properties after their disposition. Therefore, in periods in which our investments in construction and/or acquisition of trading properties are higher than the proceeds from the sale of trading properties, we will have a negative cash flow from operating activities.

Net cash from operating activities was NIS 434 million (approximately \$125 million) in 2017 compared to net cash provided by operating activities of NIS 77 million in 2016 and net cash from operating activities of NIS 191 million in 2015.

Our cash flow from operating activities in 2017, 2016 and 2015 was influenced by the following significant factors:

Cash flow from operating activities in 2017 included positive cash flow mainly attributable to the sale of trading (i) properties in an amount of NIS 427 million (\$123 million), mostly from the sale of Belgrade Plaza (Leisure) in Serbia, Torun, Swalalki Plaza in Poland and Timisoara in Romania.

Cash flow from operating activities in 2016 included positive cash flow attributable to proceeds from sale of (ii) trading property mostly from the sale of "MUP" in Belgrade and Liberec Plaza commercial center in Czech in an amount of NIS 84 million.

Cash flow from operating activities in 2015 included positive cash flow attributable to proceeds from sale of (iii) trading properties in an amount of NIS 182 million mostly from the sale of Koregaon park shopping center in India.

Cash from investment activities

Cash flow from investment activities in 2017, 2016 and 2015 amounted to NIS 459 million (\$132 million), NIS 90 million and NIS 236 million, respectively.

Our cash flow from investing activities in 2017 was influenced by the following factors:

- (i) Proceeds from the realization of investments in subsidiaries, mainly Butu in Romania, in an amount of NIS 430 million (\$133 million) and Plaza House in Hungary in an amount of NIS 12 million (\$3 million)

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- (ii) Purchase of property, plant and equipment and other assets in the amount of NIS 4 million (\$1 million) mainly attributable to the Radisson Hotel Complex.
- (iii) Proceeds from realization of property plant and equipment assets in the amount of NIS 4 million (\$1 million), mainly attributable to Tiberius plot.
- (iv) Proceeds from the sale of investment in a joint venture (sale of Riga Plaza commercial center) in an amount of NIS 2 million (\$ 1 million).
- (v) Proceeds from the realization of long-term deposits and long term loans in the amount of NIS 1 million (\$0 million).
- (vi) Disposition of short-term deposits and marketable securities, net, in the amount of NIS 13 million (\$4 million).

Our cash flow from investment activities in 2016 was influenced by the following factors:

- (i) Proceeds from sale of investment in a joint venture (sale of Riga Plaza commercial center) in an amount of NIS 83 million.
- (ii) Proceeds from sale of property, plant and equipment, mainly sell of Tiberius plot in an amount of NIS 22 million.
- (iii) Purchase of property, plant and equipment and other assets in the amount of NIS 3 million mainly attributable to the renovation which was executed in the Radisson Hotel Complex during 2015 and was paid during 2016.
- (iv) Proceed from realization of long-term deposits and long term loans in the amount of NIS 7 million.
- (v) Investment in long-term deposits and long term loans in the amount of NIS 11 million.
- (vi) Disposition of short-term deposits and marketable securities, net, in the amount of NIS 10 million.

Our cash flow from investment activities in 2015 was influenced by the following factors:

- (i) Proceeds from realization of investments in subsidiaries (our hotel in Belgium) in an amount of NIS 192 million.

- (ii) Proceeds from sale of property, plant and equipment, mainly sell of Cina and Plaza Offices in Romania e amounted to NIS 13 million.

- (iii) Purchase of property, plant and equipment and other assets in the amount of NIS 24 million mainly attributable to the renovation which was executed in the Radisson Hotel Complex during 2015.

- (iv) Proceed from realization of long-term deposits and long term loans in the amount of NIS 10 million.

- (v) Disposition of short-term deposits and marketable securities, net, in the amount of NIS 5 million.

Cash flow from financing activities

Cash flow used in financing activities in 2017, 2016 and 2015 amounted to NIS 520 million (\$150 million), NIS 233 million and NIS 580 million, respectively.

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Our cash flow used in financing activities in 2017 was influenced by the following factors:

(i) Interest paid in cash by us in the amount of NIS 76 million (\$22 million) on our borrowings (mainly notes issued by us and by PC and loans provided to our hotels and commercial centers).

Repayment of borrowings, net, of proceeds from loans in the amount of NIS 461 million (\$133 million), mainly
(ii) attributable to repayment of PC Notes and repayments of loans provided to our operating commercial centers and our hotels.

(iii) Proceeds from long-term borrowings in an amount of NIS 16 million (\$5 million) which is attributed to Plaza Centers.

Our cash flow used in financing activities in 2016 was influenced by the following factors:

(i) Interest paid in cash by us in the amount of NIS 107 million on our borrowings (mainly notes issued by us and by PC and loans provided to our hotels and commercial centers).

(ii) Repayment of borrowings, net, of proceeds from loans in the amount of NIS 129 million, mainly attributable repayment of PC Notes and repayments of loans provided to our operating commercial centers and our hotels.

Our cash flow used in financing activities in 2015 was influenced by the following factors:

(iii) Purchase of non-controlling interests in an amount of NIS 62 million which is attributed to shares acquired by BUTU during delisting process.

(iv) Interest paid in cash by us in the amount of NIS 129 million on our borrowings (mainly the Notes, PC Notes and loans provided to our hotels and commercial centers).

(v) Repayment of borrowings, net, of proceeds from loans in the amount of NIS 377 million, mainly attributable repayment of PC Notes and repayments of loans provided to our operating commercial centers and our hotels.

(vi) Repayment of short-term credit in the amount of NIS 7 million.

Major balance sheet changes

The following table discloses the balance sheet balances in NIS million and major balance sheet items as a percentage of total assets as of December 31, 2017, 2016 and 2015:

	2017		2016		2015	
	NIS	%	NIS	%	NIS	%
	million		million		million	
Current assets	483	47%	179	8%	218	8%
Current liabilities	847	83%	1,210	54%	806	30%
Non-current assets	534	53%	2,083	92%	2,486	92%
Non-current liabilities	319	31%	1,003	44%	1,593	59%
Shareholders' equity (Deficiency):						
Attributable to our equity holders	(194)	(19%)	(88)	(4%)	19	1%
Non-controlling interest	46	5%	137	6%	285	10%

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2017 compared to 2016

The increase in current assets in the amount of NIS 304 million (\$88 million) in 2017 was mainly attributable to an increase in each of: (i) cash and cash equivalents in an amount of NIS 375 million (\$108 million) mainly due to the completion of the sale of the Radisson Hotel Complex and Torun, (ii) decrease in trade account receivables in the amount of NIS 34 million (\$10 million) due to the sale of all of PC's commercial centers and the Radisson Hotel Complex, and (iii) a decrease in short term deposits in the amount of NIS 30 million (\$9 million).

The decrease in current liabilities in the amount of NIS 363 million (\$105 million) in 2017 was mainly attributable to: (i) repayment of our bank loan in the amount of NIS 59 million (\$17 million), (ii) repayment of PC loans in the amount of NIS 333 million (\$96 million), (iii) early redemption of PC notes in the amount of NIS 31 million (\$9 million) due to asset sales, and (iv) decreases in amount due to suppliers and service providers in the amount of NIS 236 million (\$68 million) due to the sale of all of PC's commercial centers and the Radisson hotel.

The said decrease in current liabilities was partially offset by: (i) the classification of current maturities of Series H debentures in the amount of NIS 296 million (\$85 million) and (ii) an increase in payables in respect of transactions in India in the amount of NIS 12 million (\$3 million) and in provisions to government authorities in the amount of NIS 12 million (\$ 3 million).

The decrease in non-current assets in the total amount of NIS 1,549 million (\$447million) in 2017 was mainly attributable to: (i) the write-down of PC trading properties in an amount of NIS 91 million (\$26 million); (ii) sale of all the commercial centers and other plots of PC in the total amount of NIS 750 million (\$216 million) and (iii) disposal of the Radisson Hotel Complex, net of depreciation and foreign currency adjustments, during the year in the total amount of NIS 720 million (\$208 million).

The said decrease in current liabilities was partially offset by: (i) increase of foreign currency adjustments in the amount of NIS 16 million (\$5 million)

The decrease in non-current liabilities in the amount of NIS 683 million (\$197) in 2017 was mainly attributable to: to (i) the classification of our notes in the amount of NIS 296 million (\$85 million) from non-current liabilities to current liabilities, (ii) repayment of our hotel's loan in an amount of NIS 353 million (\$101 million) as part of the sale of the Radisson Hotel Complex and (iii) the decrease of deferred taxes due to the sale of the Radisson Hotel in an amount of NIS 92 million (\$27 million).

The said decrease in non-current liabilities was partially offset by: (i) the reducing of our bond discount, net, in amount of NIS 40 million (\$12 million) and (ii) an increase in advances on account of India transactions in the amount of NIS 22 million (\$6 million).

2016 compared to 2015

The decrease in current assets in the amount of NIS 39 million in 2016 was mainly attributable to a decrease in each of: (i) cash and cash equivalents in an amount of NIS 68 million mainly due to repayment and buyback of the Notes and loans, payment of interest on notes and loans and general and administrative expenses; offset by (ii) increase in trade account receivable in the amount of NIS 21 million due to receivable from sale of PC's plots in the amount of NIS 23 million (iii) increase in short term deposits in the amount of NIS 9 million

The increase in current liabilities in the amount of NIS 404 million in 2016 was mainly attributable to: (i) increase in current maturities of PC project company loans in the amount of NIS 62 million; (ii) classification of our bank loans in an amount of NIS 59 million from non-current liabilities to current liabilities due to current maturities (iii) classification of PC notes and loans in the amount of NIS 666 million from non-current liabilities to current liabilities due to the risk that PC's notes holders could argue there exists a substantial suspicion with respect to PC's ability to repay its obligations to its noteholders that entitles them to demand immediate repayment of the notes. Should this occur there is a risk that the banks that provided loans to PC will demand immediate repayment of the loans made to PC. The said increase in current liabilities was partially offset by (i) classification of our hotel's loans in an amount of NIS 238 million from current liabilities to non-current liabilities due to refinance of the loan during 2016; (ii) decrease in the PC Notes in the total amount of NIS 145 million due to repayments made;

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The decrease in non-current assets in the total amount of NIS 403 million in 2016 was mainly attributable to (i) write-down of PC trading properties in an amount of NIS 190 million; (ii) sale of Liberace Plaza in Czech republic commercial center and other plots of PC in the total amount of NIS 166 million; (iii) foreign currency in translation adjustments in the amount of NIS 65 million; The sale of our plot designated for hotel in Tiberius in the amount of NIS 15 million; (iv) sale of our Investments in joint venture in the amount of NIS 85 million; (v) our share in losses of associates, net, in the amount of NIS 54 million; offset by (i) the revaluation of our hotel net of depreciation and foreign currency translation adjustment during the year in the total amount of NIS 33 million; (ii) Increase in construction costs in our trading property mainly due to our activity in Serbia in the amount of NIS 109 million; increase in our investment in the plot of Bangalore in the total amount of NIS 30 million due to firstly consolidation.

The decrease in non-current liabilities in the amount of NIS 590 million in 2016 was mainly attributable to (i) classification of PC notes and loans in the amount of NIS 666 million from non-current liabilities to current liabilities due to the risk that PC's noteholders could argue there exists a substantial suspicion with respect to PC's ability to repay its obligations to its noteholders that entitles them to demand immediate repayment. Should this occur there is a risk that the banks that provided loans to PC will also demand immediate repayment of the loans made to PC (ii) repayment of our Notes (net from increase in bearing interest) and loan in the amount of NIS 153 million and classification of our loan to current liabilities in the amount of NIS 59 million; and (iii) decrease in the PC Notes and loans, net, in the total amount of NIS 65 million. The said increase in non - current liabilities was partially offset by classification and increase of our hotel's loan in an amount of NIS 353 million from current liabilities to non - current liabilities due to refinance of the loan during 2016.

Derivative Instruments

For information on financial instruments used, profile of debt, currencies and interest rate structure, see "Item 11. Quantitative and Qualitative Disclosure about Market Risks".

Other Loans

We have entered into or assumed liability for various financing agreements, either directly or indirectly through our subsidiaries, to provide capital for the purchase, construction, and renovation and operation of commercial and entertainment centers and hotels as well as for various investments in our other operations. Set forth below is certain material information with respect to material loans extended to us, our subsidiaries and our jointly controlled companies as of December 31, 2017.

The loans granted to our jointly controlled companies, as of December 31, 2017, are presented in the following table at their 100% amount, unless otherwise specified.

For information regarding notes issued by our subsidiary, Elbit Medical, in February 2018, see Item 4 – Information on the Company – Recent Events – “Issuance of a New Series of Notes by Elbit Medical and Payment of Debt from Elbit Medical to the Company “.

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Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2017	Interest	Payment Terms
		(par value)	(par value)		
			NIS 260 million		
			(approximately \$75 million)		
EI	Series I public notes issued to the Public as part of the debt Arrangement	NIS 218 million (approx. \$63 million)		6% per annum, linked to the Israeli CPI.	Principal and accrued interest is paid in one installment on December 1, 2019.

Second ranking floating charge over all the Company's assets.

Second ranking fixed pledges granted by each of the Company and EUL over the current and future shares of EUL and all rights associated therewith.

Second ranking fixed pledges granted by each of the Company and EUL over all intercompany receivables and shareholders loans provided by us to EUL.

Negative Pledge by each of the Company and EUL. With respect to EUL the Negative Pledge also applies to EUL's share in PC, including all rights associated therewith.

Corporate guaranty by EUL, which guarantees the Company's obligations to the Series H and Series I Trustees.

Principal
Security and
Covenants

It should be noted that the collaterals securing the Series I notes are subordinated to the collaterals securing the Series H notes. It should be noted, further, that those pledges are recorded in Israel, the Netherlands and Luxemburg. The pledges include exemptions allowing the disposition of the pledged assets so long as the Company is not in default under the Notes nor Material Adverse Event (as defined under the Notes) shall have been occurred.

It should also be noted, that on December 2017 we signed an amendment to the Trust Deed of (Series I) notes, so that all collateral relating to our wholly owned subsidiary EH were canceled and in return the Company undertook to use 75% of the net proceeds from the sale of the Radisson Hotel Complex for an early repayment on account of the (Series H) notes. The early repayment was made in January 2018.

Other
Information

The Notes are registered for trade on the TASE.

The Notes are not registered under the Securities Act.

Events of default include, among other things, the occurrence of an event of default under the Notes or an event that would entitle the Trustees under the Notes or the noteholders to accelerate and redeem the Notes, as well as cross default with other series of notes and delisting from both the TASE and NASDAQ Global Select Market.

On July 10, 2017, the series “I” noteholders approved a resolution to waive their immediate repayment right, pursuant to the delay in publications of the financial statements and to extend the submission date of the Company’s annual financial statements for the year of 2016 until December 31, 2017 (the “**Resolution**”).

Series “H” noteholders already approved the Resolution by the required majority in the meeting held on July 3, 2017. Therefore, their approval became valid as result of the series “I” noteholders Resolution.

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Borrower	Lender	Original Amount	Amount Outstanding on Dec. 31, 2017	Interest	Payment Terms
EI	Series I public notes issued to the Public as part of the debt Arrangement	NIS 218 million (approx. \$63 million)	NIS 260 million (approximately \$75 million)	6% per annum, linked to the Israeli CPI.	Principal and accrued interest is paid in one installment on December 1, 2019.

Second ranking floating charge over all the Company's assets

Second ranking fixed pledges granted by each of the Company and EH over the current and future shares of EH and all rights associated therewith.

Second ranking fixed pledges granted by each of the Company and EH over all intercompany receivables and shareholders loans provided or that will be provided by us to EH.

Second ranking fixed pledges granted by each of the Company and EUL over the current and future shares of EUL and all rights associated therewith.

Second ranking fixed pledges granted by each of the Company and EUL over all intercompany receivables and shareholders loans that may be provided by us to EUL.

Principal
Security and
Covenants

Negative Pledge by each of the Company, EH and EUL, while with respect to EH the Negative Pledge shall apply to all its current and future assets and with respect to EUL the Negative Pledge applies to EUL's share in PC that have not already been pledged to Bank Hapoalim B.M. ("**Bank Hapoalim**"), including all rights associated therewith.

Corporate guaranty by each of EH and EUL, by which each of them guarantees the Company's obligations to the Series H and Series I Trustees.

It should be noted that the collaterals securing the Series I notes are subordinated to the collaterals securing the Series H notes and that all the noteholders' pledges are subordinated to the pledges granted to Bank Hapoalim or any successor thereof. It should be noted, further, that those pledges are recorded in Israel, the Netherlands and Luxemburg, where applicable. The pledges include exemptions allowing the disposition of the pledged assets so long as the Company is not in default under the Notes nor Material Adverse Event (as defined under the Notes) shall have been occurred.

Other
Information

The Notes are registered for trade on the TASE.

The Notes are not registered under the Securities Act.

Events of default include, among other things, the occurrence of an event of default under the Notes or an event that would entitle the Trustees under the Notes or the noteholders to accelerate and redeem the Notes, as well as cross default with other series of notes and delisting from both the TASE and NASDAQ Global Select Market.

On July 10, 2017, the series “I” noteholders approved a resolution to waive their immediate repayment right, pursuant to the delay in publications of the financial statements and to extend the submission date of the Company’s annual financial statements for the year of 2016 until December 31, 2017 (the “**Resolution**”).

Series “H” noteholders already approved the Resolution by the required majority in the meeting held on July 3, 2017. Therefore, their approval became valid as result of the series “I” noteholders Resolution.

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Borrower	Lender	Adjusted Original Amount following debt restructuring (par value)	Amount Outstanding on Dec. 31, 2017 (par value)	Interest	Payment Terms
PC	Series A notes issued to the public	NIS 299.6 million (approximately \$77.63 million)	NIS 166.6 million (approximately \$48 million).	6% per annum, linked to the Israeli CPI.	The Principal Balance of the notes shall be called for repayment in five (5) equal payments to be paid as follows: on December 31, 2017, on July 1, and December 31, 2018 and on July 1, 2019 and 2020 The interest shall be paid in semi-annual payments on July 1st and December 31st of each of the years between 2015 and 2019 and on July 1, 2020, each payment for the interest accrued in the six months ending on the date preceding each payment date as stated and subject to prepayment and deferral of payments.
		Interest payments accrued and not paid until the end of 2013 were added to the principal and are paid together with it.			

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Borrower	Lender	Adjusted Original Amount following debt restructuring	Amount Outstanding on Dec. 31, 2017	Interest	Payment Terms
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On November 29, 2016, PC's Noteholders approved a postponement of the Early Prepayment date by up to four months and the reduction of the total amount of the required Early Prepayments to at least NIS 382 million (€94.5 million, \$99 million) (a reduction of 12% on the original amount).

In addition, PC agreed to pay to its Noteholders, on March 31, 2018, a one-time consent fee in the amount of approximately €231 thousand (which is equal to 0.25% from PC's outstanding debt under the PC Notes at that time) (the "**Consent Fee**"). The Consent Fee paid to the PC's noteholders on a pro rata basis.

Casa radio proceeds – If PC 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 PC holds the project (and said sale shall be carried out before the full repayment of the PC Notes and until no later than December 31, 2019, and for an amount which exceeds €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 PC, then the holders of PC Notes 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.

During first three months of 2017, PC paid to its noteholders a total amount of NIS 191.7 million (EUR 49.2 million) as an early redemption. Upon such payments, PC 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 notes.

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Borrower	Lender	Adjusted Original Amount following debt restructuring	Amount Outstanding on Dec. 31, 2017	Interest	Payment Terms
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In January 2018, a settlement agreement was signed by and among PC and the two Israeli Series of notes ("**Settlement Agreement**"). In the Settlement Agreement it was agreed, inter alia, to approve:

- New repayment ratios between the two Israeli Series of notes (new ratio: notes A- 39% notes 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 noteholders in the event of successful disposal of Casa Radio Project;
- A waiver of claims to PC and its directors and officers; and
- To waive the request for publication of quarterly financial reports by PC.

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

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

On January 21, 2018 the PC paid the noteholders a total amount of principal and interest of EUR 38,487 thousand.

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Borrower	Lender	Adjusted Original Amount following debt restructuring	Amount Outstanding on Dec. 31, 2017	Interest	Payment Terms
		Negative pledge on all of the real estate assets of PC and its subsidiaries.			

“Net asset value” coverage ratio - In case the up-to-date and adjusted “net asset value” coverage ratio against debt is lower than 118% (“**Minimal Coverage Ratio**”) in two consecutive examination dates after the first examination date (in which a decline under the minimal coverage ratio was created) then cause for immediate prepayment will be created.

Principal Security and Covenants	The “net asset value” coverage ratio is the ratio between: (a) the value of all assets including balances of cash and cash equivalents deducting preceding / specific bank debts, and (b) the PC’s debts that are not preceding / specific and/or debts subordinate to the debts included in the restructuring.
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In the event that the Coverage Ratio is lower than the Minimum Coverage Ratio, then commencing on the first Examination Date in which a breach of the Coverage Ratio covenant has been established and for as long as the breach is continuing, PC shall not perform any of the following: (a) a sale, directly or indirectly, of a Real Estate Asset owned the PC or a Subsidiary, with the exception that it shall be permitted to transfer Real Estate Assets in performance of an obligation to do so that was entered into prior to the said Examination Date, (b) investments in new Real Estate Assets; or (c) an investments that regards an existing project of PC 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 LTC Ratio of the project remains equal to or greater than the Minimum LTC Ratio.

Other Information	The notes have been registered for trade on the TASE.
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Prepayments – PC is allowed at any time to prepay any debt balance at the adjusted par value of the note, but it will have to execute prepayment upon disposal, raising new financial debt or refinancing of assets (see "Item 5 - Operating and Financial Review and Prospects").

The notes are not registered under the Securities Act.

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

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

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Adjusted Original Amount
BorrowerLender Amount following Outstanding on Interest Payment Terms
debt restructuring Dec. 31, 2017

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

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

New repayment ratios between the two Israeli Series of Bonds (new ratio: Bond A- 39% Bond B- 61%);

An increase in the level of the mandatory early repayments from 75% to 78% of the relevant net income;

New repayment schedule;

An increase in the compensation to be paid to the Bondholders in the event of successful disposal of Casa Radio Project;

A waiver of claims to the Company and its directors and officers; and

To waive the request for publication of quarterly financial reports by the Company.

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

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

On January 21, 2018 the Company paid the bondholders a total amount of principal and interest of EUR 38,487 thousand.

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Borrower	Lender	Adjusted Original Amount following debt restructuring	Amount Outstanding on Dec. 31, 2017	Interest	Payment Terms
		Negative pledge on all of the real estate assets of PC and its subsidiaries.			

“Net asset value” coverage ratio - In case the up-to-date and adjusted “net asset value” coverage ratio against debt is lower than 118% (“**Minimal Coverage Ratio**”) in two consecutive examination dates after the first examination date (in which a decline under the minimal coverage ratio was created) then cause for immediate prepayment will be created.

Principal Security and Covenants	The “net asset value” coverage ratio is the ratio between: (a) the value of all assets including balances of cash and cash equivalents deducting preceding / specific bank debts, and (b) the PC’s debts that are not preceding / specific and/or debts subordinate to the debts included in the restructuring.
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In the event that the Coverage Ratio is lower than the Minimum Coverage Ratio, then commencing on the first Examination Date in which a breach of the Coverage Ratio covenant has been established and for as long as the breach is continuing, PC shall not perform any of the following: (a) a sale, directly or indirectly, of a Real Estate Asset owned the PC or a Subsidiary, with the exception that it shall be permitted to transfer Real Estate Assets in performance of an obligation to do so that was entered into prior to the said Examination Date, (b) investments in new Real Estate Assets; or (c) an investments that regards an existing project of PC 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 LTC Ratio of the project remains equal to or greater than the Minimum LTC Ratio.

Other Information	The notes have been registered for trade on the TASE.
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Prepayments – PC is allowed at any time to prepay any debt balance at the adjusted par value of the note, but it will have to execute prepayment upon disposal, raising new financial debt or refinancing of assets (see "Item 5 - Operating and Financial Review and Prospects").

The notes are not registered under the Securities Act.

The Coverage Ratio Covenant ("**CRC**"), as defined in the restructuring plan, as at December 31, 2017 the CRC was 103%, in comparison with 118% minimum ratio required. As a result of covenants breach, PC classified its notes in the total amount of EUR 116,914 thousand as

current liabilities in the financial statements as of 31 December 2017.

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

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Borrower/Lender	Adjusted Original Amount following debt restructuring (par value)	Amount Outstanding on Dec. 31, 2017 (par value)	Interest	Payment Terms
PC	<p>NIS 586.3 million (*) (approximately \$169.1 million)</p> <p>Series B (*) Following treasury notes cancellation issued to the public</p> <p>Interest payments accrued and not paid until the end of 2013 were added to the principal and will be paid together with it.</p>	<p>NIS 251.6 million (approximately \$72.6 million).</p>	<p>6.9% per annum, linked to the Israeli CPI</p>	<p>The Unpaid Principal Balance of the Notes shall be called for repayment in two (2) equal payments to be paid on July 1, 2018 and July 1, 2019.</p> <p>Notwithstanding the above, in the event where PC did not pay, by December 1, 2016 the Principal of the PC Notes for the Three Series' in a total amount of at least NIS 434 million excluding linkage differentials and including repayment of principal of PC notes (Series B) in a total amount of at least NIS 305,000,000 (excluding linkage differentials), then the repayment dates of the Unpaid Principal Balance of the PC notes (Series B) shall be automatically advanced by one year in relation with the repayment dates.</p> <p>The interest shall be paid for the Unpaid Principal Balance in biannual payments on July 1st and December 31st of each of the years between 2015 and 2018 and on July 1, 2019, each payment for the interest accrued in the six months ending on the date preceding each payment date as stated, and subject to prepayment and deferral of payments.</p>

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Borrower	Lender	Adjusted Original Amount following debt restructuring	Amount Outstanding on Dec. 31, 2017	Interest Payment Terms
				<p>On November 29, 2016, PC's Noteholders approved a postponement of the Early Prepayment date by up to four months and the reduction of the total amount of the required Early Prepayments to at least NIS 382 million (€94.5 million, \$107 million) (a reduction of 12% on the original amount).</p> <p>In addition, PC agreed to pay to its noteholders, on March 31, 2018, a one-time consent fee in the amount of approximately €488 thousand (which is equal to 0.25% from PC's outstanding debt under the PC Notes at that time) (the "Consent Fee"). The consent Fee shall be paid to PC's Noteholders on a pro rata basis.</p> <p>Casa radio proceeds – If PC 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 PC holds the project (and said sale shall be carried out before the full repayment of the PC Notes and until no later than December 31, 2019, and for an amount which exceeds €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 PC), then the holders of notes 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.</p>

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Adjusted Original Amount
Borrower Lender Amount following Outstanding on Interest Payment Terms
debt restructuring Dec. 31, 2017

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

During first three months 2017, PC paid to its noteholders a total amount of NIS 191.7 million (EUR 49.2 million) as an early redemption. Upon such payments, PC 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 towards the notes.

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Borrower	Lender	Adjusted Original Amount following debt restructuring	Amount Outstanding on Dec. 31, 2017	Interest	Payment Terms
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In January 2018, a settlement agreement was signed by and among PC and the two Israeli Series of notes ("**Settlement Agreement**"). In the Settlement Agreement it was agreed, inter alia, to approve:

- New repayment ratios between the two Israeli Series of notes (new ratio: notes A- 39% notes 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 noteholders in the event of successful disposal of Casa Radio Project;
- A waiver of claims to PC and its directors and officers; and
- To waive the request for publication of quarterly financial reports by PC.

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

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

On January 21, 2018 PC paid the noteholders a total amount of principal and interest of EUR 38,487 thousand.

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Borrower	Lender	Adjusted Original Amount following debt restructuring	Amount Outstanding on Dec. 31, 2017	Interest	Payment Terms
		Negative pledge on all of the real estate assets of PC and its subsidiaries.			

“Net asset value” coverage ratio - In case the up-to-date and adjusted “net asset value” coverage ratio against debt is lower than 118% (“**Minimal Coverage Ratio**”) in two consecutive examination dates after the first examination date (in which a decline under the minimal coverage ratio was created) then cause for immediate prepayment will be created. The “net asset value” coverage ratio is the ratio between: (a) the value of all assets including balances of cash and cash equivalents deducting preceding / specific bank debts, and (b) the Group’s debts that are not preceding / specific and/or debts subordinate to the debts included in the restructuring.

Principal Security and Covenants

In the event that the Coverage Ratio is lower than the Minimum Coverage Ratio, then as from the first Examination Date on which a breach of the Coverage Ratio covenant has been established and for as long as the breach is continuing, PC shall not perform any of the following: (a) a sale, directly or indirectly, of a Real Estate Asset owned by PC or a Subsidiary, with the exception that it shall be permitted to transfer Real Estate Assets in performance of an obligation to do so that was entered into prior to the said Examination Date, (b) investments in new Real Estate Assets; or (c) an investments that regards an existing project of PC 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 LTC Ratio of the project remains equal to or greater than the Minimum LTC Ratio.

Other Information

The notes have been registered for trade on the TASE.

Prepayments – PC is allowed at any time to prepay any debt balance at the adjusted par value of the note, but it will have to execute prepayment upon disposal, raising new financial debt or refinancing of assets (see "Item 5 - Operating and Financial Review and Prospects").

The notes are not registered under the Securities Act.

The CRC as at December 31, 2017 the CRC was 103%, in comparison with 118% minimum ratio required. As a result of covenants breach, PC classified its notes in the total amount of EUR 116,914 thousand as current liabilities in the financial statements as of 31 December 2017.

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

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	Adjusted Original Amount	Amount Outstanding on Dec. 31, 2017	Interest	Payment Terms
Lender Borrower	Following debt restructuring (par value)	(par value)		
	PLN 62.76 million			
PC	Private notes issued to Polish institutional investors	Interest payments accrued and not paid until the end of 2013 were added to the principal and are paid together with it.	PLN 21.7 million	6 Month WIBOR + 6%
				<p>“Redemption Date” shall mean the day falling seven and a half years after the Issue Date (i.e May 16, 2018), subject to acceleration in the event that prior to December 1, 2016 PC does not manage to repay (through redemption or otherwise) the Plan Debt Securities in the principal amount of NIS 434,000,000 (or equivalent of such amount in other currencies as of the repayment date), the Redemption Date of all the outstanding PC Notes shall accelerated to May 16, 2017. Interest is payable in semi-annual installments.</p> <p>On November 29, 2016, PC’s Noteholders approved a postponement of the Early Prepayment date by up to four months and the reduction of the total amount of the required Early Prepayments to at least NIS 382 million (€94.5 million) (a reduction of 12% on the original amount).</p>

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Borrower	Lender	Adjusted Original Amount Following debt restructuring	Amount Outstanding on Dec. 31, 2017	Interest Payment Terms
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In addition, PC agreed to pay to its Noteholders, on March 31, 2018, a one-time consent fee in the amount of approximately €488 thousand (which is equal to .25% from PC's outstanding debt under the PC Notes at that time) (the "**Consent Fee**"). The consent Fee shall be paid to PC's Noteholders on a pro rata basis.

Casa radio proceeds – If PC 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 PC holds the project (and said sale shall be carried out before the full repayment of the PC Notes and until no later than December 31, 2019, and for an amount which exceeds €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 PC) then the holders of notes 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.

During first three months 2017, the PC paid to its noteholders a total amount of NIS 191.7 million (EUR 49.2 million) as an early redemption. Upon such payments, PC 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 notes.

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Borrower	Lender	Adjusted Original Amount Following debt restructuring	Amount Outstanding on Dec. 31, 2017	Interest Payment Terms
Principal Security and Covenants		Certain circumstances shall be deemed events of default by giving the note holders the right to demand early redemption, which include, inter alia, the following covenants (in addition to the abovementioned covenant under debt restructuring):		

On January 21, 2018 PC paid the noteholders a total amount of principal and interest of EUR 38,487 thousand.

Breach of the Cash Position as a result of the payment of dividends or the buy-back program falling below €50 million. “Cash Position” means the sum of cash and cash equivalent of: cash, short and long interest bearing deposits with banks or other financial institutions, available for the sale of marketable securities, and restricted cash, calculated based on the consolidated financial statements.

Breach of financial ratios – the Net Capitalization Ratio exceeds 70%; “Net Capitalization Ratio” is the Net Debt divided by the Equity plus the Net Debt, as calculated by PC’s auditor; “Net Debt” mean PC’s total debt under: loans and borrowings, lease agreements, PC Notes, other debt securities and other interest bearing or discounted financial instruments in issue, less related hedge derivatives, cash and cash equivalents, short and long-term interest bearing deposits with banks or other financial institutions, available for sale marketable securities and restricted cash, calculated based on the consolidated financial statements.

Breach of Minimum Coverage Ratio – a breach of the Minimum Coverage Ratio has occurred and continued throughout a period comprising two (2) consecutive Examination Dates following the first Examination Date on which such breach has been established;

Incurrence of Financial Indebtedness by PC - PC incurred new Financial Indebtedness, unless certain conditions are met;

Breach of PC’s negative pledge;

Establishment of encumbrances by Subsidiaries – a Subsidiary created any Encumbrance on any of its assets, unless the relevant Encumbrance meets one of the conditions detailed under restructuring plan;

Occurrence of Non-Permitted Disposal - the Issuer:

(a) procured or permitted the occurrence of an Exercise Event with respect to any Real Estate Asset of the Group where the Net Cash Flow resulting from such Disposal was not used for Mandatory Prepayment upon Exercise Event in accordance with Clause 8 above; or

(b) performed or permitted a Disposition, directly or indirectly, or a refinancing of the Shopping Malls, where the cumulative Net Cash Flow resulting from such Disposition or refinancing amounted to less than €70 million. If the Disposition or the refinancing occurs only with respect to

some but not all of the Shopping Malls, then such Disposition or refinancing shall constitute an Event of Default unless the Net Asset Value of the Unsold Shopping Malls plus the aggregate Net Cash Flows received from the intended Disposition or refinancing and from any previous Disposition or refinancing of a Shopping Mall amounts to at least €70 million;

Occurrence of Non-Permitted Investment - PC made an investment in new or existing Real Estate Assets of the Group where following such investment the Cash Reserve was less than the Minimum Cash Reserve or the Coverage Ratio was less than the Minimum Coverage Ratio;

Exclusion from trading or listing of PC's shares;

Failure to repay material debt – PC fails to repay any matured and undisputable debt in the amount of at least €100 million within 30 days of its maturity;

Distributions to the shareholders by PC – PC made a Distribution, despite the fact that (i) less than 75% of the outstanding balance of the nominal value of the Plan Debt Securities as per the Plan Amendment Date has been repaid or the Coverage Ratio on the last Examination Date prior to such Distribution was less than 150% following such Distribution, or (ii) no Majority consented to the proposed Distribution. Notwithstanding the aforesaid, in the event an Additional Capital Injection 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 up to 50% of such Additional Capital Injection.

The CRC as at December 31, 2017 the CRC was 103%, in comparison with 118% minimum ratio required. As a result of covenants breach, PC classified its notes in the total amount of EUR 116,914 thousand as current liabilities in the financial statements as of 31 December 2017.

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Financial Instruments

For information on financial instruments used, profile of debt, currencies and interest rate structure, see “Item 11. Quantitative and Qualitative Disclosure about Market Risks” below.

Material Commitments for Capital Expenditure

See “Tabular Disclosure of Contractual Obligations” below.

Designated Disclosure with Respect to the Company’s Projected Cash Flows

Whereas the Company was incorporated in Israel and its securities are also traded in the Tel Aviv Stock Exchange (“TASE”), it is subject to certain reporting requirements under the Israeli Securities Law, 1967, inter alia, the requirement to publish a projected cash flow for a period of 24 months (the “**Projected Cash Flow**”) if and to the extent that Warning Signs (as defined below) exists in the Company’s financial statements; and also provide explanations on differences between previously disclosed Projected Cash Flow with actual cash flow.

“**Warning Signs**” are defined under the Securities Regulations (Immediate and Periodic Notices) 5730-1970 (the “**Regulations**”), as one of the following: (i) A deficit in shareholders’ equity; (ii) An opinion or review by the corporation’s auditors as of the report date that includes reference to the corporation’s financial condition; (iii) A deficit in working capital or in working capital for a period of twelve months together with a persistent negative cash flow from ongoing activity; (iv) A deficit in working capital or in working capital for a period of twelve months or an ongoing negative cash flow from ongoing activity and the Board of Directors of the corporation has not determined that this is not an indication of a liquidity problem in the corporation; (v) An opinion or review by the corporation’s auditors as of the report date which includes reference to any material doubts concerning the continuation of the corporation’s activities as a going concern;

The first three Warning Signs as described above exists in the Company’s financial statements for December 31, 2017. Therefore the Company publishes this Projected Cash Flow of the Company (on a standalone basis) and the assumptions upon which it is based:

	January 1, 2018- December 31, 2018	January 1, 2019- December 31, 2019
	(NIS Thousands)	(NIS Thousands)
Opening balance: Cash and cash equivalents	269	52
Projected Sources		
Sources from realization of assets and business:		
Cash flow from sale of our holdings in plot in India (Bangalore site) (1)	8	43
Cash flow from sale of our holdings in plot in India (Chennai site) (2)	-	28
Cash flow from selling our medical business (3)	-	196
Cash flow from repayment of Elbit Medical loan (4)	149	-
Total Sources	426	319
Projected uses:		
Debt service:		
Buy back of Series H (5)	7	-
Buy back of Series I (6)	49	-
Principal payment to Series H note holders (7)	289	-
Interest payment to Series H note holders (7)	2	-
Principal payment to Series I note holders (8)	-	250
Payments to our subsidiary Plaza centers NV (9)	7	-
Other operating expenses		
General and administrative expenses	9	8
Other non-recurring expenses (10)	11	8
Total Uses	374	266
Closing balance: Cash and cash equivalents	52	53

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General assumption: the projected cash flow was prepared based on the exchange rates, interest rates and the quoted market price of Elbit medical shares known close to the date of the approval of this annual report as follow:

USD/NIS Exchange rate	3.52
Euro/NIS exchange rate	4.33
Indian Rupee/NIS exchange rate	0.0532
Euro Libor rate (%)	-
Elbit Medical share price on the TASE	0.961

The value of the Asset in the table above is based on a valuation of the Asset that was determined based on appraisal done by external valuator for the financial statements as of December 31, 2017 which is lower than the consideration in the agreement signed on March, 2018 with our partner in the project (“**Buyer**”) (for additional information see “Item 4 - Information on the Company – History and Development of the Company – Recent Events”).

- (1) The main assumptions with respect to this valuation are: (i) that there will be no material delays in payments by the Buyer which could mainly result from liquidity problems of the Buyer including difficulties in obtaining financing for the project in order to execute the payments and to close the transaction; (ii) execution of offshore payments from India are subject to substantive regulations. Changes in the regulations (as was done in previous years) might cause delays in payments or even inability to execute the transaction in its current structure; and (iii) The transaction is quoted in Indian Rupee (“**INR**”) and therefore any change in the INR/NIS exchange rate might affect the net proceed in NIS.

This amount are based on realization of our shares in the company holds the Chennai project, the value of the plot was determined based on appraisal done by external valuator for the financial statements as of December 31, 2017.

- (2) The main assumptions with respect to this valuation are: (i) the ability of a potential Buyer to overcome certain architectural difficulties (i.e.: achieving the access road) to the project; (ii) general trend of the residential market in Chennai; (iii) execution of offshore payments from India are subject to substantive regulations. Changes in the regulations (as was done in previous years) might cause delays in payments or even inability to execute the transaction in its current structure; and (iv) The transaction is quoted in Indian Rupee (“**INR**”) and therefore any change in the INR/NIS exchange rate might affect the net proceed in NIS.

- (3) Those amounts are based on realization of our shares in Elbit Medical based on the quoted price of Elbit Medical shares in the TASE (As of April 23, 2018 which was NIS 96.1 per share). The main assumptions that might affect those amounts are: (i) the share price of Elbit Medical in the TASE which can change due to changes in the business of Elbit Medical (i.e. in the business of InSightec and Gamida) and / or due to trading trends on the TASE; (ii) the business of Elbit Medical (i.e. in the business of InSightec and Gamida) is denominated and

measured in US Dollar, therefore changes in the USD/NIS exchange rate might affect the share price of Elbit Medical and in turn affect the net proceed in NIS; and (iii) Low trading volumes in Elbit Medical's share on the TASE in a manner that will not enable the sale under such terms (i.e. price and timing).

- (4) On February 19, 2018 Elbit Medical has completed a public offering of a new series of notes convertible into ordinary shares in a total amount of NIS 180 million. NIS 149 million from the proceeds were used to repay Elbit Medical's debt to the Company.

During March, 2018 the Company executed a buyback plan for its (Series H) notes and purchased NIS 7 million par value notes in consideration for NIS 7 million.

- (5) According to the buyback plan that was approved by the board of directors, the Company may purchase (Series H) notes for a total consideration of up to NIS57.6 million.

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- (6) During February, 2018 the Company executed a buyback plan for its (Series I) notes and purchased NIS42 par value notes in consideration for NIS 49 million.

In accordance with the terms of the (Series H) notes, in January 2018 the Company made an early repayment of interest and principal to its (series H) noteholders in the amount of NIS 240 million.

- (7) The outstanding (Series H) notes (after the buyback and the early repayment) in the total amount of approximately NIS 51 million (NIS 49 principal plus NIS 2 million interest) are due on May 31, 2018.

- (8) The outstanding (Series I) notes (after the buyback) in the total amount of NIS 250 million is due in November, 2019.

- (9) The Company has an outstanding debts to PC in the amount of approximately Euro 1.7 million. The debt (principal and interest) is due on June 30, 2018 with early mandatory prepayments upon the sale of our plots in India. The principal and the interest payments to PC can mainly be affected by the Euro/ NIS exchange rate.

- (10) The non-recurring expenses include mainly expenses due to: (i) expenses related to termination of employment relations and expenses related to bonus to officers and employees in connection with the sale of the Radisson blu Hotel; (ii) the Company estimation for governmental institutes payments due to previous year exposures (for additional information regarding legal proceedings in connection with VAT assessments for the years 2006-2012 and legal proceedings concerning those assessments see note 13 a 2 of the financial statements); (iii) settlement with the SEC (for additional information see "Item 4 – History and Development of the Company – Recent Events – Approval of an offer of settlement with the SEC in the matter of alleged violation of the FCPA"). This amount can mainly be affected by the court final decision (regarding the VAT assessments), by different arguments of the tax authorities and by the changes in the interest rate and CPI

The Company has additional cash generating abilities that were not taken in to account in preparing the Projected Cash Flow detailed above. The following describes the Company's assumptions regarding these additional cash generating abilities:

Item	Amount (NIS million)	Additional information
Plot in Kochi, India	5	Based on transaction signed on January 14, 2016_for the sale of this plot. For additional information see "Item 4 - Information on the Company – History and Development of the Company – Recent Events – Agreement for the sale of Land Plot in Kochi, India".
Shares in Olive	4	

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The Company's holdings in Olive is approximately 16.3%. The estimation of the consideration for the Company's holdings in Olive is based on preliminary analysis done internally by the Company.

Share in PC (45%)	-	Due to the significant debt burden of PC and the going concern note included in PC's financial statements, the Company assume that its equity position in PC is negligible.
Vendor loan in respect of the sale of our holding in Radisson	36	Represents the principal and interest payments with respect to the vendor loan which was granted by the Company to the Purchased of the Radisson Blu Hotel. The vendor loan is due 3 years from the closing date (i.e.: December 2020).
Total	45	

There were no material differences between the projected cash flow and actual cash flow in 2017 and therefore the Company does not attach a comparison table between them.

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The information detailed above, concerning the Company's cash flow forecast, including the materialization, occurrence, consummation and execution of the events, transactions and of the assumptions on which such Projected Cash Flow is based, are forward looking information as defined in the Securities Law, 5728-1968. This information includes forecasts, subjective, assessments, estimates, etc. and is based, among other things, on the Company management's past experience. Furthermore, some of such information is based on future data and internal estimates by the Company's management made at the current time, and there is no certainty that they will materialize, in whole or in part, due to factors that are not in the Company's control. It is hereby clarified that there is a likelihood that said forward looking information will not be realized in whole or in part, both with respect to the Company's forecasts and with respect to the working assumptions on which they are based.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

The Israeli government encourages industrial companies by grants for research and development activities through grants by the National Authority for Technological Innovation, or ("**NATI**") (formerly known as the Office of the Chief Scientist of the Ministry of Economy and Industry, or the OCS).

Each of InSightec's and Gamida's research and development efforts had been financed, in part, through NATI grants. InSightec and Gamida (only for Gamida's NiCord development) have received or were entitled to receive grants totaling \$29.8 million and \$25.3 million, respectively, from NATI since their respective inception and each of them is required to repay such grants through payment of royalties to NATI each respective revenues until the entire amount is repaid.

Each of InSightec's and Gamida's technology developed with NATI funding is subject to transfer restrictions, which may impair their ability to sell their technology assets or to outsource manufacturing. The restrictions continue to apply even after InSightec or Gamida has paid the full amount of royalties' payable for the grants. In addition, the restriction may impair InSightec's and Gamida's ability to consummate a merger or similar transactions in which the surviving entity is not an Israeli company.

The total NATI grants received by InSightec during 2017, 2016 and 2015 were \$ 0.1million, \$1.5 million and \$0.3 million, respectively, and the total NATI grants received by Gamida during 2017, 2016 and 2015 were \$1.5 million, \$4.3 million and \$3.2 million, respectively.

D. TREND INFORMATION

Romania – Romania is a business destination for global investors and enjoys a growing, stable economy. In 2017, Romania registered GDP growth of approximately 7%, the highest in the European Union, following a strong 2016, when GDP increased by 4.8%, which was also the highest in the European Union. This was the seventh consecutive year of growth. Retail sales, which registered one of the highest growths in the EU (10.7% in 2017, year on year), continue to be the main driver of the economy, fueled by the increase in net average wages (11.7% year on year, reaching €567 in December 2017), although this is based on a low base.

In 2007/2008 Romania had a very liquid real estate investment market with total volumes of over €2 billion and €1 billion respectively, despite the limited availability of modern products at the time. Romania was then the third largest investment market in terms of deal flow in the CEE (after Poland and the Czech Republic). Between 2009 and 2013, volumes decreased significantly, as the number of active players plunged sharply. Transactional activity picked up in 2014, when approximately €1.17 billion was transacted (including a number of unique, very large deals) and 2015, when the property investment volume was approximately €670 million. The increasing trend continued in 2016 and 2017, when close to €900 million and €1 billion were transacted. Given its size in terms of population and forecasted GDP, it is expected that Romania should be second only to Poland in the CEE in terms of investment volumes at some point over the coming years.

Prime office yields are at 7.5%, prime retail yields at 7.25%, while prime industrial yields are at 8.5%. Yields for office and retail are at the same level as 12 months ago, while industrial yields have compressed by 50 bps over the year. There is soft downward pressure on yields and in 2018 there may be limited compression in case prime assets will transact.

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India

Amidst the uncertainty in the world economy and the challenges being faced by emerging economies, India's macro-economic stability continues to improve. Consumer Price Inflation (CPI) accelerated to 5.2% in December, 2017 over the same month the previous year. CPI Inflation reached 4.88% in November and 3.58 % in October, 2017. India's Current Account Deficit, on a cumulative basis, narrowed to 0.7 per cent of GDP in 2016-17 from 1.1 per cent in 2015-16 on the back of the contraction in the trade deficit. India's trade deficit narrowed to \$ 112.4 billion in 2016-17 from \$ 130.1 billion in 2015-16. Foreign Direct Investment (FDI) inflows to India in 2016-17 at \$60.2 billion increased significantly from \$55.6 billion in 2015-16. A number of global reports and assessments, over the last two years, have shown that India has considerably improved its policies, practices and economic profile. According to IMF forecast, India is expected to be one of the fastest growing major economies in 2018.

With the objective of doing away with the need for multiple indirect taxes and thereby making it easier for doing business, the government of India introduced the Goods and Service Tax ("GST") effective from July 1, 2017. The GST is India's biggest tax reform.

With the objective to safeguard consumer interests, the Government of India enforced the Real Estate (Regulation and Development) Act, 2016 nationwide on May 1, 2017. For a sector that did not have any regulatory structure, this historic move was heralded as an inflection point that will change the manner in which real estate is transacted in India. Provisions such as mandatory disclosures by promoters and prior approvals before launching the project, were targeted to weed out fly-by-night operators and bring financial discipline, which will spike investor interest.

The slew of simultaneous policy reforms in the form of the Real Estate (Regulation and Development) Act, 2016 (RERA) and GST implementation have increased the gestation period for sale closures though buyers remaining positive about ready to occupy products

In 2017, Bengaluru's residential market surrendered to the pressures of crumbling sales volume. From a peak of 57,366 residential units sold in 2013, the sales volume noted a stark 40% decline at the end of 2017, albeit green shoots of recovery were visible in the latter half of 2017. No longer bucking the trend, Bengaluru's residential market has been impacted by a variety of factors impacting both demand and supply. The stress in the market is also captured in the age of unsold inventory, which has progressively increased from 7.5 quarters in 2014 to 13 quarters in 2017.

The Chennai residential market that had just begun to show some promise of a recovery during the second half of 2017, once again broke new lows in terms of sales and supply numbers during the second half of 2017. The ongoing

slowdown in the country in coupled with to its own issues ranging from political uncertainty to floods, the Chennai residential market had been in a downward slope over the past three years. The 33% year-on-year (YoY) drop in the second half of 2017 residential supply levels, pushed down the annual supply number under 10,000 units for the first time during this decade. Both supply and sales for the Chennai residential market came in at their lowest levels since 2011.

E. OFF-BALANCE SHEET ARRANGEMENTS

The following are our off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that we believe are material to investors:

In the framework of the transactions for the sale of our holdings in certain subsidiaries or projects, or the realization and sale of certain business activities, we have undertaken to indemnify the respective purchasers for any losses and costs incurred in connection with the sale transactions. The indemnifications usually include: (i) Indemnifications in respect of integrity of title on the assets and/or the shares sold (i.e.: that the assets and/or the shares sold are owned by us and are free from any encumbrances and/or mortgage and the like). Such indemnifications generally survived indefinitely and are capped to the purchase price in each respective transaction. (ii) Indemnifications in respect of other representations and warranties included in the sales agreements (such as: development of the project, responsibility to defects in the development project, tax matters, employees and others). Such indemnifications are limited in time and are generally capped to certain percentages of the purchase price.

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To our best knowledge as of the approval date of our consolidated financial statements, no claim of any kind which was not reflected in the financial statement was received by us with respect to these indemnifications.

A former subsidiary of PC incorporated in Prague (“**Bestes**”), which was sold in June 2006 is a party to an agreement with a third party (“**Lessee**”), for the lease of commercial areas in a center constructed on property owned by it, for a period of 30 years, with an option to extend the lease period by an additional 30 years, in consideration for €6.9 million, which has been fully paid. According to the lease agreement, the Lessee has the right to terminate the lease, subject to fulfillment of certain conditions set forth in the agreement. In case the Lessee leaves the mall before expiration of lease period PC will be liable to repay the remaining consideration in amount of €1.9 Million as of balance sheet date. PC’s management is of the opinion that this commitment will not result in any material amount due to be paid by it.

We and our subsidiaries have entered into indemnification agreements with our respective directors and officers. For more information, see Note 13C to our consolidated financial statements for the year ended December 31, 2017.

As required under the lease agreement for our new and previous executive offices we provided bank guarantees to secure our compliance with the terms of the agreement in the total amount of approximately NIS 1.3 million (\$0.3 million).

We have provided bank guarantees in the total amount of NIS 0.7 million (\$0.2 million) and corporate guarantees for the benefit of the Israeli Customs Authority in the framework of a dispute between our subsidiary and the Israeli Customs Authority which was engaged in the Retail business regarding customs duties charged with respect to the importation of the Mango and GAP brands to Israel. The Customs Authority had agreed that the collection of the disputed customs charges will be put on hold until the resolution of our motion.

PC has contractual commitments in respect of its project in Serbia (Visnjicka) in a total amount of € 19 million (\$20 million) in respect of construction activities, to be paid during 2017.

We have contractual commitments in respect of lease agreement in a total amount of NIS 2 million (\$0.6 million).

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Our contractual obligations consist mainly of: (i) long-term borrowings (mainly loans from banks and financial institutions and non-convertible notes); (ii) commitments towards suppliers, subcontractors and other third parties in respect of land acquisitions and operational lease; and (iii) other long term liabilities reflected in the balance sheet. Our contractual obligations are generally linked to foreign currencies (mainly Euro and U.S. dollar) and/or other indexes (such as the Israeli consumer price index). Below is a summary of our significant contractual obligations as of December 31, 2017 in NIS, based upon the representative exchange rate of the NIS as of the balance sheet date,

against the currency in which the obligation is originally denominated or based on the respective index of the Israeli consumer price index as of December 31, 2017. Actual payments of these amounts (as are presented in our consolidated financial statements) are significantly dependent upon such exchange rates or indexes prevailing as at the date of execution of such obligation, and therefore may significantly differ from the amounts presented herein below.

Contractual Obligations as of December 31, 2017	Payments due by Period (in NIS thousands)			
	Total	Less than 1 Year	2-3 Years	4-5 Years (and thereafter)
Long-Term Debt ⁽¹⁾	1,215,010	612,410	602,599	-
Operating Leases ⁽²⁾	2,263	589	951	723
Total	1,217,272	612,999	603,550	723

Long term debt includes interest that we will pay from January 1, 2017 through the loan maturity dates. Part of our loans bear variable interest rates and the interest presented in this table is based on the LIBOR rates known as of December 31, 2017. Actual payments of such interest (as presented in our consolidated financial statements) are significantly dependent upon the LIBOR rate prevailing as of the date of payment of such interest. For additional information in respect of the long term debt, see “Item 5B – Operating and Financial Review and Prospects – Liquidity and Capital Resources – Other Loans.”

(2) Our operating lease obligations are subject to periodic adjustment of the lease payments as stipulated in the agreements. This table includes the lease obligation based on the most recent available information.

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The following table sets forth information regarding our directors, executive officers and other key employees of the company as of the date of this annual report except as otherwise noted below:

NAME	AGE	POSITION
Ron Hadassi	53	CEO and Chairman of the Board of Directors and Director
Alon Bachar (1) (2)	47	Director
Nitzan Gozlan (1) (2)	52	Director
Boaz Lifschitz (2)	48	Director
Nadav Livni (1)	43	Director
Yael Naftali	38	Chief Financial Officer

(1) Member of the audit committee

(2) Member of the compensation committee

RON HADASSI. Mr. Hadassi serves as the Chairman of our Board of Directors since March 2014 and as the Chief Executive Officer of the Company since January 2018. Mr. Hadassi also serves as the Chairman of Elbit Medical Technologies Ltd Board of Directors since March 2014. Mr. Hadassi serves as the Chairman of Plaza Centers N.V Board of Directors since March 2014. Mr. Hadassi has served as Senior Manager of the Bronfman-Fisher Group until 2002, as well as the Vice Chairman of Super-Sol Ltd., Isralom Properties Ltd., and Shefa Success Logistic (B.P) Ltd. (former name - Palace Industries Ltd.). Mr. Hadassi also served until the summer of 2015 as Executive Chairman and until March 2014 as acting Chief Executive Officer of Nanette Real Estate Group N.V. From 2005 until 2012, Mr. Hadassi served as Chairman of the board of directors of Northern Birch Ltd. (IKEA Israel), and until 2015 as Chairman of a subsidiary. Mr. Hadassi serves as a director of the Carmel Winery. Mr. Hadassi has served on the boards of public companies, including Blue Square Israel Ltd., Blue Square Real Estate Ltd., Bet Shemesh Engines Holdings Ltd., Naaman Group N.V. Ltd. and Olimpia Real Estate Holdings (as well as its subsidiaries). Mr. Hadassi is a banking and finance lecturer at Hebrew University, Jerusalem, the Interdisciplinary Center, Herzeliya, and the College of Management, Rishon LeZiyon, holds a B.A in Economics and Political Science, an LL.B and a MBA, all from Tel Aviv University, and is a member of the Israeli Bar.

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ALON BACHAR. Mr. Bachar, serves as a member of our Board of Directors since March 2014. Mr. Bachar serves as a member of Elbit Medical Board of Directors since March 2014. Mr. Bachar has served as the Chief Financial Officer of the Bronfman-Fisher Group since 2006, as the Chief Executive Officer of Isralom Properties Ltd. since 2012, and in addition currently serves as a Chief Executive Officer of Shefa Success Logistic (B.P) Ltd. Mr. Bachar served in the past as a director of various private and public companies, such as Sufersal Ltd. From 2003 until 2006, Mr. Bachar served as the Deputy Chief of the corporate division of Bank of Jerusalem Ltd. From 1999 until 2003, Mr. Bachar served as Credit Officer of the corporate division in the Industrial Development Bank of Israel Ltd. From 1996 until 1999, Mr. Bachar served as an Analyst and Credit Officer in the corporate division of Bank Leumi L'Israel B.M. Mr. Bachar holds a B.A in Economics from Tel Aviv University, as well as an MBA from Ben-Gurion University.

NITZAN GOZLAN – Ms. Gozlan served as a member of our Board of Directors since December 2017. Ms. Gozlan is a co-founder of a company that provides lectures on the topics of financial management of companies, and is a lecturer at the MA program in Kibbutzim Education College, Tel Aviv. From 2011 until 2016 Ms. Gozlan served as an external director, chairman of the balance committee and a member of the audit committee of Isralom Properties Ltd. From 1996 until 1998 Ms. Gozlan served as the Head of Policy Production Department at Peltours Insurance Company Ltd. From 1994 until 1995 Ms. Gozlan served as an Internal Auditor in Bank Egud Ltd and from 1991 until 1994 she served as a business analyst in Dan and Bradstreet, Israel Ltd. Ms. Gozlan holds a BA in Finance and Marketing and an MA in Educational Management and Leadership, both from the Centre for Academic Studies, Or Yehuda, Israel. In addition, Ms. Gozlan holds a Ph.D in Education from the International University of Business & Law – IUBL, USA.

BOAZ LIFSCHITZ. Mr. Lifschitz has served as a member of our Board of Directors since March 2014. Mr. Lifschitz is a co-founder and General Partner of Peregrine Ventures, a venture capital fund founded in 2001. Mr. Lifschitz previously served as Chief Operating Officer and Chief Financial Officer of VisionCare Ophthalmic Technologies. Mr. Lifschitz currently serves as Chairman of Cartiheal Ltd. and is a board member of other privately held companies. He previously served on the board of Neovasc Inc. (NVCN). Mr. Lifschitz holds a B.Sc. from Bar-Ilan University as well as a M.Sc. from Boston University jointly with Ben Gurion University.

NADAV LIVNI. Mr. Livni has served as a member of our Board of Directors since March 2014. Mr. Livni is the founder and Managing Director of The Hillview Group, an independent Merchant Bank based in London. Since 2006, The Hillview Group has expertly managed over \$3 billion of strategic capital market transactions and principal investments across Central and Eastern Europe, Russia, Africa and the U.S. During his 20 year career, Nadav has advised governments, controlling shareholders and entrepreneurs on all aspects of capital markets transactions. In previous roles at Deutsche Bank, Goldman Sachs and KPMG, Nadav participated in over \$100 billion of transactions in the real estate, financial services, healthcare and consumer sectors, specializing in mergers and acquisitions, structuring innovative funds and all aspects of capital raising in the public and private markets. Nadav is a qualified Chartered Accountant, holds a Bachelor of Commerce from the University of the Witwatersrand, a MSc. in Finance from City University Business School and is a guest speaker at London Business School on the topics of private equity and real estate investment.

Yael Naftali On May 1, 2016, Ms. Naftali was appointed as our Chief Financial Officer. In addition, Ms. Naftali served as our Chief Controller from 2010 until 2016. Ms. Naftali also serves as Chief Executive Officer of Elbit Medical as of January 1, 2018. From 2007 until 2010 Ms. Naftali served as the Controller for a public company in the field of real estate and from 2004 until 2007 she was an intern at KPMG Israel. Ms. Naftali holds a B.A. in Accounting and Economics from the Hebrew University of Jerusalem and is a Certified Public Accountant.

B. COMPENSATION OF DIRECTORS AND OFFICERS

Aggregate 2017 Compensation of Directors and Officers

The aggregate compensation paid to or accrued on behalf of all persons as a group (8 persons – who served in the capacity of director or executive officer in the year ended December 31, 2017) was approximately NIS 6,024 (approximately \$1,738). Such aggregate amount includes management fees, director's fees salaries and certain fringe benefits and accrued amounts in respect of pensions and retirement benefits, but does not include stock-based compensation expenses relating to options granted to our directors and officers.

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In addition, the company issued option to its officers pursuant to various Employees Stock Option Plans adopted by us, our subsidiaries and our associates. For information regarding the terms of grant and exercise under all plans, see “Item 6E – Share Ownership”.

The table below reflects the compensation granted (including accrued compensation) during the year ended December 31, 2017 to office holders in the Company and its controlled companies in connection with their service in the Company and/or in its controlled subsidiaries. We refer to the five individuals for whom disclosure is provided herein as our “Covered Executives.”

For purposes of the table below, “compensation” includes salary cost, consultancy fees, bonuses, equity-based compensation, retirement or termination payments, benefits and perquisites such as car, social benefits and any undertaking to provide such compensation. All amounts reported in the table are in terms of cost to the Company, as recognized in our consolidated financial statements for the year ended December 31, 2017 plus compensation paid to such Covered Executive following the end of the year in respect of services provided during the year. Each of the Covered Employees was covered by the respective D&O liability insurance policy and was entitled to indemnification and exculpation in accordance with applicable law.

Name and Principal Position ⁽¹⁾	Salary Cost ⁽²⁾	Consultancy Fees	Bonus ⁽³⁾	Equity-Based Compensation ⁽⁴⁾	Termination cost ⁽⁵⁾	Total (NIS Thousands)
	(NIS Thousands)					
<i>Maurice R. Ferre</i> <i>InSightec's Chairman of the Board and CEO</i>	1,288	-	532	2,188	-	4,008
<i>Kobi Vortman</i> <i>InSightec's vice chairman of the Board and director</i>	1,944	-	500	704	-	3,148
Ron Hadassi – Elbit Imaging's - <i>Chairman of the Board</i>	487	773	619	399	62	2,278
Doron Moshe Elbit Imaging's CEO	1,265		732	-	138	2,135
Jim (Jun) Tao - InSightec's Chief Commercial Officer	1,211	-	368	396	-	1,975

(1) Unless otherwise indicated herein, all Covered Executives are employed on a full-time (100%) basis. The positions of the Covered Executives in this table represent their position as of the date of this filing.

(2)

Salary cost includes the Covered Executive's gross salary plus payment of social benefits made by the Company on behalf of such Covered Executive. Such benefits may include, to the extent applicable to the Covered Executive, payments, contributions and/or allocations for savings funds (e.g., Managers' Life Insurance Policy), education funds (referred to in Hebrew as "*keren hishtalmut*"), pension, severance, risk insurances (e.g., life, or work disability insurance), payments for social security and tax gross-up payments, vacation, car, medical insurances and benefits, convalescence or recreation pay and other benefits and perquisites consistent with the Company's policies.

- (3) Represents annual bonuses granted to the Covered Executives based on formulas set forth in their respective employment agreements.

- (4) Represents the equity-based compensation expenses recorded in the Company's consolidated financial statements for the year ended December 31, 2017 based on the options' grant date fair value in accordance with accounting guidance for equity-based compensation. For a discussion of the assumptions used in reaching this valuation, see Note 2Q to our consolidated financial statements included in this annual report on Form 20-F for the year ended December 31, 2017.

- (5) Termination costs include payment made to retired employees during the year ended December 31, 2017 and/or accrued provision recorded in the Company's consolidated financial statements for the retirement of any Covered Executive.

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Director Compensation

We pay our directors (other than our Chairman and CEO, Ron Hadassi) based on the amount payable to external directors under the Companies Regulations (rules regarding compensations and expenses to external directors), 2000 (the “**Compensation Regulations**”) taking into account our shareholders’ equity as of the end of the previous year. Accordingly, in 2017, we paid each of our directors (both external and others) NIS 37,115 (approximately \$ 10,705 per year and NIS 3,300 (approximately \$ 952 per meeting (or a smaller amount in case they did not physically attend the meeting)).

Adoption of Compensation Policy

In August 2014, following our shareholders’ approval, we adopted a compensation policy for our officers and directors (the “**Compensation Policy**”), in accordance with Amendment No. 20 to the Israeli Companies Law, pursuant to which we are required to determine the compensation of our officers and directors in accordance with a compensation policy. In March 2016 and in October 2016, following our shareholders’ approvals, we adopted an amendments to our compensation policy (the “**Amendments**”). The Compensation Policy and the Amendments was previously approved by our board of directors, upon recommendation of our Compensation Committee. An English translation of the Compensation Policy and the Amendments were filed with the Securities and Exchange Commission. For further discussion regarding the Compensation Policy and the Amendments, please see "Item 10B – Memorandum and Articles of Association, below and our Reports on Form 6-K filed on July 10, 2014, August 14, 2014, February 24, 2016 and September 6, 2016 (as exhibit to the proxy statement of the March 31, 2016 extraordinary shareholders meeting and the October 13, 2016 annual shareholders meeting, respectively) which are incorporated herein by reference.

Services of Our Chairman and CEO, Mr. Ron Hadassi

In December 2017, our shareholders approved a compensation plan for Ron Hadassi for his services as the Chairman of our Board of Directors and our Chief Executive Officer, effective as of January 1, 2018. The main terms of the consideration for such services are as follows:

In December 2017, our shareholders approved the terms of a compensation for Mr. Hadassi for his services as the Chairman of our Board of Directors and our Chief Executive Officer as part time position (80% of his working time), effective as of January 1, 2018. The main terms of his compensation are as follows:

A fixed cash fee of NIS 60,000 per month, which will be linked to the Israeli consumer price index (the “**Fixed Compensation**”). Additional payments, benefits and expenses, including a company car and related expenses, income tax and VAT in the total amount of 55% of the Fixed Compensation, including any applicable taxes deriving from the Fixed Compensation and benefits. Notwithstanding the foregoing, any amounts of VAT refundable to (or subject to offset by) the Company shall be in addition to the Fixed Compensation and such 55% addition. Compensation for Ron Hadassi's position as the Chairman of our affiliate, PC, is at monthly cost of up to \$18,000. Furthermore, the total fixed cost per annum of Ron Hadassi's employment with the Company as the CEO and Chairman of the Board of the Company and as the Chairman of PC shall not exceed NIS 1,900,000 and if required, Ron Hadassi's fixed monthly compensation from the Company shall be reduced accordingly in order to meet this limitation. Annual bonus of up to 5 salaries (i.e., NIS 300,000) for achieving Company goals determined by the Compensation Committee and Board of Directors in accordance with the Company's Compensation Policy.

In addition, And notwithstanding the provisions of the Company's Compensation Policy, in case there is a "going concern note", then the entitlement to a bonus for that year (beginning from the year 2016) will be brought for further discussion and approval before the Compensation Committee, which will decide as follows:

1. If and to the extent that the Committee believes that the "going concern note" is due to the Company's cash flow difficulties, then the bonus will not be paid.
2. If and to the extent that the Committee believes that the "going concern note" is not due to a difficulty in the cash flow of the Company, then it may approve the bonus in whole or in part according to the relevant circumstances.

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A special bonus based on the realization of two main assets of the Company (one of them is the Radisson Blu Hotel that was sold and the other is the holdings in InSightec).

The payment of the annual bonus plus the special bonus for each of the years 2017 through 2019 shall not exceed the aggregated amount of NIS 300,000, subject to the specific terms set in the Company's Compensation Policy.

38,445 options exercisable (in consideration price for an exercise price of 13.426 NIS per share) into 38,445 ordinary shares, with no par value, of the Company, constituting approximately 0.4% of the Company's issued and outstanding share capital on a fully diluted basis, and 12,298,913 options exercisable (in consideration price for an exercise price of 0.106 NIS per share) into 6,149,456 ordinary shares, with no par value, of our subsidiary Elbit Medical Technologies Ltd. ("**Elbit Medical**"), constituting approximately 0.33% of Elbit Medical's issued and outstanding share capital on a fully diluted basis, both with a vesting period of 3 years, subject to Mr. Hadassi's continued service with the Company.

Mr. Hadassi shall be entitled to a three month notice period prior to the termination of his position.

Mr. Hadassi shall be entitled to receive six salaries retirement bonus (i.e., NIS 360,000).

Mr. Hadassi shall be covered under the Company's Directors and Officers liability insurance policies and the Company's indemnification to its officers.

Services of our CFO, Ms. Yael Naftali

In November 2017, our shareholders approved the terms of compensation for Ms. Naftali for her services as the Company's Chief Financial Officer and as the Chief Executive Officer of Elbit Medical, effective as of January 1, 2018. The main terms of her compensation are as follows:

A fixed salary of NIS 50,500 per month and as of January 1, 2019 NIS 52,500 per month.

Annual bonus of up to 4 salaries (i.e. NIS 202,000 in 2018 and NIS 210,000 in 2019) for achieving Company goals determined by the Compensation Committee and Board of Directors in accordance with the Company's Compensation Policy.

In addition, And notwithstanding the provisions of the Company's Compensation Policy, in case there is a "going concern note", then the entitlement to a bonus for that year (beginning from the year 2016) will be brought for further discussion and the approval before the Compensation Committee, which will decide as follows:

1. If and to the extent that the Committee believes that the "going concern note" is due to the Company's cash flow difficulties, then the bonus will not be paid.
2. If and to the extent that the Committee believes that the "going concern note" is not due to a difficulty in the cash flow of the Company, then it may approve the bonus in whole or in part according to the relevant circumstances.

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Ms. Naftali was granted 6,371,100 options exercisable into 3,185,550 shares of Elbit Medical and subsequently exercised all such options. During 2016 Ms. Naftali was granted 10,000,000 options exercisable (in consideration for an exercise price of NIS 0.1 per share) into 5,000,000 shares of Elbit Medical. One third of such options were vested and exercised. Another third of those options have vested but have not been exercised and another third of such options have not yet vested.

Ms. Naftali will be entitled to receive a retirement bonus equal to 6 salaries (3 salaries calculated based on the gross monthly salary and 3 salaries calculated based on the cost of salary to the Company).

Special bonus: (i) bonus for the realization of two main assets of the Company (one of them is the Radisson Blu Hotel that was sold and the other is the holdings in InSightec), and (ii) NIS 255,000 if and to the extent that the following two criteria are met:

(i) Full repayment of the Company's notes (series I); and (ii) continuous employment of Ms. Naftali by the Company until December 31, 2019 (provided however that Ms. Naftali's term of office was not terminated by the Company except for termination for cause).

A two month notice prior to termination of employment.

Ms. Naftali shall be covered under the Company's Directors and Officers liability insurance policies and the Company's indemnification to its officers.

Services of our Director, Mr. Boaz Lifschitz

In December 2017, our shareholders approved a one-year renewal (until October 2018) of the consultancy agreement with Mr. Lifschitz, of his advisory services in the field of life sciences (i.e. InSightec and Gamida) (the "Services") to be provided to the Company and its subsidiaries (and other related companies). In consideration for such services, the Company shall pay Mr. Lifschitz an annual fee of NIS 29,270 plus VAT, payable in quarterly installments in arrears and a meetings attendance fee of NIS 930 per meeting (i.e. meeting of the board of directors of InSightec and Gamida and any of their committees). Such fees are in addition to the fees Mr. Lifschitz is entitled to in his capacity as member of the board of directors of the Company and of Elbit Medical.

Services of Mr. Doron Moshe

In March 2016, our shareholders approved the terms of office and employment for Mr. Moshe for his services as the chief executive officer of our Company. The main terms of office and employment for his service are as follows:

A fixed cash fee of NIS 72,800 per month, which will be linked to the Israeli consumer price index (the "**Fixed Compensation**"). In addition Mr. Moshe shall be entitled to certain customary benefits, such as, use of a car, phone and cell phone and other work related expenses in accordance with the Company's practices, managers insurance and/or pension funds, vacation days and sick leave, as well as other benefits consistent with employee social welfare

benefits, such as contributions to pension funds and a study fund and recuperation pay (“*dmei havraa*”). In addition, Mr. Moshe will be entitled to company car, personal laptop, communication expenses reimbursement and cell phone. The tax cost of the company car, certain contribution by the Company to the pension fund and study funds that are higher than maximum amount under the Israeli tax regulations, and communication expenses shall be grossed up as part of Mr. Moshe salary.

Target-based Bonus, for each calendar year during his Term of office, which will be based on pre-defined objectives determined by the Company’s compensation committee and approved by the Company’s Board of Directors, up to an amount not exceeding 5 Monthly gross salaries.

Special Bonus based on the realization of two main assets of the Company (one of them is the Radisson Blu Hotel that was sold and the other is the holdings in InSightec). The payments of bonuses (target based Bonus plus Special Bonus) for the year 2017 shall not exceed the aggregated amount equal to eight monthly gross Salaries (NIS 582,400 for 2017) subject to the specific terms set in the Company’s Compensation Policy.

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Equity Incentive: Mr. Moshe holds the following - 19,851,000 Elbit Medical's options exercisable in to 9,925,500 ordinary shares; 16,666 PC's options exercisable in to 16,666 ordinary shares.

Mr. Moshe shall be entitled to a period of three months' notice prior of his employment. In addition, Mr. Moshe Shall be entitled to retirement bonus of nine additional months, during which he shall be entitled to payment of Salary and all applicable social benefits contributions, as well as to continue the use of the company car and cell phone.

Mr. Moshe shall be covered under the Company's Directors and Officers Liability insurance policies and the Company's indemnification undertaking shall remain valid and binding and shall not be changed, cancelled or nullified by virtue of the aforementioned engagement.

C. BOARD PRACTICES

Corporate Governance Practices

We are incorporated in Israel and therefore are subject to various corporate governance practices under the Companies Law, relating to such matters as the audit committee, the internal auditor and approvals of interested-party transactions. These matters are in addition to the ongoing listing conditions of the Nasdaq Global Select Market and other relevant provisions of U.S. securities laws. Under the NASDAQ rules, a foreign private issuer may generally follow its home country rules of corporate governance in lieu of the comparable NASDAQ requirements, except for certain matters such as composition and responsibilities of the audit committee and the independence of its members. For further information, see "Item 16G. Corporate Governance."

Under the Companies Law, our board of directors must determine the minimum number of directors having financial and accounting expertise, as defined in the regulations promulgated under the Companies Law that our board of directors should have. In determining the number of directors required to have such expertise, the board of directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our board of directors has determined that we require at least two directors with the requisite financial and accounting expertise and that two of our directors fulfill the requirements promulgated under the Companies Law.

Election of Directors

Pursuant to our Amended and Restated Articles of Association, the size of our board of directors shall be no less than 4 persons but no more than 7, excluding any external directors. Our directors are generally elected by our shareholders at the annual meeting of the shareholders by a simple majority. The directors hold office until the next annual meeting

of our shareholders. Our board of directors may appoint additional directors to our board of directors in the event of a vacancy on or an enlargement of the board of directors up to the maximum number provided in our articles of association. Any director so appointed will hold office until the next annual meeting of the shareholders. Our board of directors currently consists of six members.

In addition, the Companies Law provides that a person will not be elected and will not serve as a director in a public company if he or she does not have the required qualifications and the ability to dedicate an appropriate amount of time for the performance of his or her director position in the company, taking into consideration, among other factors, the special needs and size of the company. A general shareholders meeting of a company whose shares are publicly traded, at which the election of a director is to be considered, will not be held unless the nominee has declared to the company that he or she complies with the above-mentioned requirements, and the details of his or her applicable qualifications are provided, and in case such nominee is an “independent director” as defined in the Companies Law (see below), that such nominee has also declared that he or she complies with the independence criteria under the Companies Law. Each of our elected directors has declared to our board of directors that he or she complies with the required qualifications under the Companies Law for appointment as a member of our board of directors, detailing his or her applicable qualifications, and that he or she is capable of dedicating the appropriate amount of time for the performance of his or her role as a member of our board of directors.

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Alternate Directors

Our Amended and Restated Articles of Association provide that any director, other than the external directors, may, by written notice to us, appoint another person, who is not a director, to serve as an alternate director, subject to the approval of the chairman of the board. In the case of an appointment made by the chairman, such appointment shall be valid unless objected to by the majority of other directors. The term of appointment of an alternate director is unlimited in time and scope unless otherwise specified in the appointment notice, or until notice is given of the termination of the appointment. No director currently has appointed any other person as an alternate director. The Companies Law stipulates that a person who serves as a director may not serve as an alternate director and that external director may not appoint alternate director, except under very limited circumstances. An alternate director has the same responsibility as a director, and shall possess all the required qualifications to serve as a director.

Adoption of Companies Regulation Leniency with Respect to Composition of Board of Directors

On August 18, 2016, our Board resolved to adopt the corporate governance structure set forth in Regulation 5D of the Israeli Companies Regulations (Relief for Public Companies with Shares Listed for Trading on a Stock Market Outside of Israel), 5760-2000. In accordance with such Regulation, a public company with securities listed on certain foreign exchanges, including NASDAQ, that satisfies the applicable foreign country laws and regulations that apply to companies organized in that country relating to the appointment of independent directors and composition of audit and compensation committees are exempt from the composition requirements set forth in the Israeli Companies Law.

In accordance with such resolution, for so long as the Company does not have a controlling shareholder as defined in the Companies Law, the Company shall comply with the NASDAQ Listing Rules in connection with the number of independent directors on the Board, and the composition of each of the Audit Committee and the Compensation Committee, in lieu of such requirements set forth under the Israeli Companies Law.

Under the NASDAQ rules, a majority of our directors are required to be “independent directors” as defined in NASDAQ’s rules. The current composition of our board of directors consists of a majority of independent directors, who have been designated as such by the audit committee.

Board Committees

Our board of directors has established an audit committee and a compensation committee, as described below:

Audit committee

Due to recent amendments to Israel legislation, as mention above, “dual listed” companies are not required to comply with the Companies law requirement regarding the Audit committee composition, subject to full compliance with SEC and Nasdaq requirement.

The responsibilities of the audit committee include identifying and examining flaws in the business management of the company and suggesting appropriate course of actions, recommending approval of interested party transactions, assessing the company’s internal audit system and the performance of its internal auditor.

Our audit committee is comprised of four members, all of whom meet all requisite independence and other professional requirements. Our audit committee operates in accordance with a charter. Within the framework of such governing documents, the audit committee oversees the appointment, compensation, and oversight of the public accounting firm engaged to prepare or issue an audit report on our consolidated financial statements. The audit committee’s specific responsibilities in carrying out its oversight role include the approval of all audits and permitted non-audit services to be provided by the external auditor.

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Our audit committee is also authorized to act as our “qualified legal compliance committee”. As such, our audit committee will be responsible for investigating reports, made by attorneys appearing and practicing before the SEC in representing us, of perceived material violations of U.S. federal or state securities laws, breaches of fiduciary duty or similar material violations of U.S. law by us or any of our agents. Under NASDAQ rules, the approval of the audit committee is also required to effect related-party transactions that would be required to be disclosed in our annual report.

NASDAQ rules require that director nominees be selected or recommended for the board’s selection either by a committee comprised solely of independent directors or by a majority of independent directors. For a foreign private issuer, such as our company, NASDAQ rules allow foreign private issuers to follow “home country practice”. On September 3, 2015 the board approved the exemption from the requirement to select board nominees by the nomination committee. The compensation of a company’s chief executive officer and other executive officers is required to be approved either by a majority of the independent directors on the board or a committee comprised solely of independent directors.

An “independent director” is defined as an external director or a director who meets the following conditions: (i) satisfies certain conditions for appointment as an external director and the audit committee has determined that such conditions have been met and (ii) has not served as a director of the company for more than nine consecutive years, with any interruption of up to two years in service not being deemed a disruption in the continuity of such service Or for a “dual listed” company like us and independent director may be considered as such through compliance with Nasdaq requirements.

Our audit committee has the authority to retain independent legal, accounting or other consultants as advisors, for which we will provide funding, and handle complaints relating to accounting, internal accounting controls or auditing matters.

The members of our audit committee are Alon Bachar, Nitzan Gozlan and Nadav Livni.

Compensation Committee

Due to recent amendments to Israeli legislation, as mentioned above, “dual listed” companies that: (i) has no Controlling (as such term is defined under the Companies Law) shareholder; and (ii) are in compliance with SEC and Nasdaq requirements regarding nomination of independent directors and regarding the composition of the audit committee and compensation committee); are exempt, inter alia, from the requirement to comply with the Companies law provisions regarding the compensation committee composition.

Under the Companies Law, the role of the compensation committee is to recommend to the board of directors, for ultimate shareholder approval by a special majority, a policy governing the compensation of office holders based on specified criteria, to review modifications to the compensation policy from time to time, to review its implementation and to approve the actual compensation terms of office holders prior to approval by the board of directors, and to resolve whether to exempt the compensation terms of a candidate for chief executive officer from shareholder approval. The members of our compensation committee are Nitzan Gozlan, Boaz Lifschitz and Alon Bachar.

Financial Statements Review Committee

Pursuant to the Israeli Companies Regulations the financial reports of a public company such as our company may be brought for discussion and approval of the board only after such committee has discussed and formulated recommendations to the board in connection with: (1) the valuations and estimates used in connection with the consolidated financial statements; (2) the internal controls related to financial reporting; (3) the completeness and appropriateness of disclosure in the consolidated financial statements; (4) the accounting policy adopted and accounting treatment applied in the material matters of the company; and (5) valuations, including the assumptions and estimates underlying them, on which data in the consolidated financial statements is provided. The Financial Statements Review Committee must consist of at least three members, the chairperson of the committee must be an independent Director, and the majority of its members must be directors who meet certain independence requirements of the Companies Law, and, among other criteria, all of its members must be able to read and understand financial statements, with at least one of the members having “financial and accounting expertise” (as defined above).

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Pursuant to the Companies Regulations, the audit committee may serve as the Financial Statements Review Committee subject to fulfillment of the aforementioned conditions.

Internal Auditor

Under the Companies Law, our board of directors is required to appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine, among other things, whether our actions comply with the law and proper business procedure. The internal auditor may not be an interested party, an office holder, or a relative of any of the foregoing, nor may the internal auditor be our independent accountant or its representative. The Companies Law defines the term “interested party” to include a person who holds 5% or more of our outstanding share capital or voting rights, has the right to appoint one or more directors or the general manager or who serves as a director or as the general manager. Our internal auditor is Mr. Daniel Shapira, a Certified Public Accountant in Israel.

For information on the duties of directors, officers and shareholders and requirements for the approval of related-party transactions, please see "Item 10B - Memorandum and Articles of Association".

D.EMPLOYEES

As of March 31, 2018, we employed or contracted 5 persons as employees, administration and managerial services, all of whom work out of our headquarters in Israel. As of March 31, 2018, PC had 11 employees and consultants in the Netherlands, Greece and India.

As of March 31, 2017, we employed or contracted 7 persons as employees or consultants in investment, administration and managerial services, all of whom work out of our headquarters in Israel. As of March 31, 2017, PC had 61 employees, consultants and part time employees in the Netherlands, CEE, Greece and India. As of March 31, 2017, our Hotel division had 402 employees.

As of March 31, 2016, we employed or contracted 9 persons as employees or consultants in investment, administration and managerial services, all of whom work out of our headquarters in Israel. As of March 31, 2016, PC had 83 employees, consultants and part time employees in the Netherlands, CEE, Greece and India. As of March 31, 2016, our Hotel division had 420 employees.

We are not party to any collective bargaining agreement with our employees or with any labor organization.

E.SHARE OWNERSHIP

None of our officers and/or directors beneficially own at least 1% of the Company's share capital.

Incentive Plan for the Chairman of our Board, Mr. Ron Hadassi

As part of the compensation plan for the Chairman of our Board, Mr. Ron Hadassi, approved at our General Meeting held in October 2016 (the "**Chairman's Incentive Plans**"), Mr. Hadassi was granted options exercisable in to 38,445 ordinary shares, no par value, of the Company, constituting approximately 0.4% of our issued and outstanding share capital on a fully diluted basis. In addition Mr. Hadassi has been granted with 12,298,913 options convertible into maximum 6,149,456 shares of Elbit Medical constituting approximately 0.33% of our issued and outstanding share capital on a fully diluted basis.

2011 Employees and Officers Incentive Plan for Elbit Medical Technologies Ltd.'s Shares

In April 2011, our board of directors adopted the Elbit Employees and Officers Incentive Plan for Elbit Medical Technologies Ltd.'s shares (the "**2011 Plan**") for the grant of up to 19,829,625 options exercisable into 9,930,437 ordinary shares of Elbit Medical for an exercise price of NIS 0.40. The exercise price of each option will be reduced upon distribution of dividends, stock dividends etc. The exercise mechanism of the options into Elbit Medical's shares will be as follows: at the exercise date the Company shall transfer to each exercising option holder shares of Elbit Medical (owned by the Company) equal to the difference between (A) the price of Elbit Medical's shares on the TASE on the exercise date, provided that if such price exceeds 100% of the exercise price, the opening price shall be set as 100% of the exercise price (the "**Capped Exercise Price**"); less (B) the exercise price of the options; and the result (A minus B) will be divided by the Capped Exercise Price. In November 2012, our board of directors adopted an amendment to the 2011 Plan increasing the number of options issuable from 19,829,625 to 23,463,500 and resolved to grant an additional 3,633,875 options to employees and officer of the Company. Further, the Board had decided to amend the exercise price per share to NIS 0.133 and extend the expiration date of such options to November 29, 2017 in respect of employees and officers who served at Elbit Group at that time.

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In September 2014, we granted an additional 1,800,000 options to past and present officers of Elbit Medical with an exercise price of NIS 0.115 per share.

In March 2016, we granted an additional 1,250,000 options to the new appointed chief financial officer of Elbit Medical at a price of NIS 0.10 per share.

In October 2016, we granted an additional 1,537,364 options to our chairman of the Board with an exercise price of NIS 0.106 per share. In March 2017 our board of directors has approved a grant of additional 62,500 options to an employee of the company and decided to extend the terms of the option to December 31, 2018 for the Company's officers and June 30, 2019 for the company's employees who served at Elbit at that time

As of March 31, 2018, 2,821,455 options were outstanding under the 2011 Plan of which 127,543,835 were vested.

All options under the 2011 Employees Stock Option plan has expired.

PC Share Option Scheme, as amended

PC's Option Plan, as amended in August 2007, November 2008 and November 2011 ("**PC's First Option Plan**") provides for the grant of up to 338,385 options to employees, directors, officers and other persons who provide services to PC, including our employees for no consideration. In November 2012 the number of options to be granted was increased by 14,000,000 additional options ("**PC's Second Option Plan**"). The exercise price per option is the average closing price of PC's shares traded on the London Stock Exchange ("**LSE**") during the fifteen-day period prior to the date of grant.

Under the terms of both of PC's Option Plans, options vest over a period of three years, such that 33.33% of the options granted become exercisable on each of the first, second and third anniversaries of the date of grant.

Upon the occurrence of an event of change of control in PC (as defined in PC's Option Plan), the vesting of all the outstanding options granted by PC that were not exercised or did not expire by such date, shall be fully accelerated.

As of March 31, 2018, 253,520 options to purchase ordinary shares were outstanding under PC's Option Plan of which 253,520 options were vested.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

We had 9,190,808 ordinary shares outstanding as of April 26, 2018. The voting rights of all shareholders are the same. The following table sets forth certain information as of April 26, 2018, unless stated otherwise, concerning (i) persons or entities who, to our knowledge, beneficially own more than 5% of our outstanding ordinary shares and (ii) the number of our ordinary shares beneficially owned by all of our directors and officers as a group:

Name and Address	Number of Shares Beneficially Owned	Approximate Percentage of Shares	
York Capital Management Global Advisers LLC and/or certain funds and/or accounts managed by it or its affiliates ⁽¹⁾	1,802,428	19.6	%
Davidson Kempner Capital Management LP and/or certain funds and/or accounts managed by it or its affiliates ⁽²⁾	1,314,528	14.3	%
All of our officers and directors as a group. ⁽³⁾	12,815	0.14	%

(1)Based on the Schedule 13D filed with the SEC on February 14, 2017.

(2)Based on information provided by the shareholder to the Company.

(3)Taking into account options that are vested.

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York Capital Management Global Advisers LLC and Davidson Kempner Capital Management LLC, together with their respective affiliates, are holders of the Notes and PC Notes. For further detail, see note 18D to our annual consolidated financial statements incorporated herein by reference.

B. RELATED PARTY TRANSACTIONS

Repayment of Elbit Medical debt to the Company

On March 9, 2018, we announced that following Elbit Medical's public offering of a new series of notes, Elbit Medical had transferred approximately NIS 151 million (approximately \$ 43.7 million) to the Company as an early repayment on account of its debt to the Company. The balance of Elbit Medical's debt to the Company, in the total amount of approximately NIS 2 million (approximately \$ 580 thousand) was converted into approximately NIS 2 million of par value notes from the new series.

York's investment in InSightec Series E Investment Agreement

See "Item 4B – Business Overview – Medical Companies – InSightec – Preferred stock investment round E."

InSightec Amendment to Series D Investment Agreement

In June 2014, InSightec entered into a Series D Preferred Share Purchase agreement with York Global Finance II S.à r.l. (an affiliate of York which is a related party of the Company) and other investors for an investment of up to USD 62.5 million in series D preferred shares of InSightec which than constitutes approximately 25% of InSightec's issued and outstanding share capital on a fully diluted basis. By the end of May 2015 the entire amount was invested ("**Series D Preferred Share Purchase Agreement**") ..On December 31, 2015, InSightec and some of its existing and new shareholders signed and executed an amendment to the Series D Preferred Share Purchase Agreement, as amended from time to time (the "**Amendment to the Share Purchase Agreement**"), under which InSightec completed an investment of \$22 million in consideration for approximately 7.3% of InSightec's outstanding share capital, on a fully diluted basis. The terms and conditions of the investment were the same as in the original Series D Preferred Share Purchase Agreement, based on the same pre-money valuation and subject to certain adjustments. InSightec.

Joint venture agreement with PC

As detailed in Item 4B – Business Overview, in August 2008 we entered into the EPI Agreement with PC, under which, amongst other things, PC was allotted 47.5% of the EPI share capital. EPI is holding two plots in India (in Bangalore and Chennai) in conjunction with local Indian partners and has engaged with certain third parties with respect of the Kochi Island project. As of the date of the execution of the EPI Agreement through the date of this annual report, the Kochi Island project was held through a special purpose vehicle other than EPI. We agreed that 50% of our rights in the Kochi Island project will be held in favor of PC, and we undertook and guaranteed to transfer the holdings in the Kochi project to EPI or 50% to PC within 12 months following the execution of the EPI Agreement, or alternatively to repay the consideration paid by PC for the rights in the project. This undertaking and guarantee have since been extended until August 25, 2013. On November 11, 2013, PC notified us of its demand that we repay the amount paid by PC for the Kochi Island project together with the interest accumulated thereupon, amounting to approximately €4.3 million (US\$ 5.2 million) due to alleged failure to timely meet certain conditions set forth in the EPI Agreement. Following the approval of the Audit committee of PC and us we agreed that we will have the full rights in the Kochi Project and the amount outstanding from the Company to PC will be repaid in installments as scheduled in the agreement. As of the filing of this annual report the total amount outstanding under this loan is approximately €2.7 million.

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Relationship Agreement with PC

On October 27, 2006, we entered into an agreement with PC pursuant to which we undertook, as long as we hold at least 30% of the issued share capital of PC, that neither we nor any person connected with us will compete with the business of PC related to the development of commercial and entertainment centers in Central and Eastern Europe or India or the development of the Dream Island or Casa Radio projects. The Relationship Agreement terminates in the event that PC's shares capital ceases to be admitted to the main market of the London Stock Exchange. In the framework of the Amended PC Plan we were required by the UK Listing Authority to enter into an amended and restated relationship agreement on basically the same terms, with minor adjustments due to regulatory changes not affecting the essence of the agreement.

Guarantee Agreement with PC

On October 27, 2006, PC agreed, with effect from January 1, 2006, to pay a commission to us in respect of any and all outstanding corporate and first demand guarantees which have been issued by us in favor of PC and which remain valid and outstanding ("**EI Guarantees**"). The amount of the commissions to be paid will be agreed upon between us and PC at the beginning of each fiscal year, and will apply to all EI Guarantees which remain outstanding during the course of that relevant fiscal year, subject to a cap of 0.5% of the amount or value of the relevant EI Guarantee, per annum. During 2017, no guarantees were provided by us to PC.

Indemnification, Insurance and Exemption

For information regarding the grant of insurance, exemption and indemnification to our directors and officers, by us or our subsidiaries, see "Item 10B – Memorandum and Articles of Association – Insurance, Indemnification and Exemption".

Inter-company Loans and Guarantees

From time to time we invest in our subsidiaries and jointly controlled companies, by way of equity or capital investments, or otherwise provide loans or guarantees to such companies, in order to finance their operations and businesses. All such investments are eliminated in our consolidated financial statements. Details as to material guarantees are provided in Item 5B – Operating and Financial Review and Prospects – Liquidity and Capital Resources – "Loans" above.

Under the terms of a management agreement with Elbit Medical, we provide services of chairman of the board (20% working time) and chief executive officer and chief financial officer (each 50% working time) for a monthly payment of NIS 67,000 per month. The management agreement was approved by Elbit's audit committee, board of directors and shareholders and is in effect until November 9, 2020.

For amounts paid under our related party transactions, see note 27C to our annual consolidated financial statements incorporated herein by reference.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Legal Proceedings

For information regarding the legal proceeding we are involved in, see "Item 4 – Information on the Company – History and Development of the Company – Recent Events, and note 13B to our annual consolidated financial statements".

TABLE OF CONTENTS**Dividend Distribution Policy**

To date, we do not have a dividend distribution policy. Consequentially, our Board may issue dividends at its sole discretion.

B.SIGNIFICANT CHANGES

There are no significant changes that have occurred since December 31, 2015, except as otherwise disclosed in this annual report and in our annual consolidated financial statements.

ITEM 9. THE OFFER AND LISTING**A. OFFER AND LISTING DETAILS**

Our ordinary shares are listed on the NASDAQ Global Select Market under the symbol “EMITF” and on the TASE under the symbol “EMIT.” As stated in the Special Explanatory Note to this Annual Report, share and share price information have been adjusted to reflect the 1-for-20 reverse share split effected by us on August 21, 2014.

Information regarding the price history of the stock listed

The annual high and low sale prices for our ordinary shares for the five most recent full financial years are:

Year Ended December 31,	NASDAQ		TASE	
	High (\$)	Low (\$)	High (\$)	Low (\$)
2017	3.63	2.22	3.6	2.16
2016	4.01	2	4.18	1.88
2015	2.14	0.65	2.09	0.64
2014	26.4	1.25	26.48	1.21
2013	70	13.8	68.2	14.6

The quarterly high and low sale prices for our ordinary shares for the two most recent full financial years and any subsequent period are:

Financial Quarter	NASDAQ		TASE	
	High (\$)	Low (\$)	High (\$)	Low (\$)
2018				
Q1	3.04	2.70	2.92	2.64
Q2 (through April 23, 2018)	2.75	2.69	2.66	2.65
2017				
Q1	3.63	3.23	3.60	3.27
Q2	3.54	2.83	3.44	2.75
Q3	3.20	2.77	3.12	2.75
Q4	2.90	2.22	2.93	2.16
2016				
Q1	3.00	2.00	2.76	1.88
Q2	2.85	2.33	2.65	2.28
Q3	4.01	2.31	4.18	2.28
Q4	3.96	3.39	3.83	3.37

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The monthly high and low sale prices for our ordinary shares during the past six months were:

Month	NASDAQ		TASE	
	High (\$)	Low (\$)	High (\$)	Low (\$)
April 2018 (through April 23)				
March 2018	2.80	2.75	2.76	2.67
February 2018	2.85	2.70	2.83	2.64
January 2018	3.04	2.78	2.92	2.72
December 2017	2.90	2.30	2.93	2.27
November 2017	2.48	2.22	2.44	2.16
October 2017	2.80	2.47	2.75	2.43

The closing prices of our ordinary shares listed on the TASE for each of the periods referred to in the tables above were originally denominated in NIS and were converted to U.S. dollars using the representative exchange rate between the U.S. dollar and the NIS published by the Bank of Israel for each applicable day in the presented period.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Since our initial public offering in November 1996, our ordinary shares have been listed on the NASDAQ Global Select Market (then known as the NASDAQ National Market) under the symbol "EMITF" and on the TASE under the symbol "EMIT."

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Purposes and Objects of the Company

We are a public company registered under the Companies Law as Elbit Imaging Ltd., registration number 52-004303-5.

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Pursuant to Section 2 of our Amended and Restated Memorandum of Association, we are authorized to operate in any business or matter for profit purposes as shall be determined or defined by our board of directors from time to time. In addition, our Amended and Restated Articles of Association authorize us to donate reasonable amounts to any cause we deem worthy.

Approval of Certain Transactions

The Companies Law imposes approval requirements for the compensation of office holders. Every Israeli public company is required to adopt a compensation policy, recommended by the compensation committee, and approved by the board of directors and the shareholders. The shareholder approval requires a special majority of the votes cast by shareholders, excluding any controlling shareholder and those who have a personal interest in the matter (similar to the threshold described in the following paragraph regarding transactions with a controlling shareholder). In general, all office holders' terms of compensation – including fixed remuneration, bonuses, equity compensation, retirement or termination payments, indemnification, liability insurance and the grant of an exemption from liability – must comply with the company's compensation policy. In addition, the compensation terms of directors, the chief executive officer, and any employee or service provider who is considered a controlling shareholder must be approved separately by the compensation committee, the board of directors and the shareholders of the company (part of them, by a special majority noted above). The compensation terms of other officers require the approval of the compensation committee and the board of directors. In addition, under the Companies Law and our Amended and Restated Articles of Association, transactions with our officers or directors or a transaction with another person in which such officer or director has a personal interest must be approved by our audit committee, board of directors or authorized non-interested signatories, and if such transaction is considered an extraordinary transaction (as defined below) or involves the engagement terms of officers, the transaction must be approved by the audit committee and board of directors. Our Compensation Committee and Board adopted a compensation policy, which our shareholders subsequently approved at the annual general meeting of our shareholders held on August 14, 2014, and amended compensation policy at the extraordinary general meeting of our shareholders held on March 31, 2016 and at the annual general meeting of our shareholders held on October 13, 2016.

The compensation policy must serve as the basis for decisions concerning the financial terms of employment or engagement of office holders, including compensation, benefits, exculpation, insurance and indemnification. The compensation policy must take into account certain factors, including advancement of the company's objectives, the company's business plan and its long-term strategy, and creation of appropriate incentives. It must also consider, among other things, the company's risk management, size and the nature of its operations. The compensation policy must include certain principles, such as: a link between variable compensation and long-term performance and measurable criteria; the relationship between variable and fixed compensation; and the minimum holding or vesting period for variable, equity-based compensation. We believe that our Amended Compensation Policy satisfies these requirements.

The Companies Law also requires that any extraordinary transaction with a controlling shareholder or an extraordinary transaction with another person in which a controlling shareholder has a personal interest must be approved by the audit committee, the board of directors and the shareholders of the company, in that order. The shareholder approval must be by a simple majority, provided that (i) such majority vote includes at least a simple majority of the total votes of shareholders having no personal interest in the transaction or (ii) the total number of votes of shareholders mentioned in clause (i) above who voted against such transaction does not exceed 2% of the total voting rights in the company. In addition, any such extraordinary transaction whose term is longer than three years requires further shareholder approval every three years, unless (with respect to transactions not involving management fees or employment terms) the audit committee approves that a longer term is reasonable under the circumstances.

The Companies Law prohibits any person who has a personal interest in a matter from participating in the discussion and voting pertaining to such matter in the company's board of directors or audit committee except for in circumstances where the majority of the board of directors has a personal interest in the matter, in which case such matter must be approved by the company's shareholders.

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An “extraordinary transaction” is defined in the Companies Law as any of the following: (i) a transaction not in the ordinary course of business; (ii) a transaction that is not on market terms; or (iii) a transaction that is likely to have a material impact on the company’s profitability, assets or liability.

Under the Companies Law, a private placement of securities requires approval by the board of directors and the shareholders of the company if it will cause a person to become a controlling shareholder or if:

the securities issued amount to 20% or more of the company’s outstanding voting rights before the issuance;

some or all of the consideration is other than cash or listed securities or the transaction is not on market terms; and

the transaction will increase the relative holdings of a shareholder that holds 5% or more of the company’s outstanding share capital or voting rights or that will cause any person to become, as a result of the issuance, a holder of more than 5% of the company’s outstanding share capital or voting rights.

Fiduciary Duties of Directors and Officers

The Companies Law imposes a duty of care and a duty of loyalty on the directors and officers of a company. The duty of care requires a director or office holder to act with the level of care with which a reasonable director or officer in the same position would have acted under the same circumstances. It includes a duty to use reasonable means to obtain information on the advisability of a given action brought for his approval or performed by him by virtue of his position and all other important information pertaining to these actions.

The duty of loyalty of a director or officer includes a general duty to act in good faith for the benefit of the company, and particularly to:

refrain from any conflict of interest between the performance of his duties for the company and the performance of his other duties or his personal affairs

refrain from any activity that is competitive with the company;

refrain from exploiting any business opportunity of the company to receive a personal gain for himself or others; and

Disclose to the company any information or documents relating to a company's affairs which the director or officer has received due to his position as such.

The Companies Law requires that directors, officers or a controlling shareholder of a public company disclose to the company any personal interest that he or she may have, including all related material facts or documents in connection with any existing or proposed transaction by the company. The disclosure must be made without delay and no later than the first board of directors meeting at which the transaction is first discussed.

Duties of a Shareholder

Under the Companies Law, a shareholder, in exercising his rights and fulfilling his obligations to the company and the other shareholders, must act in good faith and in a customary manner and refrain from improperly exploiting his power in the company, including when voting at general meetings of shareholders on: (a) any amendment to the articles of association; (b) an increase of the company's authorized share capital; (c) a merger; or (d) the approval of related party transactions. In addition, a shareholder must refrain from prejudicing the rights of other shareholders. Furthermore, any controlling shareholder and any shareholder who knows that he possesses power to determine the outcome of the shareholders' vote at a general meeting, is subject to a duty to act in fairness towards the company. The Companies Law does not detail the substance of this duty.

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Board of Directors

In accordance with our Amended and Restated Articles of Association, the board of directors may, from time to time, in its discretion, cause us to borrow or secure the payment of any sum or sums of money for the purposes of the Company and may cause us to secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions in all respects as it deems fit, and in particular by the issuance of notes, perpetual or redeemable notes, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of our property (both present and future), including its uncalled or called but unpaid share capital for the time being.

Neither our Amended and Restated Memorandum of Association nor our Amended and Restated Articles of Association, nor the laws of the State of Israel require retirement of directors at a certain age or share ownership for director qualification, nor do any of them contain any restriction on the board of directors' borrowing powers.

Insurance, Indemnification and Exemption

General - our Amended and Restated Articles of Association set forth the following provisions regarding the grant of exemption, insurance and indemnification to any of our directors or officers, all subject to the provisions of the Companies Law. In accordance with such provisions and pursuant to the requisite approvals of our compensation committee, board of directors and shareholders, we have obtained liability insurance covering our directors and officers, have granted indemnification undertakings to our directors and officers and have agreed to exempt our directors and officers (other than our Executive Chairman) from liability for breach of the duty of care. PC, InSightec and Gamida have also granted indemnification undertakings to their respective directors and officers.

Insurance - we may insure the liability of any director or officer to the fullest extent permitted by law. Without derogating from the aforesaid, we may enter into a contract to insure the liability of a director or officer for an obligation imposed on him in consequence of an act done in his capacity as such, in any of the following cases:

- (i) A breach of the duty of care *vis-a-vis* us or *vis-a-vis* another person;
- (ii) A breach of the duty of loyalty *vis-a-vis* us, provided that the director or officer acted in good faith and had reasonable basis to believe that the act would not harm us;
- (iii) A monetary obligation imposed on him in favor of another person;

- Reasonable litigation expenses, including attorney fees, incurred by the director or officer as a result of an administrative enforcement proceeding instituted against him. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the director or officer in favor of an injured party as
- (iv) set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 1968, as amended (the “**Securities Law**”) and expenses that the director or officer incurred in connection with a proceeding under Chapters H’3, H’4 or I’1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees; or
- (v) Any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of our directors or officers.

Indemnification

We may indemnify a director or officer to the fullest extent permitted by law, either retroactively or pursuant to an undertaking given in advance. Without derogating from the aforesaid, we may indemnify our directors or officers for liability or expense imposed on him in consequence of an action taken by him in his capacity as such, as follows:

- Any financial liability he incurs or imposed on him in favor of another person in accordance with a judgment, including a judgment given in a settlement or a judgment of an arbitrator, approved by a court, provided that any
- (i) undertaking to indemnify be restricted to events that, in the opinion of the board of directors, are anticipated in light of our actual activity at the time of granting the undertaking to indemnify and be limited to a sum or measurement determined by the board of directors to be reasonable under the circumstances;

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- (ii) Reasonable litigation expenses, including legal fees, incurred by the director or officer or which he was ordered to pay by a court, within the framework of proceedings filed against him by or on behalf of us, or by a third party, or in a criminal proceeding in which he was acquitted, or in a criminal proceeding in which he was convicted of a felony which does not require a criminal intent; and

Reasonable litigation expenses, including legal fees he incurs due to an investigation or proceeding conducted against him by an authority authorized to conduct such an investigation or proceeding, and which was ended without filing an indictment against him and without being subject to a financial obligation as a substitute for a criminal proceeding, or that was ended without filing an indictment against him, but with the imposition of a financial obligation, as a substitute for a criminal proceeding relating to an offense which does not require (iii) criminal intent, within the meaning of the relevant terms in the Companies Law or in connection with an administrative enforcement proceeding or a financial sanction. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the director or officer in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Securities Law, and expenses that the director or officer incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees.

The aggregate indemnification amount payable by us pursuant to indemnification undertakings may not exceed the lower of (i) 25% of our shareholders' equity as of the date of actual payment by us of the indemnification amount (as set forth in our most recent consolidated financial statements prior to such payment) and (ii) \$40 million, in excess of any amounts paid (if paid) by insurance companies pursuant to insurance policies maintained by us, with respect to matters covered by such indemnification.

Exemption - we may exempt a director or officer in advance or retroactively for all or any of his liability for damage in consequence of a breach of the duty of care *vis-a-vis* us, to the fullest extent permitted by law.

Prohibition on the grant of exemption, insurance and indemnification - The Companies Law provides that a company may not give insurance, indemnification nor exempt its directors or officers from liability in the following events:

- (i) a breach of the duty of loyalty to the company, unless, with respect to insurance coverage or indemnification, the director or officer acted in good faith and had a reasonable basis to believe that the act would not harm us;
- (ii) an intentional or reckless breach of the duty of care;
- (iii) an act done with the intention of unduly deriving a personal profit; or

(iv) A fine imposed on the officer or director.

Rights Attached to Shares

Our registered share capital consists of a single class of 11,666,667 ordinary shares, of no par value, of which 9,190,808 ordinary shares were issued and outstanding as of April 27, 2018.

Dividend and Liquidation Rights

Our board of directors may declare a dividend to be paid to the holders of ordinary shares on a pro rata basis. Dividends may only be paid out of our profits and other surplus funds, as defined in the Companies Law, as of our most recent financial statement or as accrued over the past two years, whichever is higher, or, in the absence of such profits or surplus, with court approval. In any event, a dividend is permitted only if there is no reasonable concern that the payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares on a pro rata basis. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future, subject to applicable law. For information on our dividend policy, see "Item 8A – Financial Information – Consolidated Statements and Other Financial Information – Dividend Distribution Policy."

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Voting Rights

Holders of ordinary shares have one vote for each ordinary share held by them on all matters submitted to a vote of the shareholders. The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent, in the aggregate, at least 33.33% of the issued voting share capital. In the event that a quorum is not present within half an hour of the scheduled time, the meeting shall be adjourned to the same day of the following week, at the same time and place, or to such other day, time and place as the board of directors shall determine by notice to the shareholders. If at such adjourned meeting a quorum is not present within half an hour of the scheduled time, the two members present in person or by proxy will constitute a quorum.

Annual and Special Meetings

In accordance with the Companies Law, the board of directors must convene an annual meeting of shareholders at least once every calendar year and no later than within 15 months from the last annual meeting. Notice of at least 14 days prior to the date of the meeting is required, subject to applicable law, which often requires notice of at least 21 or 35 days. An extraordinary meeting may be convened by the board of directors, either at its discretion or upon a demand of (i) any two directors or 25% of the serving directors; or (ii) one shareholder or more holding in the aggregate at least 5% of our issued capital and at least 1% of the voting rights in the Company or one shareholder or more holding at least 5% of the voting rights in the Company.

Limitations on the Rights to own Securities

Our Amended and Restated Memorandum of Association and Amended and Restated Articles of Association do not restrict in any way the ownership of our shares by non-residents of Israel and neither the Amended and Restated Memorandum of Association, the Amended and Restated Articles of Association or Israeli law restricts the voting rights of non-residents of Israel except that under Israeli law any transfer or issue of our shares to a resident of an enemy state of Israel is prohibited and shall have no effect.

Changes to our Capital

Changes to our capital are subject to the approval of our shareholders by a simple majority.

Anti-Takeover Provisions

The Companies Law prohibits the purchase of our shares if the purchaser's holding following such purchase increases above certain percentages without conducting a tender offer or obtaining shareholder approval. Our Amended and Restated Articles of Association increased the required amount of such tender offer to at least 10% of our outstanding ordinary shares See "Item 3D – Risk Factors - Risks Relating to Israel – "Provisions of Israeli law may delay, prevent or make more difficult a merger or other business combination, which may depress our share price." above.

Amendment of Articles of Association

Any amendment to our articles of association requires the approval of our shareholders by a simple majority.

Transfer Agent

Our transfer agent in the United States is American Stock Transfer and Trust Company whose address is 6201 15th Avenue, Brooklyn, New York 11219.

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C.MATERIAL CONTRACTS

The following is a list of material contracts entered into by us or any of our subsidiaries during the two years prior to the filing of this annual report.

Issuance of a new series of convertible notes by Elbit Medical

For discussion about the issuance of a new series of convertible notes by EI – See "Item 4 – Information on the Company – History and Development of the Company – Recent Events – "Issuance of a New Series of Notes by Elbit Medical and Payment of Debt from Elbit Medical to the Company".

Sale of Belgian Hotels

For discussion about the sale of our hotels in Antwerp Belgium –See “Item 5 - Sources of Cash from Major Transactions and Events – 2015.”

Sale of the Radisson Complex

For a discussion of the sale of the Radisson Hotel Complex see "Item 4 – Information on the Company – History and Development of the Company – Recent Events – Sale of our holdings in the Radisson complex in Bucharest, Romania"

Sale of plot in Bangalore, India

For a discussion of sale agreement of our plot in Bangalore (including amendment thereto) see "Item 4 - Information on the Company – History and Development of the Company – Recent Events – Agreement to Sell a Plot in Bangalore, India”.

Acquisition of a loan to control the Liberec Plaza

For a discussion regarding our acquisition of Liberec Plaza, see "Item 5 – Operating and Financial Review and Prospects – 2015”.

Debt repayment agreement and Sale of Zgorzelec Plaza commercial Center

For a discussion regarding debt repayment agreement and the sale of Zgorzelec commercial center see "Item 4 - Information on the Company – History and Development of the Company – Recent Events – Debt repayment agreement and Sale of Zgorzelec Plaza Shopping Commercial Center”.

Acquiring bank loan for PC’s plot in Brasov, Romania

For a discussion regarding acquiring bank loan in Brasov, Romania see "Item 4 - Information on the Company – History and Development of the Company – Recent Events – Acquiring bank loan for PC’s plot in Brasov, Romania”.

The Debt Restructuring

For a discussion of the Debt Restructuring, see above "Item 4 – Information on the Company – History and Development of the Company – Recent Events – “Our Debt Restructuring”.

The PC Debt Restructuring

For a discussion of the Amended PC Plan, see above "Item 4 – Information on the Company – History and Development of the Company – Recent Events – PC Debt Restructuring”.

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Issuance of Series I Notes

For a discussion of the our Series I Notes, see above "Item 5 – Operating and Financial Review and Prospects – Liquidity and Capital Resources – Liquidity – Other Loans”.

Medical

For information regarding the investment in InSightec by Koch Disruptive Technologies, York Global Finance II S.à r.l., an affiliate of York Capital Management which is a related party of the Company certain other investors see Item 4 - Information on the Company – History and Development of the Company – Recent Events – “InSightec Equity Round”.

D. EXCHANGE CONTROLS

In 1998, the government of Israel promulgated a general permit under the Israeli Currency Control Law, 5738 - 1978. Pursuant to such permit, substantially all transactions in foreign currency are permitted.

Our Amended and Restated Memorandum of Association and Articles of Association do not restrict in any way the ownership of our shares by non-residents, and neither our Amended and Restated Memorandum of Association nor Israeli law restricts the voting rights of non-residents.

E. TAXATION

The following is a discussion of certain tax laws that may be material to our shareholders, all as in effect as of the date of this report and all of which are subject to changes, possibly on a retroactive basis, to the extent that such laws are still subject to judicial or administrative interpretation in the future. This discussion is not intended, and should not be construed, as legal or professional tax advice and does not cover all possible tax considerations. For further information as to taxes that apply to us and our subsidiaries, see note 22 to our annual consolidated financial statements.

WE ENCOURAGE EACH INVESTOR TO CONSULT WITH HIS OR HER OWN TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH INVESTOR OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF OUR ORDINARY SHARES, INCLUDING THE EFFECTS OF APPLICABLE ISRAELI, U.S. FEDERAL, STATE, AND LOCAL TAXES.

Taxation in Israel

The following is a summary of the material Israeli tax consequences to purchasers of our ordinary shares. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. To the extent that the discussion is based on new tax legislation which has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the appropriate tax authorities or the courts. The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

Capital Gains Tax on Sales of Our Ordinary Shares

Israeli law generally imposes a capital gains tax on the sale of capital assets by residents of Israel, and by non-residents of Israel if those assets either (i) are located in Israel; (ii) are shares or a right to a share in an Israeli resident company; or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a specific exemption is available or unless a double tax convention concluded between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is equal to the increase in the purchase price of the relevant asset attributable solely to the increase in the Israeli CPI, or a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

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As of January 1, 2012, capital gains derived by Israeli individuals from the sale of shares purchased on or after January 1, 2003, will be taxed at the rate of 25%. However, if the individual shareholder is a “Significant Shareholder” (i.e., a person who holds, directly or indirectly, alone or jointly with others, 10% or more of one of the Israeli resident company’s means of control) at the time of sale or at any time during the preceding 12 month period, such gains will be taxed at the rate of 30%. In addition, capital gains derived by an individual claiming a deduction of financing expenses in respect of such gains will be taxed at the rate of 30%. However, different tax rates may apply to dealers in securities and shareholders who acquired their shares prior to an initial public offering. Israeli companies are subject to the corporate tax rate (26.5% for the 2015 tax year, 25% for the 2016 tax year, 24% for the tax year 2017 and 23% for the 2018 tax year and thereafter) on capital gains derived from the sale of shares.

The tax basis of our shares acquired prior to January 1, 2003, will generally be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the Israeli tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price.

Capital gains derived from the sale of our shares by a non-Israeli shareholder may be exempt under the Israeli Income Tax Ordinance from Israeli taxation provided the following cumulative conditions are met: (i) the shares were purchased upon or after the registration of our shares on the stock exchange, (ii) the seller doesn’t have a permanent establishment in Israel to which the derived capital gains are attributed, and (iii) if the seller is a corporation, (a) 25% or less of its means of control or (b) less than 25% of the beneficial rights to the revenues or profits of such corporation, whether directly or indirectly, are held by Israeli resident shareholders. In addition, the sale of our shares by a non-Israeli shareholder may be exempt from Israeli capital gain tax under an applicable tax treaty.

Pursuant to the Convention between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended, or the U.S.- Israel Tax Treaty, the sale, exchange or disposition of ordinary shares by a person who (i) holds the ordinary shares as a capital asset, (ii) qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty and (iii) is entitled to claim the benefits afforded to such resident by the U.S.-Israel Tax Treaty generally will not be subject to Israeli capital gains tax unless (i) either such resident holds, directly or indirectly, shares representing 10% or more of the voting power in the company during any part of the 12-month period preceding such sale, exchange or disposition, subject to certain conditions, or (ii) the capital gains from such sale, exchange or disposition can be allocated to a permanent establishment of the shareholder in Israel. If the above conditions are not met, the sale, exchange or disposition of ordinary shares would be subject to such Israeli capital gains tax to the extent applicable; however, under the U.S.-Israel Tax Treaty, such residents should be permitted to claim a credit for such taxes against U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to state or local taxes.

In some instances where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

At the sale of securities traded on a stock exchange a detailed return, including a computation of the tax due, must be filed and an advanced payment must be paid on January 31 and June 30 of every tax year in respect of sales of securities made within the previous six months. However, if all tax due was withheld at source according to applicable provisions of the Ordinance and regulations promulgated thereunder the aforementioned return need not be filed and no advance payment must be paid. Capital gain is also reportable on the annual income tax return.

Taxation of Dividends Distribution

A distribution of dividends to an Israeli resident individual will generally be subject to income tax at a rate of 25%. However, a 30% tax rate will apply if the dividend recipient is a Significant Shareholder at the time of distribution or at any time during the preceding 12 month period. If the recipient of the dividend is an Israeli resident company, such dividend will be exempt from income tax provided that the income from which such dividend is distributed was derived or accrued within Israel. As of January 1, 2014, any distribution of dividends from income attributed to a Preferred Enterprise under the Law for the Encouragement of Capital Investments, 1959 (“**Investment Law**”) is generally subject to a tax at a rate of 20%. However, if such dividends are distributed to an Israeli company, no tax is imposed. As of January 1, 2014, dividends distributed from income attributed to an Approved Enterprise and/or a Benefited Enterprise under the Investment Law, are subject to a tax rate of 20%. Notwithstanding the above, a reduced 15% tax rate will be applicable if the dividend was distributed out of income of: (i) Approved Enterprise activated prior to 2014; or (ii) Benefited Enterprise with a “Year of Election” prior to 2014.

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Under the Israeli Income Tax Ordinance, a non-Israeli resident (either individual or company) is generally subject to Israeli income tax on the receipt of dividends at the rate of 25% (30% if the dividends recipient is a Significant Shareholder), unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. Under the U.S.- Israel Tax Treaty, the following rates will apply in respect of dividends distributed by an Israeli resident company to a U.S. resident: (i) if the U.S. resident is a corporation which holds during that portion of the tax year which precedes the date of payment of the dividend and during the whole of its prior tax year (if any), at least 10% of the outstanding shares of the voting stock of the Israeli resident paying company, and not more than 25% of the gross income of the Israeli resident paying company for such prior taxable year (if any) consists of certain type of interest or dividends - the tax rate is 12.5%, (ii) if both the conditions mentioned in section (i) above are met and the dividend is paid from an Israeli resident company's income generated by an "Approved Enterprise", which was entitled to a reduced tax rate under the Israeli Law for the Encouragement of Capital Investments, 5719-1959 - the tax rate is 15%, and (iii) in all other cases, the tax rate is 25%. The aforementioned rates under the U.S. - Israel Tax Treaty will not apply if the dividend income was derived through a permanent establishment of the U.S. resident in Israel.

We are generally obligated to withhold Israeli tax at the source upon the distribution of a dividend, at the aforementioned rates.

A non-resident of Israel who has dividend income derived from or accrued in Israel, from which tax was withheld at source, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the shareholder.

Excess Tax

Individuals who are subject to tax in Israel are also subject to an additional tax at a rate of 2% for the tax year 2016 and at a rate of 3% for the tax year 2017 and thereafter on annual income exceeding a certain threshold (approximately NIS 811,000 for 2016 and NIS 640,000 for 2017, which amount is linked to the annual change in the Israeli consumer price index), including, but not limited to income derived from, dividends, interest and capital gains.

U.S. Federal Income Tax Considerations

Subject to the limitations described herein, this discussion summarizes certain U.S. federal income tax consequences of the purchase, ownership and disposition of our ordinary shares to a U.S. holder. A U.S. holder is a holder of our ordinary shares who is:

an individual citizen or resident of the United States for U.S. federal income tax purposes;

a corporation (or another entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any political subdivision thereof or the District of Columbia;

an estate, the income of which may be included in the gross income for U.S. federal income tax purposes regardless of its source; or

a trust (i) if, in general, a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or (ii) that has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a U.S. person.

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Unless otherwise specifically indicated, this discussion does not consider the U.S. tax consequences to a person that is not a U.S. holder (a “**non-U.S. holder**”) and considers only U.S. holders that will own the ordinary shares as capital assets (generally, for investment).

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the “**Code**”), current and proposed Treasury Regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as currently in effect and all of which are subject to change, possibly with retroactive effect. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the U.S. holder’s particular circumstances. In particular, this discussion does not address the U.S. federal income tax consequences to U.S. holders who are broker-dealers; who have elected mark-to-market accounting; who own, directly, indirectly or constructively, 10% or more of our outstanding shares (by vote or value); U.S. holders that received ordinary shares as a result of exercising employee stock options or otherwise as compensation; U.S. holders holding our ordinary shares as part of a hedging, straddle or conversion transaction; U.S. holders whose functional currency is not the U.S. dollar; real estate investments trusts, regulated investment companies, insurance companies, tax-exempt organizations, qualified retirement plan or individual retirement account; financial institutions, grantor trusts, S corporations; certain former citizens or long term residents of the United States; and persons subject to the alternative minimum tax, who may be subject to special rules not discussed below. Additionally, the possible application of U.S. federal estate, or gift taxes or any aspect of state, local or non-U.S. tax laws is not discussed.

If an entity treated as a partnership or other pass-through entity for U.S. Federal income tax purposes holds our ordinary shares, the tax treatment of the entity and an equity owner in such entity will generally depend on the status of the equity owner and the activities of the entity. Such an equity owner or entity should consult its tax advisor as to its consequences.

Each holder of our ordinary shares is advised to consult his or her tax advisor with respect to the specific U.S. federal, state, local and foreign tax consequences to him or her of purchasing, holding or disposing of our ordinary shares.

Distributions

Subject to the discussion below under “Tax Consequences if We are a Passive Foreign Investment Company,” a distribution paid by us with respect to our ordinary shares to a U.S. holder will be treated as dividend income to the extent that the distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of a distribution with respect to our ordinary shares will equal the amount of cash and the fair market value of any property distributed and will also include the amount of any non-U.S. taxes withheld from such distribution. Dividends that are received by U.S. holders that are individuals, estates or trusts may be taxed at the rate applicable to long-term capital gains (current maximum rate of 20%), provided that such dividends

meet the requirements of “qualified dividend income.” For this purpose, qualified dividend income generally includes dividends paid by a non-U.S. corporation if certain holding period and other requirements are met and either (a) the stock of the non-U.S. corporation with respect to which the dividends are paid is “readily tradable” on an established securities market in the U.S. (e.g., the NASDAQ Global Select Market) or (b) the non-U.S. corporation is eligible for benefits of a comprehensive income tax treaty with the U.S. which includes an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. The United States Internal Revenue Service (“**IRS**”) has determined that the U.S.-Israel income tax treaty is satisfactory for this purpose. Dividends that fail to meet such requirements, and dividends received by corporate U.S. holders are taxed at ordinary income rates. No dividend received by a U.S. holder will be a qualified dividend (1) if the U.S. holder held the ordinary share with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Code Section 246(c), any period during which the U.S. holder has an option to sell, is under a contractual obligation to sell, has made and not closed a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, such ordinary share (or substantially identical securities); or (2) to the extent that the U.S. holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the ordinary share with respect to which the dividend is paid. If we were to be a “passive foreign investment company” (as such term is defined in the Code) for any taxable year, dividends paid on our ordinary shares in such year and in the following taxable year would not be qualified dividends. See discussion below regarding our PFIC status at “Tax Consequences If We Are a Passive Foreign Income Company.” In addition, a non-corporate U.S. holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case, the dividend will be taxed at ordinary income rates.

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The amount of any distribution which exceeds the amount treated as a dividend will be treated first as a non-taxable return of capital, reducing the U.S. holder's tax basis in its ordinary shares to the extent thereof, and then as capital gain from the deemed disposition of the ordinary shares. Corporate holders will not be allowed a deduction for dividends received in respect of the ordinary shares.

Dividends paid by us in NIS will be generally included in the income of U.S. holders at the U.S. dollar amount of the dividend (including any non-U.S. taxes withheld therefrom), based upon the exchange rate in effect on the date of the distribution. U.S. holders will have a tax basis in the NIS for U.S. federal income tax purposes equal to that U.S. dollar value. Any subsequent gain or loss in respect of the NIS arising from exchange rate fluctuations will generally be taxable as U.S. source ordinary income or loss.

Subject to certain conditions and limitations set forth in the Code and the Treasury Regulations thereunder, including certain holding period requirements, U.S. holders may elect to claim as a foreign tax credit against their U.S. federal income tax liability the non-U.S. income taxes withheld from dividends received in respect of our ordinary shares. The limitations on claiming a foreign tax credit include, among others, computation rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. In this regard, dividends paid by us generally will be foreign source "passive income" for U.S. foreign tax credit purposes. U.S. holders that do not elect to claim a foreign tax credit may instead claim a deduction for the non-U.S. income taxes withheld if they itemize deductions for U.S. federal income tax purposes. The rules relating to foreign tax credits are complex, and U.S. holders should consult their tax advisors to determine whether and to what extent they would be entitled to this credit.

Disposition of Ordinary Shares

Subject to the discussion below under "Tax Consequences if we are a Passive Foreign Investment Company," upon the sale, exchange or other disposition of our ordinary shares (other than in certain non-recognition transactions), a U.S. holder will generally recognize capital gain or loss in an amount equal to the difference between the amount realized on the disposition and the U.S. holder's tax basis in our ordinary shares. The gain or loss recognized on the disposition of the ordinary shares will be long-term capital gain or loss if the U.S. holder held our ordinary shares for more than one year at the time of the disposition. Under current law, long-term capital gains are subject to a maximum rate of 20%. Capital gain from the sale, exchange or other disposition of our ordinary shares held for one year or less is short-term capital gain and taxed at ordinary income tax rates. Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of our ordinary shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. A U.S. holder that receives foreign currency upon the disposition of our ordinary shares and converts the foreign currency into U.S. dollars after the settlement date (in the case of a cash method taxpayer or an accrual method taxpayer that elects to use the settlement date) or trade date (in the case of an accrual method taxpayer) may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar, which will generally be U.S. source ordinary income or loss.

Net Investment Income

Subject to certain limitations and exceptions, certain non-corporate U.S. holders may be subject to an additional 3.8% surtax on all or a portion of their “net investment income,” which may include dividends on, or capital gains recognized from the disposition of, our ordinary shares. U.S. holders are urged to consult their own tax advisors regarding the implications of the additional net investment income tax on their investment in our ordinary shares.

Tax Consequences if we are a Passive Foreign Investment Company

We will be PFIC if either (1) 75% or more of our gross income in a taxable year is passive income or (2) 50% or more of the value, determined on the basis of a quarterly average, of our assets in a taxable year produce or are held for the production of passive income. If we own (directly or indirectly) at least 25% by value of the stock of another corporation, we will be treated for purposes of the foregoing tests as owning our proportionate share of that other corporation’s assets and as directly earning our proportionate share of that other corporation’s income. If we are a PFIC, a U.S. holder must determine under which of three alternative taxing regimes it wishes to be taxed.

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The “QEF” regime applies if the U.S. holder elects to treat us as a “qualified electing fund” (“QEF”) for the first taxable year in which the U.S. holder owns our ordinary shares or in which we are a PFIC, whichever is later, and if we comply with certain reporting requirements. If a QEF election is made after the first taxable year in which a U.S. holder holds our ordinary shares and we are a PFIC, then special rules would apply. If the QEF regime applies, then for each taxable year that we are a PFIC, such U.S. holder will include in its gross income a proportionate share of our ordinary earnings (which is taxed as ordinary income) and net capital gain (which is taxed as long-term capital gain), subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. These amounts would be included in income by an electing U.S. holder for its taxable year in which our taxable year ends, whether or not such amounts are actually distributed to the U.S. holder. A U.S. holder’s basis in our ordinary shares for which a QEF election has been made would be increased to reflect the amount of any taxed but undistributed income. Generally, a QEF election allows an electing U.S. holder to treat any gain realized on the disposition of its ordinary shares as capital gain. Once made, the QEF election applies to all subsequent taxable years of the U.S. holder in which it holds our ordinary shares and for which we are a PFIC, and the QEF election can be revoked only with the consent of the IRS.

A second regime, the “mark-to-market” regime, may be elected so long as our ordinary shares are “marketable stock” (e.g., “regularly traded” on the NASDAQ Global Select Market). If the mark-to-market election is made after the first taxable year in which a U.S. holder holds our ordinary shares and we are a PFIC, then special rules would apply. Pursuant to this regime, an electing U.S. holder’s ordinary shares are marked-to-market each taxable year that we are a PFIC, and the U.S. holder recognizes as ordinary income or loss the amount equal to the difference as of the close of the taxable year between the fair market value of our ordinary shares and the U.S. holder’s adjusted tax basis in our ordinary shares. Losses are allowed only to the extent of net mark-to-market gain previously included by the U.S. holder under the election for prior taxable years. An electing U.S. holder’s adjusted basis in our ordinary shares is increased by income recognized under the mark-to-market election and decreased by the deductions allowed under the election. Under the mark-to-market election, in a taxable year that we are a PFIC, gain on the sale of our ordinary shares is treated as ordinary income, and loss on the sale of our ordinary shares, to the extent the amount of loss does not exceed the net mark-to-market gain previously included, is treated as ordinary loss. Any loss on the sale of our ordinary shares in excess of net mark-to-market gain previously included is generally treated as a capital loss. The mark-to-market election applies to the taxable year for which the election is made and all later taxable years, unless the ordinary shares cease to be marketable stock or the IRS consents to the revocation of the election.

A U.S. holder making neither the QEF election nor the mark-to-market election is subject to the “excess distribution” regime. Under this regime, “excess distributions” are subject to special tax rules. An excess distribution is either (1) a distribution with respect to our ordinary shares that is greater than 125% of the average distributions received by the U.S. holder from us over the shorter of either the preceding three taxable years or such U.S. holder’s holding period for our ordinary shares prior to the distribution year, or (2) gain from the disposition of our ordinary shares (including gain deemed recognized if the ordinary shares are used as security for a loan).

Excess distributions must be allocated ratably to each day that a U.S. holder has held our ordinary shares. A U.S. holder must include amounts allocated to the current taxable year, as well as amounts allocated to taxable years prior to the first taxable year in which we were a PFIC, in its gross income as ordinary income for that year. All amounts

allocated to other taxable years would be taxed at the highest tax rate for each such prior taxable year applicable to ordinary income and the U.S. holder also would be liable for interest on the deferred tax liability for each such taxable year calculated as if such liability had been due with respect to each such taxable year. A U.S. holder who inherits shares in a non-U.S. corporation that was a PFIC in the hands of the decedent generally is denied the otherwise available step-up in the tax basis of such shares to fair market value at the date of death. Instead, such U.S. holder would generally have a tax basis equal to the lesser of the decedent's basis or the fair market value of the ordinary shares on the date of the decedent's death.

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We believe that we were not a PFIC in 2017. However, since the determination of whether we are a PFIC is based upon such factual matters as our market capitalization, the valuation of our assets, the assets of companies held by us in certain cases and certain assumptions and methodologies in which we have based our analysis, there can be no assurance that the IRS will agree with our position. In addition, there can be no assurance that we will not become a PFIC for the current taxable year ending December 31, 2018 or in any future taxable year. We will notify U.S. holders in the event we conclude that we will be treated as a PFIC for any taxable year to enable U.S. holders to consider whether or not to elect to treat us as a QEF for U.S. federal income tax purposes, or to “mark-to-market” the ordinary shares or to become subject to the “excess distribution” regime. If we are a PFIC, U.S. holders will generally be required to file an annual report with the IRS.

U.S. holders are urged to consult their tax advisors regarding the application of the PFIC rules, including eligibility for and the manner and advisability of making, the QEF election or the mark-to-market election.

Non-U.S. Holders

Subject to the discussion below under “Information Reporting and Backup Withholding,” a non-U.S. holder of our ordinary shares generally will not be subject to U.S. federal income or withholding tax on the receipt of dividends on, and the proceeds from the disposition of, our ordinary shares, unless, in the case of U.S. federal income taxes (i) the item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States and in the case of a resident of a country which has a treaty with the United States, the item is attributable to a permanent establishment, or in the case of an individual, the item is attributable to a fixed place of business in the United States, or (ii) the non-U.S. holder is an individual who holds the ordinary shares as a capital asset, is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

Information Reporting and Backup Withholding

U.S. holders (other than certain exempt recipients such as corporations) generally are subject to information reporting requirements with respect to dividends paid on our ordinary shares in the United States or by a U.S. payor or U.S. middleman or the gross proceeds from disposing of our ordinary shares. U.S. holders generally are also subject to backup withholding (currently 24%) on dividends paid in the United States or by a U.S. payor or U.S. middleman on our ordinary shares and on the gross proceeds from disposing of our ordinary shares, unless the U.S. holder provides an IRS Form W-9 or otherwise establishes that such holder is exempt from backup withholding.

Certain U.S. holders (and to the extent provided in IRS guidance, certain non-U.S. holders) who hold interests in “specified foreign financial assets” (as defined in Section 6038D of the Code) are generally required to file an IRS Form

8938 as part of their U.S. federal income tax returns to report their ownership of such specified foreign financial assets, which may include our ordinary shares, if the total value of those assets exceed certain thresholds. Substantial penalties may apply to any failure to timely file IRS Form 8938. In addition, in the event a holder that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such holder for the related tax year may not close until three years after the date that the required information is filed. Holders should consult their own tax advisors regarding their tax reporting obligations.

Non-U.S. holders generally are not subject to information reporting or backup withholding with respect to dividends paid on our ordinary shares in the United States or by a U.S. payor or U.S. middleman or the gross proceeds from the disposition of our ordinary shares, provided that such non-U.S. holder certifies to its foreign status, or is otherwise exempt from backup withholding or information reporting.

The amount of any backup withholding may be allowed as a credit against a holder's U.S. federal income tax liability and may entitle such holder to a refund provided that certain required information is timely furnished to the IRS.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

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H. DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Exchange Act that are applicable to a foreign private issuer. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and “short-swing” profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act.

However, we file annual reports with, and furnish other information to, the SEC. These materials, including this annual report and the exhibits hereto, may be inspected and copied at the SEC’s Public Reference Room at 100 F Street, N.E., Room 1580, Washington D.C. 20549. Copies of the materials may be obtained from the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The public may obtain information on the operation of the SEC’s Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. Additionally, copies of the materials may be obtained from the SEC’s website at <http://www.sec.gov>.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management of financial risks

Our operations expose us to risks that relate to various financial instruments, such as market risks (including currency risk, cash flow risk with respect to interest rates and other price risk), credit risk and liquidity risk.

Market risk is the risk that the fair value of future cash flow of financial instruments will fluctuate because of changes in market prices.

Credit risk is the risk of financial loss to us if counterparty to a financial instrument fails to meet its contractual obligations.

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due.

Our comprehensive risk management program focuses on actions to minimize the possible negative effects on our financial performance. In certain cases we use derivatives financial instruments in order to mitigate certain risk exposures.

Our board of directors has overall responsibility for the establishment and oversight of our risk management framework. Our board of directors is managing the risks faced by us, and confirms that all appropriate actions have been or are being taken to address any weaknesses.

As of December 31, 2017, we had exposure to the following risks that are related to financial instruments:

Foreign currency risk

We have international activities in many countries and, therefore, we are exposed to foreign currency risks as a result of fluctuations in the different exchange rates. Foreign currency risks are derived from transactions executed and/or financial assets and liabilities held in a currency which is different than the functional currency of our entity which executed the transaction or holds these financial assets and liabilities. In order to minimize such exposure, our policy is to hold financial assets and liabilities in a currency which is the functional currency of that entity.

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In addition a significant part of our business/investments are denominated in foreign currencies (Euro for the commercial center business and plots in Eastern Europe, US dollar for the Medical business and INR for the plots in India) while the corporate obligations of us and PC and Elbit Medical (mainly notes) are linked to the Israeli NIS. Our main source to serve these corporate debts will arrive mainly from the sale of these assets/investments. Therefore a devaluation of each of these currencies against the NIS until the date of the execution of the relevant sale transaction may significantly affect us and PC cash flow and our ability to repay our debts in a timely manner. As of the filling of this annual report we do not actively hedge this risk.

The following table details sensitivity analysis to a change of 10% in our main foreign currencies, as of December 31, 2017, against the relevant functional currency and their effect on the statements of income and the shareholder's equity (before tax and before capitalizing any exchange results to qualified assets):

	Functional currency	Linkage currency	Change in the exchange rate (%)	Profit (loss)
	(In NIS thousands)			
<u>Financial assets</u>				
Cash and deposits	NIS	EURO	+10%	368
Cash and deposits	NIS	USD	+10%	131
Cash and deposits	Euro	PLN	+10%	174
Cash and deposits	Euro	USD	+10%	243
Cash and deposits	Euro	NIS	+10%	13,305
Total				14,221
<u>Financial Liabilities</u>				
Loans at amortized cost	Euro	PLN	+10%	(2,125)
Notes at amortized cost	RON	Euro	+10%	(46,425)
Total				(48,550)

Credit risk

We hold cash and cash equivalents, short-term investments and other long-term investments in financial instruments in various reputable banks and financial institutions. These banks and financial institutions are located in different geographical regions, and it is our policy to disperse our investments among different banks and financial institutions. Our maximum credit risk exposure is approximately the financial assets presented in the balance sheet in our annual consolidated financial statements.

Due to the nature of its activity, our commercial centers business do not materially exposed to credit risks stemming from dependence on a given customer. Our company examined on an ongoing basis the credit amounts extended to its customers and, accordingly, records a provision for doubtful debts based on those factors it considers having an effect on specific customers.

Interest rate risk

Fair value risk

A significant portion of our long term loans and notes bearing a fixed interest rate and are therefore exposed to change in their fair value as a result of changes in the market interest rate. The vast majority of these loans and notes are measured at amortized cost and therefore changes in the fair value will not have any effect on the statement of income.

Cash flow risk

Part of our long-term borrowings are bearing variable interest rates. Cash and cash equivalents, short-term deposits and short-term bank credits are mainly deposited in or obtained at variable interest rates. Changes in the market interest rate will affect our finance income and expenses and our cash flow.

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In certain cases we use interest rate swap transaction in order to swap loans with a variable interest rate to fixed interest rate or alternatively entering into loans with a fixed interest rate.

The following table presents the effect of an increase of 1% in the LIBOR rate with respect to financial assets and liabilities as of December 31, 2017, which are exposed to cash flow risk (before tax and before capitalization to qualifying assets):

	Profit (loss) NIS thousands
Notes linked to the PLN	(213)

The following table presents our long-term financial liabilities classified according to their interest rate and their contractual maturity date: (*)

Functional Linkage		Interest	Average Interest	Repayment Years					Total
Currency	Currency	Rate %	Rate %	1	2	3	4	5	
€	PLN	6M WIBOR+6	7.8	21.2	-	-	-	-	21.2
€	NIS (linked to CPI)	6-6.9	6-6.9	(*)213.1	223.2	53.9	-	-	490.2
NIS	NIS (linked to CPI)	6	6	296.2	275.6	-	-	-	571.8
				530.5	498.8	53.9	-	-	1,083.2

(*) Regarding PC Notes - the repayment take into account the minimum contractual payments on the PC Notes to achieve the Deferral see note 11 E.

Israeli consumer price index risk

A significant part of our borrowings consists of notes raised by us on the TASE and which are linked to the increase in the Israeli consumer price index above the base index at the date of the Notes issuance. An increase of 2% in the Israeli consumer price index will cause an increase in our finance expenses for the year ended December 31, 2017 (before tax) in the amount of NIS 19 million (approximately \$5 million).

Fair value of financial instruments

Our financial instruments primarily include cash and cash equivalents, short and long-term deposits, marketable securities, trade receivables, short and long-term other receivables, short-term banks credit, other current liabilities and long-term monetary liabilities.

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The fair value of traded financial instruments (such as marketable securities and notes) is generally calculated according to quoted closing prices as of the balance sheet date, multiplied by the issued quantity of the traded financial instrument as of that date. The fair value of financial instruments that are not traded is estimated by means of accepted pricing models, such as present value of future cash flows discounted at a rate that, in our assessment, reflects the level of risk that is incorporated in the financial instrument. We relies, in part, on market interest which is quoted in an active market, as well as on various techniques of approximation. Therefore, for most of the financial instruments, the estimation of fair value presented below is not necessarily an indication of the realization value of the financial instrument as of the balance sheet date. The estimation of fair value is carried out, as mentioned above, according to the discount rates in proximity to the date of the balance sheet date and does not take into account the variability of the interest rates from the date of the computation through the date of issuance of the consolidated financial statements. Under an assumption of other discount rates, different fair value assessments would be received which could be materially different from those estimated by us, mainly with respect to financial instruments at fixed interest rate. Moreover, in determining the assessments of fair value, the commissions that could be payable at the time of repayment of the instrument have not been taken into account and they also do not include any tax effect. The difference between the balances of the financial instruments as of the balance sheet date and their fair value as estimated by us may not necessarily be realizable, in particular in respect of a financial instrument which will be held until redemption date.

Following are the principal methods and assumptions which served to compute the estimated fair value of the financial instruments:

Financial instruments included in current and non-current assets and current liabilities - (cash and cash equivalents, deposits and marketable securities, trade receivables, other current assets and assets related to a) discontinued operations, **loans and deposits which bear variable interest rate**, short-term credit, suppliers, other current liabilities and liabilities related to discontinued operations) due to their nature, their fair values approximate to those presented in the balance sheet.

Financial instruments included in long-term liabilities - the fair value of the traded liabilities (notes) is determined according to closing prices as of the balance sheet date quoted on the Tel- Aviv and Warsaw Stock Exchanges, multiplied by the quantity of the marketable financial instrument issued as of that date. The fair value b) of non-traded liabilities at fixed interest rate is determined according to the present value of future cash flows, discounted at a rate which reflects, in our estimation, the level of risk embedded in the financial instrument. The fair value of liabilities which carried variable interest rate is approximate to those presented in the balance sheet.

The following table presents the book value and fair value of our financial assets (liabilities), which are presented in our consolidated financial statements at other than their fair value:

As of December 31,
2017

	Book Value	Fair Value
Notes	(1,024,168)	(911,051)

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

PC Debt Restructuring

On November 18, 2013, our subsidiary PC announced that it had filed for reorganization proceedings and submitted a restructuring plan to the Dutch Court proposed to its creditors, which was further amended. For more information, see "Item 4 – Information on the Company – History and Development of the Company – Recent Events –PC Debt Restructuring" and "Item 4 – Information on the Company – History and Development of the Company – Recent Events – Amendment of the Restructuring Plan of PC".

Our Debt Restructuring

See "Item 4 – Information on the Company – History and Development of the Company – Recent Events –PC Debt Restructuring" and "Item 4 – Information on the Company – History and Development of the Company – Recent Events – Our Debt Restructuring".

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2017.

There can be no assurance that our disclosure controls and procedures will detect or uncover all failures of persons within our company to disclose information otherwise required to be set forth in our reports. Nevertheless, our disclosure controls and procedures are designed to provide reasonable assurance of achieving the desired control objectives. Based on this evaluation, our principal executive officer and chief financial officer concluded that, as of December 31, 2017, our disclosure controls and procedures were effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is designed to provide reasonable assurance to our management and the board of directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may decline.

Our management evaluated the effectiveness of our internal control over financial reporting established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)(2013). Based on the above, our management has assessed and concluded that, as of December 31, 2017, our internal control over financial reporting is effective.

Attestation Report of the Registered Public Accounting Firm

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding effectiveness of our internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report as we are a non-accelerated filer.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting other than the recommendations of the special committees as described below:

Potential violation of the requirements of the FCPA in Casa Radio Project in Romania

In March 2016 PC announced that its board became aware of certain issues with respect to certain agreements that were executed in the past by PC in connection with the Casa Radio Project in Romania that may indicate potential violation of the requirements of the FCPA, including the books and records provisions of the FCPA.

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In order to address this matter, PC's Board appointed the chairman of its Audit Committee to investigate the matters internally. PC's Board also appointed independent law firms to perform an independent review of the issues raised. PC has approached and is co-operating fully with relevant Romanian authorities regarding the matters that have come to its attention in this respect, and it has submitted its findings to the Romanian authorities.

Following PC's report to us, our audit committee decided to appoint a special committee to examine the matters raised in PC's announcement, including any internal control and reporting issues. The special committee has concluded its examination of these matters and submitted its recommendations to the Company's Board. The main recommendations are as follows:

Amending the Company's internal control policies and procedures to strengthen control over its subsidiaries and develop mechanisms to ensure adequate internal control policies and procedures are followed by subsidiaries.

Appointing Compliance Officer whose responsibilities shall include, among others, development and regular monitoring of the Company's and its subsidiaries' internal control policies and procedures, including as they relate to FCPA and other relevant anti-bribery statutes.

Assigning the Company's officer to be responsible for implementation of internal control policies and procedures and for making sure relevant employees are aware of such policies and procedures.

The Company's Board fully adopted the special committee's recommendations, and is working to implement them.

Potential violation of the requirements of the FCPA in Agency and SEC agreement from 2011

In addition, in April 2017 our Board of Directors and PC's Board of Directors became aware of certain issues with respect to an agency and commission agreement from 2011 regarding the sale in 2012 of property in the U.S. jointly owned by PC and the Company. The agreement was between the Company, PC and another party, the beneficial owners of which had not been identified.

The characteristics of the contract could raise red flags that this contract may be a potential violation of the requirements of the FCPA, including the books and records provisions of the FCPA. In order to address this matter, our Board has appointed a joint committee with PC to investigate and examine the issues raised, including any internal control and reporting issues.

The joint committee has concluded its examination of these matters and submitted its recommendations to the Company's Board. The main recommendations are as follows:

Enhance the Company's supervision over its subsidiaries by holding regular meetings among all of the group's compliance officers and requiring that compliance reports be regularly shared with the Company's compliance officer.

Verify that the Company's policies and procedures are fully implemented in all of its subsidiaries.

Amend PC Global Compliance Policy to ensure adequate internal controls.

Improve the Company's and PC corporate governance and related party transaction procedures and questionnaires to better conform to the requirements of auditing standard IAS 24 Related Party Disclosures issued by the International Accounting Standards Board.

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Require each of the third parties to the Third Parties Agreements to sign that they are in compliance with the anti-bribery provisions of PC's compliance policy.

The Company's Board fully adopted the joint committee's recommendations, and, among other steps, is working to implement specific changes to its internal control policies and procedures.

None of the adjustments are expected to have a materially affect our internal control over financial reporting or financial statements.

For more information see "Item 4 – Information on the Company – History and Development of the Company – Recent Events –Approval of an offer of Settlement with the SEC in the matter of Alleged PC Violations of FCPA”.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

In accordance with Nasdaq Corporate Governance Rules, our board of directors has determined that both Mr. Alon Bachar and Mr. Nadav Livni are “audit committee financial experts” as defined in the instructions to Item 16A. of Form 20-F and are independent in accordance with the NASDAQ listing standards for audit committees applicable to us.

ITEM 16B. CODE OF ETHICS

Our principal executive officer, principal financial officer as well as all other directors, officers and employees are bound by a Code of Ethics and Business Conduct. Our Code of Ethics and Business Conduct is posted on and can be accessed via our web-site at www.elbitimaging.com. We will provide any person, without charge, upon request, a copy of our Code of Ethics. Such request should be submitted to our Corporate Secretary at Shimshon 3, Petah Tikva, Israel and should include a return mailing address.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees billed by Deloitte and by EY for professional services for each of the last two fiscal years were as follows:

Services Rendered

	EY 2017 Fees	EY 2016 Fees	Deloitte 2016 Fees
Audit (a)	\$723,477	\$1,096,498	\$382,484
Audit-related (b)	\$16,007	-	\$2,574
Tax (c)	\$48,023	\$57,354	\$14,804
All other fees (d)	-	-	-
Total	\$787,506	\$1,153,852	\$399,862

(a) Audit Fees

“Audit Fees” are the aggregate fees billed for the audit of our annual consolidated financial statements; audit in accordance with section 404 of the Sarbanes-Oxley Act of 2002, statutory audits and services that are normally provided in connection with statutory and regulatory filings or engagements.

(b) Audit-Related Fees

“Audit-Related Fees” are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under Audit Fees.

In 2015, Audit-Related Fees included mainly work related to conversion of our Registration Statement on Form F-1 to a Registration Statement on Form F-3.

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(c) Tax Fees

“Tax Fees” are the aggregate fees billed for professional services rendered for tax compliance, tax advice on actual or contemplated transactions and tax consultations regarding tax audits, tax opinions and tax pre-rulings.

(d) All Other Fees

“All Other Fees” are the aggregate fees billed for products and services provided by Deloitte other than as described above.

(e) Pre-Approval Policies and Procedures

Our audit committee oversees the appointment, compensation, and oversight of the registered public accounting firm engaged to prepare and issue an audit report on our consolidated financial statements. The audit committee’s specific responsibilities in carrying out its oversight role include the approval of all audit and non-audit services to be provided by our registered public accounting firm and quarterly review of its non-audit services and related fees. These services may include audit services, audit-related services, permitted tax services and other services, as described above. The audit committee approves in advance the particular services or categories of services to be provided to us during the following yearly period and also sets forth a specific budget for such audit and non-audit services. Additional services may be pre-approved by the audit committee on an individual basis throughout the year.

None of the Audit-Related Fees, Tax Fees or Other Fees paid by us for services provided by Deloitte and/or EY were approved by the audit committee pursuant to the *de minimis* exception to the pre-approval requirement provided by Section 10A of the Exchange Act.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE COMPANY AND AFFILIATED PURCHASERS

Purchases of equity securities by the Company

No purchases of any of our equity securities (either pursuant to or not pursuant to any publicly announced plans or programs) were made by or on behalf of us during 2016.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

We follow the Companies Law, the relevant provisions of which are summarized in this annual report, rather than comply with the NASDAQ requirements relating to: (i) the quorum for adjourned shareholder meetings, as described in Item 10B – Memorandum and Articles of Association – “Voting Rights”; (ii) executive sessions of independent directors, which are not required under the Companies Law; (iii) that director nominees either be selected, or recommended for the board’s selection, either by independent directors constituting a majority of the board’s independent directors or by a nominations committee comprised solely of independent directors, and (iv) shareholder approval with respect to issuance of securities under equity based compensation plans. NASDAQ rules generally require shareholder approval when an equity based compensation plan is established or materially amended, but we follow the Companies Law, which requires approval of the board of directors or a duly authorized committee thereof, unless such arrangements are for the compensation of directors, in which case they also require compensation committee and shareholder approval.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 17. FINANCIAL STATEMENTS

In lieu of responding to this item, we have responded to Item 18 of this annual report.

ITEM 18. FINANCIAL STATEMENTS

Our consolidated financial statements for the period ending December 31, 2017 are found at the end of this Annual Report, beginning on page F-1.

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PART III

ITEM 19. EXHIBITS

- 1.1 Amended and Restated Memorandum of Association (incorporated by reference to Exhibit 3.1 of our Registration Statement on Form F-1 filed on March 13, 2014).
- 1.2 Amended and Restated Articles of Association (incorporated by reference to Exhibit 3.2 of our Registration Statement on Form F-1 filed on March 13, 2014).
- 2.1 Form of ordinary share certificate (incorporated by reference to Exhibit 4.1 of our Registration Statement on Form F-1 filed on March 13, 2014).
- 4.1 English translation of the Plan of Arrangement as approved by the Tel-Aviv Jaffa District Court on January 1, 2014 (incorporated by reference to Exhibit 4.10 of our Annual Report on Form 20-F filed on April 30, 2014).
- 4.2 English translation of the Company’s compensation policy for officers and directors, adopted on August 14, 2014, as amended on March 31, 2016 and on October 13, 2016 (incorporated by reference to our Report on Form 6-K filed on September 6, 2016).
- 4.3 Restructuring Plan of Plaza Centers N.V as approved by the District Court of Amsterdam in the Netherlands on July 10, 2014 (incorporated by reference to Exhibit 4.12 of our Annual Report on Form 20-F filed on April 30, 2015).
- 4.4 Terms of Consultancy Agreement with our director Boaz Lifschitz (incorporated by reference to Exhibit 99.2 of our Report on Form 6-K filed on July 11, 2014).
- 4.5 Series D Preferred Share Purchase Agreement, dated as of June 26, 2014, among certain purchasers and InSightec, as amended on September 7, 2014, December 15, 2014, June 10, 2015 and on December 30, 2015 (incorporated by reference to Exhibit 4.13 of our Annual Report on Form 20-F dated April 30, 2015).
- 4.6 Fourth Supplement and Amendment dated June 10, 2015 to the Series D Preferred Share Purchase Agreement among certain purchasers and InSightec dated June 26, 2014 (incorporated by reference to Exhibit 4.6 of our Annual Report on Form 20-F dated April 21, 2016).
- 4.7 Fifth Supplement and Amendment dated December 30, 2015 to the Series D Preferred Share Purchase Agreement among certain purchasers and InSightec dated June 26, 2014 (incorporated by reference to Exhibit 4.7 of our Annual Report on Form 20-F dated April 21, 2016).
- 4.8 Share Purchase Agreement, dated May 7, 2015, Astrid Hotel Holdings B.V and Astrid JV S.A.R.L (incorporated by reference to Exhibit 4.8 of our Annual Report on Form 20-F dated April 21, 2016).
- 4.9* Fifth Amendment Agreement to Facilities Agreement, dated March 10, 2016, between Raiffeisen Bank International Ag, Raiffeisen Bank S.A., and Bucuresti Turism S.A, and the Company and Term Facility Agreement, dated March 10, 2016 between Raiffeisen Bank International Ag, Raiffeisen Bank S.A., and Bucuresti Turism S.A, and the Company (incorporated by reference to Exhibit 4.9 of our Annual Report on Form 20-F dated April 21, 2016).
- 4.10 Securities Purchase Agreement and Supplemental Agreement, dated December 2, 2015, as was amended on June 16, 2017, between AAYAS Trade Services Private Limited, Elbit Plaza India Real Estate Holdings Limited, Koyenco Limited, Minerva Infratech Private Limited, and Mantri Developers Private Limited (incorporated by reference to Exhibit 4.10 of our Annual Report on Form 20-F dated November 13, 2017).
- 4.11 Consensual Terms of Loan Transfer, dated September 29, 2015 between MKB Bank Zrt. and Plaza Centers Enterprises B.V with respect to Liberec Plaza commercial center (incorporated by reference to Exhibit 4.11 of our Annual Report on Form 20-F dated April 21, 2016).

- 4.12 Bank loan acquired by PC, dated December 6, 2016 which is held against PC's plot in Brasov, Romania (incorporated by reference to Exhibit 4.12 of our Annual Report on Form 20-F dated November 13, 2017).
- 4.13 Debt Repayment Agreement in relation to Zgorzelec Plaza commercial in Poland, dated June 28, 2016 (incorporated by reference to Exhibit 4.13 of our Annual Report on Form 20-F dated November 13, 2017).
- 4.14 Receivable Transfer Contract regarding the Acquisition of a loan to control the Liberec Plaza commercial center, dated March 31, 2016 (incorporated by reference to Exhibit 4.14 of our Annual Report on Form 20-F dated November 13, 2017).
- 4.15** Amended and restated Securities Purchase Agreement dated March 27, between AAYAS Trade Services Private Limited, Elbit Plaza India Real Estate Holdings Limited, Koyenco Limited, Minerva Infratech Private Limited, and Mantri Developers Private Limited.
- 4.16** Master Agreement for the Sale and Purchase of Shares in Bucuresti Turism s.a., Bea Hotels Eastern Europe (Romania) s.a. and indirectly Romextur s.a.
- 4.17** Trust Deed for Elbit Medical Technologies (Series C) convertible notes issued on February 2018.
- 4.18** Trust Deed for the Company's (Series I) notes issued on February 2014.
- 8.1** List of subsidiaries
- 12.1** Certification of the principal executive officer and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1** Certification of the principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 15.1** Table of advisors relied upon in the consolidated financial statements as of December 31, 2017 for the years ended December 31, 2017, 2016 and 2015.
- 15.2** Consent of Colliers international
- 15.3** Consent of Cushman and Wakefield
- 15.4** Consent of Cushman and Wakefield
- 15.5** Consent of Jones Lang LaSalle Services SRL
- 15.6** Consent of Pulvernis Bareket Ben-Yehuda Ltd.
- 15.7** Consent of Greenberg Olpiner and Co.
- 15.8** Consent of Jones Lang LaSalle SP. Z o.o.
- 15.9** Consent of Jones Lang LaSalle Kft.
- 15.10** Consent of BRIGHTMAN ALMAGOR ZOHAR and CO for the Company's consolidated financial statements.
- 15.11** Consent of BRIGHTMAN ALMAGOR ZOHAR and CO for InSightec's consolidated financial statements.
- 15.12** Consent of KOST FORER GABBAY and KASIERE for the Company's consolidated financial statements.

*Confidential treatment granted with respect to certain portions of this Exhibit.

**Filed herewith

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ELBIT IMAGING LTD.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

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ELBIT IMAGING LTD.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Elbit Imaging Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Elbit Imaging Ltd and its subsidiaries (the “Company”), as of December 31, 2017 and 2016, the related consolidated statements of profit or loss, comprehensive income, changes in shareholders’ equity and cash flows for each of the two years in the period ended December 31, 2017 and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations, changes in equity, and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also audited the adjustments described in Note 19 that were applied to adjust the 2015 consolidated financial statements due to discontinued operation. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review or apply any procedures to the 2015 consolidated financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 consolidated financial statements taken as a whole.

We did not audit the financial statements of an associate, in which the Company has an 22.5% interest and are accounted for using the equity method, stated at NIS 0 thousand and NIS 5,300 thousand as of December 31, 2017 and 2016, respectively, and the Company’s share of its losses amounted to NIS 5,300 thousand for the years ended December 31, 2017 and NIS 49,670 thousand for the year ended December 31, 2016. The financial statements of this associate were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for this associate is based solely on the reports of the other auditors.

Emphasis of matters:

Note 1(C) to the consolidated financial statements, which describes the Company's financial position and the resources until November 2019 that are expected to serve the repayment of Company's liabilities. The Company's management and board of directors are of the opinion, based on its projected cash flows and the assumptions described, that the Company can execute its plans and that it would be able to serve its indebtedness in the foreseeable future.

Note 7(B)(2) to the consolidated financial statements, which describes conditions that indicate the existence of a material uncertainty that casts significant doubts about the ability of Company's subsidiary to continue as a going concern. Subsidiary's management plans with regard to these matters are discussed in Note 7(B)(2). The financial statements do not include any adjustments to the carrying amounts and classifications of assets and liabilities that would result if the Company's subsidiary were unable to continue as a going concern.

Note 4(C)(1)(c) which discloses potential irregularities regarding to Casa Radio project in Romania and their potential implications.

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Kost Forer Gabbay & Kasierer Tel: +972-3-6232525
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Note 4(c)(1)(b) which discloses the risk that the public authorities may seek to terminate the Public Private Partnership Agreement (“PPP Agreement”) and/or relevant permits and/or could seek to impose delay penalties on the basis of perceived breaches of the subsidiary’s commitments under the PPP Agreement. In the event that the public authorities seek to terminate the PPP Agreement and/or seek to impose penalties, the Company’s subsidiary 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 (NIS 209.7 million).

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global

We have served as the Company's auditor since 2017.

Tel-Aviv, Israel

April 25, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Elbit Imaging Ltd.

We have audited, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 19 to the consolidated financial statements, the consolidated statements of income, comprehensive income, changes in equity, and cash flows of Elbit Imaging LTD and its subsidiaries (the “Company”) for the year ended December 31, 2015 (the 2015 consolidated financial statements before the effects of the adjustments discussed in Note 19 to the consolidated financial statements are not presented herein). These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such 2015 consolidated financial statements, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 19 to the consolidated financial statements, present fairly, in all material respects, the financial performance and cash flows of Elbit Imaging Ltd and subsidiaries for the year ended December 31, 2015, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments for the discontinued operations discussed in Note 19 to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

Without qualifying our opinion, we draw attention to:

Note 4 (c) (1) (c) and note 13 (c) (12) in the consolidated financial statements which disclose, among other things,
1. potential irregularities concerning the Casaradio Project in Romania and their potential consequences, including Foreign Corrupt Practice Act implications as of December 31, 2015.

2. As discussed in Note 13, claims have been filed against Group companies as of December 31, 2015, one of which was certified as a class action.

Brightman Almagor Zohar & Co.

Certified Public Accountants

A member firm of Deloitte Touche Tohmatsu

Tel-Aviv, Israel

March 31, 2016

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****CONSOLIDATED STATEMENT FINANCIAL POSITION**

		December 31		Convenience translation (note 2d) 2017 USD in thousands
	Note	2017	2016	
		NIS in thousands		
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		465,739	89,688	134,335
Short-term deposits and investments	(3a)	10,495	39,527	3,027
Trade accounts receivables	(3b)	-	34,168	-
Other receivables	(3c)	7,222	13,344	2,083
Inventories		-	1,865	-
		483,456	178,592	139,445
NON-CURRENT ASSETS				
Trading property	(4)	492,619	1,310,549	142,088
Deposits, loans and other long-term balances	(3d)	34,874	23,484	10,058
Investments in associates and joint venture	(5,6)	5,592	26,949	1,613
Property, plant and equipment, net	(8)	830	721,635	239
		533,915	2,082,617	153,998
		1,017,371	2,261,209	293,443
CURRENT LIABILITIES				
Current maturities of long term borrowings and short-term credits	(9)	780,861	1,128,768	225,226
Suppliers and service providers		2,720	34,160	785
Payables and other credit balances	(10)	63,293	46,699	18,255
		846,874	1,209,627	244,266
NON-CURRENT LIABILITIES				
Borrowings	(11)	243,311	852,870	70,179
Other liabilities	(4c1d), (4d2)	75,970	57,155	21,913
Deferred taxes	(12)	-	92,942	-

Commitments, Contingencies, Liens and Collaterals	(13)	319,281	1,002,967	92,092
Shareholders' Equity	(14)			
Share capital and share premium		1,105,974	1,105,974	319,000
Reserves		(870,043)	(787,765)	(250,951)
Retained losses		(430,366)	(406,698)	(124,131)
Attributable to equity holders of the Company		(194,435)	(88,489)	(56,082)
Non-controlling interest		45,651	137,103	13,167
		(148,784)	48,614	(42,915)
		1,017,371	2,261,209	293,443

April 25, 2018

Date of approval of the financial statements	Yael Naftali Chief Financial Officer	Ron Hadassi Chairman of the Board of Directors and Chief Executive Officer
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The accompanying notes are an integral part of the consolidated financial statements.

TABLE OF CONTENTS**ELBIT IMAGING LTD.****CONSOLIDATED STATEMENT OF PROFIT AND LOSS**

	Year ended December 31			Convenience translation (note 2d) 2017 USD in thousands
	2017 note	(*)2016	(*)2015	
REVENUES AND GAINS				
REVENUES				
Revenues from sale of commercial centers	782,829	126,019	200,078	225,794
Total revenues	782,829	126,019	200,078	225,794
GAINS AND OTHER				
Rental income from commercial centers	31,997	66,417	83,849	9,229
Gain from sale of investees	-	-	6,712	-
Total gains	31,997	66,417	90,561	9,229
Total revenues and gains	814,826	192,436	290,639	235,023
EXPENSES AND LOSSES				
Cost of commercial centers	16a 805,623	159,806	290,360	232,369
General and administrative expenses	16b 14,930	10,257	16,678	4,306
Share in losses of associates, net	6,7 20,202	54,313	42,925	5,827
Financial expenses	16c 112,296	124,354	207,721	32,390
Financial income	16d (1,811)	1,056	(2,154)	(522)
Change in fair value of financial instruments measured at fair value through profit and loss	16e -	(2,707)	2,568	-
Write-down, charges and other expenses, net	16f 101,120	162,318	99,292	29,166
		1,052,360	509,397	657,390
Loss before income taxes	(237,534)	(316,961)	(366,751)	(68,513)
Income taxes expenses	12 11,244	3,020	4,402	3,243

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Loss from continuing operations		(248,778)	(319,981)	(371,153)	(71,756)
Profit (loss) from discontinued operations, net	19	(152,903)	7,913	56,231	(44,102)
Loss for the year		(401,681)	(312,068)	(314,922)	(115,858)

(*) Reclassified (discontinued operations). Refer to Note 19.

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

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****CONSOLIDATED STATEMENT OF PROFIT AND LOSS (Cont.)**

	Year ended December 31			Convenience translation (note 2d)
	2017 note	(*)2016	(*)2015	2017 USD in thousands
	NIS in thousands (Except share and per share data)			
<u>Attributable to:</u>				
Equity holders of the Company	(338,034)	(194,830)	(186,150)	(97,500)
Non-controlling interest	(63,647)	(117,238)	(128,772)	(18,358)
	(401,681)	(312,068)	(314,922)	(115,858)
Loss from continuing operations				
Equity holders of the Company	(185,132)	(202,724)	(242,709)	(53,398)
Non-controlling interest	(63,647)	(117,257)	(128,463)	(18,358)
	(248,779)	(319,981)	(371,172)	(71,756)
Profit (loss) from discontinued operation, net				
Equity holders of the Company	(152,903)	7,893	56,540	(44,102)
Non-controlling interest	-	20	(309)	-
	(152,903)	7,913	56,231	(44,102)
Loss per share - (in NIS)	(16j)			
Basic and diluted earnings (loss) per share:				
From continuing operation	(20.14)	(22.05)	(21.73)	(5.8)
From discontinued operations	(16.64)	0.85	1.48	(4.8)
	(36.78)	(21.20)	(20.25)	(10.6)

(*) Reclassified (discontinued operations). Refer to Note 19.

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

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Year ended December 31			Convenience translation
	2017	2016	2015	(note 2d) 2017 USD in thousands
	NIS in thousands			
	(Except share and per share data)			
Loss for the year	(401,681)	(312,068)	(314,922)	(115,858)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences arising from translation of foreign operations	(13,597)	(33,933)	(91,319)	(3,926)
Gain from cash flow hedge	-	1,670	2,081	-
Reclassification adjustments relating to foreign operations disposed of in the year	213,848	-	(32,454)	61,681
	200,251	(32,263)	(121,692)	57,755
Items not to be reclassified to profit or loss in subsequent periods (*):				
Additions during the year	9,763	90,410	83,582	2,816
	9,763	90,410	83,582	2,816
Other comprehensive income (loss)	210,014	58,147	(38,110)	60,571
Comprehensive loss	(191,667)	(253,921)	(353,032)	(55,287)
Attributable to:				
Equity holders of the Company	(127,918)	(128,114)	(206,504)	(36,896)
Non-controlling interest	(63,749)	(125,807)	(146,528)	(18,387)
	(191,667)	(253,921)	(353,032)	(55,283)
Loss from continuing operations				
Equity holders of the Company	(198,441)	(211,394)	(206,597)	(57,236)

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Non-controlling interest	(63,935)	(127,281)	(143,610)	(18,441)
	(262,376)	(227,675)	(350,208)	(75,677)
Profit (loss) from discontinued operation, net				
Equity holders of the Company	70,895	83,279	(3,226)	20,449
Non-controlling interest	(186)	1,474	402	(54)
	70,708	84,753	(2,824)	20,395

(*) All amounts are presented net of related tax.

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

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Share capital and premium	Other reserves (*)	Revaluation of property, plant and equipment	Stock-based compensation reserve	Foreign currency translation reserve	Retained losses	Attributable to shareholders of the company	Non-controlling interest	Total shareholders' equity
	NIS in thousands								
Balance -January 1, 2015	1,055,056	(201,848)	130,549	49,527	(734,176)	(67,129)	231,979	481,258	713,237
Loss for the year	-	-	-	-	-	(186,150)	(186,150)	(128,772)	(314,922)
Other comprehensive income (loss)	-	8,007	60,783	-	(109,649)	20,504	(20,355)	(17,756)	(38,111)
Stock based compensation expenses	-	-	-	845	-	-	845	(175)	670
Transaction with non-controlling interest	-	(148,066)	37,413	-	94,933	8,142	(7,578)	(50,565)	(58,143)
Expiration of options held by minority	-	-	-	546	-	-	546	787	1,333
Cancellation of treasury stock and old stock	50,918	-	-	(50,918)	-	-	-	-	-
Balance -December 31, 2015	1,105,974	(341,907)	228,745	-	(748,892)	(224,633)	19,287	284,777	304,064

(*) Includes transactions with non-controlling interest reserve and hedging reserve.

TABLE OF CONTENTS**ELBIT IMAGING LTD.****STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Cont.)**

	Share capital and premium	Other reserves (*)	Revaluation of property, plant and equipment	Stock-based compensation reserve	Foreign currency translation reserve	Retained losses	Attributable to shareholders of the company	Non-controlling interest	Total shareholders' equity
NIS in thousands									
Balance -January 1, 2016	1,105,974	(341,907)	228,745	-	(748,892)	(224,633)	19,287	284,777	304,064
Loss for the year	-	-	-	-	-	(194,830)	(194,830)	(117,238)	(312,068)
Other comprehensive income (loss)	-	2,015	76,025	-	(24,089)	12,765	66,716	(8,569)	58,147
Stock based compensation expenses	-	-	-	27	-	-	27	149	176
Transaction with non-controlling interest	-	40,903	-	-	(27,369)	-	13,534	(15,239)	(1,705)
Forfeiture of stock options granted	-	6,777	-	-	-	-	6,777	(6,777)	-
Balance -December 31, 2016	1,105,974	(292,212)	304,770	27	(800,350)	(406,698)	(88,489)	137,103	48,614

(*) Includes transactions with non-controlling interest reserve and hedging reserve.

TABLE OF CONTENTS**ELBIT IMAGING LTD.****STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Cont.)**

	Share capital and premium	Other reserves (*)	Revaluation of property, plant and equipment	Stock-based compensation reserve	Foreign currency translation reserve	Retained losses	Attributable to shareholders the company	Non- Controlling interest	Total shareholders' equity
NIS in thousands									
Balance -January 1, 2017	1,105,974	(292,212)	304,770	27	(800,350)	(406,698)	(88,489)	137,103	48,614
Loss for the year	-	-	-	-	-	(338,034)	(338,034)	(63,647)	(401,681)
Other comprehensive income (loss)	-	-	(1,960)	-	200,518	11,556	210,114	(100)	210,014
Stock based compensation expenses	-	-	-	199	-	-	199	503	702
Disposal as a result of sale of subsidiary (see note 19)	-	-	(302,810)	-	-	302,810	-	(6,433)	(6,433)
Change in holding rate in subsidiary	-	1,537	-	-	-	-	1,537	(1,537)	-
Forfeiture of stock options granted	-	20,238	-	-	-	-	20,238	(20,238)	-
Balance -December 31, 2017	1,105,974	(270,437)	-	226	(599,832)	(430,366)	(194,435)	45,651	(148,784)

(*) Includes transactions with non-controlling interest reserve and hedging reserve.

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

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Cont.)**

	Share capital and premium	Other reserves (*)	Revaluation of property, plant and equipment	Stock-based compensation reserve	Foreign currency translation reserve	Retained losses	Attributable to shareholder of the company	Non- Controlling interest	Total shareholders' equity
	USD in thousands								
Balance -January 1, 2017	319,000	(84,284)	87,906	8	(230,848)	(117,305)	(25,523)	39,545	14,022
Loss for the year	-	-	-	-	-	(97,500)	(97,500)	(18,358)	(115,858)
Other comprehensive income (loss)	-	-	(565)	-	57,836	3,333	60,604	(29)	60,575
Stock based compensation expenses	-	-	-	57	-	-	57	145	202
Disposal as a result of sale of subsidiary (see note 19)	-	-	(87,341)	-	-	87,341	-	(1,856)	(1,856)
Change in holding rate in subsidiary	-	443	-	-	-	-	443	(443)	-
Forfeiture of stock options granted	-	5,837	-	-	-	-	5,837	(5,837)	-
Balance -December 31, 2017	319,000	(78,004)	-	65	(173,012)	(124,131)	(56,082)	13,167	(42,915)

(*) Includes transactions with non-controlling interest reserve and hedging reserve.

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

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year ended December 31			Convenience translation (note 2d)
	2017	2016	2015	2017
	NIS in thousands			USD in thousands
<u>Cash Flows From Operating Activities</u>				
Loss for the year	(401,681)	(312,068)	(321,796)	(115,858)
Adjustments to profit (loss):				
Tax expenses recognized in profit and loss	11,164	2,906	5,631	3,220
Finance expenses recognized in profit and loss, net	344,434	142,336	239,598	99,346
Income tax paid in cash	(1,856)	(803)	(509)	(535)
Depreciation, amortization and other (including impairment)	119,694	196,141	123,145	34,524
Realization of foreign currency translation reserve in connection with sale operations	-	-	(56,063)	-
Profit from realization of subsidiary (Appendix A)	(56,544)	-	(4,147)	(16,309)
Profit from realization of investments in associates and joint venture	-	-	(6,713)	
Share in losses of associates, net	20,202	54,312	42,925	5,827
Profit from realization of assets and liabilities	(3,204)	(7,973)	(4,872)	(924)
Stock based compensation expenses	719	189	1,047	207
Other	(759)	(412)	(488)	(219)
Change in trade accounts receivables	10,000	(22,797)	3,415	2,884
Change in receivables and other debit balances	(21,657)	61	10,968	(6,247)
Change in Inventories	187	106	(118)	54
Change in trading property	385,127	18,708	181,680	111,084
Change in suppliers and service providers	(1,301)	20,929	(7,095)	(375)
Change in payables and other credit balances	29,287	(14,605)	(13,241)	8,447
Net cash provided by operating activities of continuing operations	433,812	77,030	193,367	125,126
Net cash used in discontinued operating activities	-	-	(2,014)	-
Net cash provided by operating activities	433,812	77,030	191,353	125,126

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****CONSOLIDATED STATEMENT OF CASH FLOWS (Cont.)**

	Year ended			
	December 31			
	2017	2016	2015	Convenience translation (note 2d)
	NIS in thousands			2017 USD in thousands
	(Except share and per share data)			
<u>Cash flows from investing activities</u>				
Proceeds from realization of investments in subsidiaries (a)	442,708	-	192,026	127,693
Proceeds from realization of investments in associates and joint venture	1,983	83,792	76	572
Purchase of property plant and equipment, and other assets	(4,095)	(2,872)	(23,630)	(1,181)
Proceeds from realization of property plant and equipment	3,635	22,278	12,916	1,048
Proceed from realization of long-term deposits and long-term loans	1,085	7,128	10,197	313
Investment in long-term deposits and long-term loans	974	(10,851)	-	281
Interest received in cash	-	328	1,404	-
Change in short-term deposits and marketable securities, net and changes in restricted cash	12,916	(9,917)	5,070	3,725
Net cash provided by continued investing activities	459,206	89,886	198,059	132,451
Net cash provided by discontinued investing activities	-	-	37,737	-
Net cash provided by investing activities	459,206	89,886	235,796	132,451

TABLE OF CONTENTS**ELBIT IMAGING LTD.****CONSOLIDATED STATEMENT OF CASH FLOWS (Cont.)**

	Year ended December 31			Convenience translation (note 2d) 2017 USD in thousands
	2017	2016	2015	
	NIS in thousands (Except share and per share data)			
<u>Cash flows from financing activities</u>				
Interest paid in cash	(75,584)	(107,297)	(129,350)	(21,801)
Purchase of non-controlling interest	-	(701)	(62,059)	-
Proceeds from long-term borrowings	16,364	204,615	-	4,720
Repayment of long-term borrowings	(460,523)	(332,553)	(377,406)	(132,830)
Proceeds (payments) from hedging activities through sale of options and forwards	-	2,677	(1,610)	-
Repayment of short-term credit	-	-	(6,997)	-
Net cash used in continued financing activities	(519,743)	(233,259)	(577,422)	(149,911)
Net cash used in discontinued financing activities	-	-	(2,135)	-
Net cash used in financing activities	(519,743)	(233,259)	(579,557)	(149,911)
Increase (decrease) in cash and cash equivalents	373,275	(66,343)	(152,408)	107,665
Cash and cash equivalents at the beginning of the year	89,688	157,851	323,182	25,869
Cash and cash equivalents related to discontinued operations at the end of the year	-	-	-	-
Net effect on cash due to currency exchange rate changes	2,776	(1,820)	(12,923)	801
Cash and cash equivalents at the end of the year	465,739	89,688	157,851	134,335

(a) Proceeds from realization of investments in subsidiaries:

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Working capital (excluding cash), net	1,426	-	(15,591)	411
Long term deposits	9,302	-	-	2,683
Property, plant equipment and other assets	705,809	-	203,470	203,579
Bank loans	(231,631)	-	-	(66,810)
Deferred taxes	(92,309)	-	-	(26,625)
Non- controlling interests	(6,433)	-	-	(1,855)
Profit from realization of subsidiaries	56,544	-	4,147	16,309
	442,708	-	192,026	127,692

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

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ELBIT IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

Elbit Imaging Ltd. (“the Company”) was incorporated in Israel. The Company’s shares are registered for trade on the Tel Aviv Stock Exchange and in the United States on the NASDAQ Global Select Market. 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.

b. The Group engages, directly and through its investee companies, in Israel and abroad, mainly in the following areas:

Medical industries and devices - through the Company indirect holdings in two companies which operates in the field of life science: (i) INSIGHTEC which operates in the field of development, production, and marketing of treatment-oriented medical systems, based on a unique technological platform combining the use of focused ultrasound and magnetic resonance imaging for the purpose of performing noninvasive treatments in human beings; and (ii) Gamida which operates in the field of research, development and manufacture of products designated for certain cancer diseases.

Plots in India - plots designated for sale which were initially designated to residential projects.

Plots in Eastern Europe initially designated for development of commercial centers - includes plots in Eastern Europe (and in Greece) held by our subsidiary Plaza Centers N.V. (“PC”) whose business strategy is to no longer develop commercial centers but to dispose of its real estate assets at optimal market conditions.

With regards to the sale of Radisson hotel Complex in Bucharest Romania on December 18, 2017, see note 19. Accordingly, this operation is presented in these financial statements as discontinued operation.

c. Financial position as of December 31, 2017:

As of the financial statements’ approval date, the Company’s standalone financial position includes liabilities to Series H and Series I notes in the aggregate principal amount of approximately NIS 271 million. An amount of approximately NIS 50 million (principal plus future accrued interest) is due to Series H notes until May 30, 2018. The remaining amount of approximately NIS 250 million (principal plus future accrued interest) will become due until

November 2019. In addition, until November 2019 the Company has certain operational expenses and other current liabilities for its ongoing operations in the amount of approximately NIS 28 million.

The Company has prepared a projected cash flow that outlines the relevant resources until November 2019 that are expected to serve the repayments to Series H and I notes which includes the following resources : (i) cash and cash equivalents (on a standalone basis) of approximately NIS 113 million; (ii) proceeds from payments on account of the sale of the Company's plot in Bangalore (India) in the amount of approximately NIS 51 million based on the current valuation which is lower than the sale agreement signed on March 2018 as mentioned in note 4 d.; (iii) proceeds from the Company's plot in Chennai in the amount of NIS 28 million based on the current valuation of the plot (iv) proceeds from sale of the Company's shares in Elbit Medical.

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ELBIT IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL (Cont.)

c. Financial position as of December 31, 2017 (Cont.):

The Company's management and board of directors are of the opinion, based on the projected cash flow and the assumptions described, that the Company can execute its plans and that it would be able to serve its indebtedness in the foreseeable future.

In light of the foregoing, the Company's management and board of directors are of the opinion that no significant doubts exist as to the Company's ability to act as going concern.

d. Financial position as of December 31, 2015:

Within the Company's consolidated financial statements as of December 31, 2015 which was published on March 30, 2016, the Company has included, inter alia, note with respect to its financial position which stated that the Company had prepared a projected cash flow until June 2018, which included the anticipated sources that to the Company's estimation, were expected to serve the repayment of its financial liabilities. As of December 31, 2015 the Company's Board of directors was of the opinion, based on the projected cash flow, that the Company can execute its plans and that it would be able to serve its indebtedness in the foreseeable future.

In light of the foregoing, the Company's board of directors was of the opinion that, the Company is a going concern and hence, the consolidated financial statements of the Company as of December 31, 2015 were prepared based on going concern assumption.

f. Definitions:

The
Company

Group - The Company and its Investees

Investees - Subsidiaries, joint ventures and associates

PC Plaza Centers N.V. Group, a subsidiary of the Company, which in past operated mainly in the field of commercial centers and is traded in the Main Board of the London Stock Exchange, the Warsaw stock Exchange (“WSE”) and Tel Aviv Stock Exchange. As of December 31, 2017, the Company holds 44.9% in PC.

Elbit Medical Elbit Medical Technologies Ltd., a public Israeli company traded on the Tel Aviv Stock Exchange. As for December 31, 2017, the Company holds approximately 89% of Elbit Medical share capital (88.7% on a fully diluted basis).

Related parties - As defined in International Accounting Standard (“IAS”) no. 24 see note 17.

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ELBIT IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance:

The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”).

b. Basis for preparation:

The audited consolidated financial statements have been prepared on the historical cost basis except for (i) financial instruments measured at fair value; (ii) certain trading property measured at net realizable value (see note 2w.(1)a.); and (iii) certain property, plant and equipment (hotels) were presented until their disposal at the revaluation model (based on fair value). The principal accounting policies are set out below.

c. Presentation of the income statements:

The Group operations are characterized by diverse activities. Accordingly, management believes that its income statements should be presented in the “Single - step form”. According to this form, all costs and expenses (including general and administrative and financial expenses) should be considered as continuously contributing to the generation of the overall revenues and gains. Management also believes that its operating expenses should be classified by function to: (i) those directly related to each revenue (including general and administrative expenses and selling and marketing expenses relating directly to each operation); and (ii) overhead expenses which serve the business as a whole and are to be determined as general and administrative expenses.

d. Convenience translation:

The balance sheet as of December 31, 2017, and statement of income, statement of other comprehensive income, statement of changes in shareholders’ equity and statement of cash flows for the year then ended have been translated

into USD using the representative exchange rate as of that date (USD 1= NIS 3.467). Such translation was made solely for the convenience of the U.S. readers. The USD amounts so presented in these financial statements should not be construed as representing amounts receivable or payable in USD or convertible into dollars but only a convenience translation of reported NIS amounts into USD, unless otherwise indicated. The convenience translation supplementary financial data is audited and is not presented in accordance with IFRSs.

e. Operating cycle:

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

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ELBIT IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Basis for consolidation:

1. Assessment of control:

The audited consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (“Subsidiaries”). Control is achieved where the Company:

Has the power over the investee;

Is exposed, or has rights, to variable returns from its involvement with the investee;

Has the ability to use its power to affect its returns.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

As for de facto control of the Company in PC see w (2) below.

2.Changes in the Group's ownership interests in existing subsidiaries:

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Investments in associates and joint ventures:

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these audited consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment.

In circumstances where the Group's interest in an investee company is in the form of mixed securities (such as ordinary shares, preferred shares or other senior securities, or loans), the Group records equity losses in excess of the Group's investment in the ordinary shares of the investee based on the priority liquidation mechanism, that is, allocating the loss to the other components in reverse order to their seniority in liquidation.

Where necessary, adjustments are made to the financial statements of associates to adjust their accounting policies with those of the Company.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Foreign currency:

1. Foreign currency transactions:

The financial statements of each individual entity of the Group are presented based on its functional currency. Transactions in currencies other than each individual entity's functional currency (foreign currency) are translated into that entity's functional currency based on the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the foreign exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the historical exchange rate prevailing at the date of the transaction. Non-monetary assets and liabilities carried at fair value that are denominated at foreign currency are translated at the exchange rates prevailing at the date when the fair value was determined.

Exchange rate differences as a result of the above are recognized in statement of income, except for: (i) exchange rate differences charged to foreign currency translation reserve (see (2) below); and (ii) exchange rate differences charge to revaluation of property plant and equipment carried at fair value (see 1 below)

2. Financial statements of foreign operations:

For the purpose of the audited consolidated financial statements, the assets and liabilities of foreign operations (the functional currency of each foreign operation is the currency of the primary economic environment in which it operates) are translated to New Israeli Shekels ("NIS") which is the functional currency and the presentation currency of the Company, based on the foreign exchange rates prevailing at the balance sheet date. The revenues and expenses of foreign operations are translated to the functional currency of the Company based on exchange rates as at the date of each transaction or for sake of practicality using average exchange rates for the period.

Foreign exchange rate differences arising from translation of foreign operations are recognized directly to foreign currency translation reserve within other comprehensive income.

Exchange rate differences attributable to monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation are also included in the foreign currency translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in the equity reserve in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Foreign currency (Cont.):

2. Financial statements of foreign operations (Cont.):

In the case of a partial disposal that does not result in loss of control by the Group over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to or from non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

3. Rates of exchange of NIS, in effect, in relation to foreign currency (in NIS) are as follows:

	December 31	
	2017	2016
USD (\$)	3.467	3.845
EURO (EUR)	4.153	4.044
Romanian New Lei (RON)	0.8912	0.8905
Indian Rupee (INR)	0.0544	0.0565

Scope of change in the exchange rate, in effect, of the NIS in relation to the foreign currencies (%):

	December 31,		
	2017	2016	2015
USD (\$)	(10)	(1)	-
EURO (EUR)	3	(5)	(10)

Romanian New Lei (RON) (3) (5) (11)
Indian Rupee (INR) (4) (4) (5)

i. Cash and cash equivalents:

Cash equivalents include unrestricted readily convertible to a known amount of cash, maturity period of which, as at the date of investments therein, does not exceed three months.

j. Financial assets:

Financial assets of the Group are classified mainly as loans and receivables. Financial assets are initially measured at fair value

Loans and receivable consist of trade receivables, deposits in banks, and financial institutions, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest is considered immaterial.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Trading property

Real estate properties for future sale are classified as trading properties and are stated at the lower of cost and net realizable value.

Net realizable was determined based on the residual method using the estimated selling price less cost for completion and executing the sale discounted in the applicable discount rate without taking into account the developer's profit and assuming that marketing period is restricted to a period which is lower than the normal one or the comparable method taking into account the specific restrictions that the Group has on the property. See also 2 w (1)a below and note 4 c (1) and note 4 d.

Costs of commercial centers include costs directly associated with their purchase (including payments for the acquisitions of leasehold rights and borrowing cost and all subsequent direct expenditures for the development and construction of such properties. Cost of trading property is determined mainly on the basis of specific identification of their individual costs.

As for borrowing costs capitalized to trading property - see s below.

As for write down of trading property - see w1a) below.

As for the operating cycle of trading property - see e above.

l. Property plant and equipment:

1. The Group's hotel was presented in the consolidated balance sheets according to the revaluation model.

Revaluations are carried out on a regular basis (generally each half year). A change in the value of the hotel resulting from revaluation or from exchange rate differences is attributable to other comprehensive income (any revaluation reserve is net of applicable deferred taxes).

The reserve derived from the revaluation of the hotel is transferred to retained earnings over the period for which the hotel is used by the Group. The transferred amounts equal the difference between the depreciation charge based on the revalued carrying amounts of the hotel and the depreciation charge based on the hotels' original cost. When a revaluated hotel is sold, the remaining amount in the revaluation reserve with respect to the same hotel (including any tax expenses) is directly transferred to retained earnings.

Other property plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Improvements and renovations are charged to cost of assets. Maintenance and repair costs are charged to the statement of income as incurred.

Depreciation is calculated by the straight-line method over the assets estimated useful lives. Leasehold improvements are amortized over the estimated useful period of use not exceeding the lease period (including the period of renewal options that the Group intends to exercise).

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NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Property plant and equipment (Cont.):

Annual depreciation rates are as follows:

	%
Hotel	5
Other buildings	2.0 - 2.5
Building operating systems	7.0 (average)
Others (*)	6.0 - 33.0

(*) Consists mainly: office furniture, machinery and equipment, electronic equipment, computers and peripheral equipment.

m. Income taxes:

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current taxes:

Tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are non-taxable or deductible for tax purposes. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as of the balance sheet date.

Deferred taxes:

Deferred taxes are calculated in respect of all temporary differences, including (i) differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit; and (ii) tax losses and deductions that may be carried forward for future years or carried backwards for previous years.

Deferred taxes are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The calculation of deferred tax liabilities does not include taxes that would have arisen in the event of a realization of investments in certain investee companies or upon receiving their retained earnings as dividends, since it is management's policy not to realize these investees nor to declare dividend out of their retained earnings, or other form of profit distributions, in the foreseeable future, in a manner which entails additional substantial tax burden on the Group. For certain other Group's investee companies, which management's intention is to realize or to distribute their retained earnings as taxable dividend, tax liabilities (current and deferred) are recorded.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is to be settled or the asset is to be realized, based on tax rates and laws that have been enacted or substantively enacted as of the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Income taxes (Cont.):

Deferred taxes (Cont.):

Deferred tax asset is recorded to the extent that it is probable that it would be realized against future taxable profits. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity or in other comprehensive income, in which case the tax effect is also recognized directly in equity or in other comprehensive income;

n. Financial liabilities and equity instruments issued by the Group:

Equity instruments:

An equity instrument is any contract that represents a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issuance costs.

Financial liabilities:

Financial liabilities at amortized cost of the Group consist of short-term credits, current maturities of long-term borrowing suppliers and service providers, borrowings and other payables, which are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, unless recognition of interest is immaterial.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period to the net carrying amount of the financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial liability (for example, prepayment, call and similar options). The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

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

The Company has Consumer Price Index ("CPI")-linked financial liabilities that are not measured at fair value through profit or loss. For these liabilities, the Company determines the effective interest rate as a real rate plus linkage differences according to the actual changes in the CPI through each balance sheet date. Rate of decrease in the Israeli CPI in 2016 was 0.3% (2015- decrease of 0.9%; 2014 - increase of 0.1%).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Financial liabilities and equity instruments issued by the Group (Cont.):

Buyback of notes and loans:

The Group derecognizes a financial liability from its statement of financial position when repurchasing its notes or its loans. The difference between the carrying amount of the notes or the loans repurchased at the repurchase date and the consideration paid is recognized in profit or loss.

o. Derivative financial instruments and hedge accounting:

The Group enters into a variety of derivative financial instruments, some of which are intended to mitigate its exposure to interest rate and foreign exchange rate risks, including interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in note 20.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently re-measured at their fair value each balance sheet date. The resulting gain or loss from a derivative is immediately recognized in profit and loss. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the derivative is more than 12 months and as a current asset or a current liability if the remaining maturity of the derivative is less than 12 months.

p. Provisions:

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is more likely than not (probable) that the Group will be required to settle the obligation, and a reliable estimate can be measured with respect to the amount of the obligation. The amount recognized as a provision is the best estimate of

the consideration required to settle the present obligation as of the balance sheet date, taking into account the risks and uncertainties associated with the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the result of the discounted expected cash flows, as long as the effect of discounting is material.

q. Share-based payments:

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. The Fair value is measured using the Black and Scholes (“B&S”) model except for capped-Stock Appreciation Rights (“SAR”) for which the Group is using the binomial model. The expected life used in the B&S model has been adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis for each award over the vesting period, based on the Group’s estimate of shares that will eventually vest.

r. Revenue recognition:

General - The Group recognizes revenue and gains when the amount of revenue, or gain, 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 specifics of each arrangement.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Rental income from commercial centers - Revenues from leasing of property and management fees, as well as rental income relating to the operations of commercial centers are measured at the fair value of the consideration received¹ or receivable. The lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

The leases generally provide for rent escalations throughout the lease term. For these leases, the rental income is recognized on a straight line basis so as to produce a constant periodic rent over the term of the lease. Accordingly, accrued rental income recognized on a straight line basis, represents unbilled rent receivables that the Group will receive only if the tenant makes all rent payments required through the expiration of the initial term of the lease. The leases may also provide for contingent rent based on a percentage of the lessee's gross sales or contingent rent indexed to further increases in the Consumer Price Index (CPI). For contingent rentals that are based on a percentage of the lessee's gross sales, the Group recognizes contingent rental income when the change in the factor on which the contingent lease payment is based, actually occurs. Rental income for lease escalations that are indexed to future increases in the CPI, are recognized once the changes in the index have occurred.

2. Revenues from hotel operations are recognized upon performance of service.

3. Revenues and Gains from sales of real estate assets (including hotels), property, plant and equipment and trading properties are recognized when all the following conditions are satisfied:

- a) the Group has transferred to the buyer the significant risks and rewards of ownership of the asset sold;
- b) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the asset sold;
- c) the amount of income 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 significant acts that the Group is obliged to complete according to the sale agreement.

For the Group, these conditions are usually fulfilled upon the closing of a binding sale contract.

s. Capitalization of borrowing costs:

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized to the cost of those assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get it ready for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Capitalization of borrowing costs (Cont.):

Borrowing costs qualified for capitalization include mainly: Interest expenses and amortization of cost of raising debt.

Capitalization of borrowing costs to qualifying assets commences when the Group starts the activities for the preparation of the asset for its intended use or sale and continues, generally, until the completion of substantially all the activities necessary to prepare the asset for its designated use or sale (i.e. when the commercial center is ready for lease).

In certain cases, the Group ceases to capitalize borrowing cost if management decides that the asset can no longer be defined as a “qualifying asset”. In other circumstances, capitalization is suspended for certain time periods, generally where the efforts to develop a project are significantly diminished due to inter-alia lack of external finance, or ongoing difficulties in obtaining permits. The conclusions whether an asset is qualified for capitalization or not, or whether capitalization is to be suspended, are also dependent on management plans with regard to the specific asset, such as the ability to raise bank loans, find anchors and local market conditions that support or postpone the construction of the project.

t. Earning (loss) per share:

The Company presents basic and diluted earnings (loss) per share with respect to continued and discontinued operation. Basic earnings per share is computed by dividing income (loss) attributable to holders of ordinary shares of the Company, by the weighted average number of the outstanding ordinary shares during the period. In the computation of diluted earnings per share, the Company adjusts its income (loss) attributable to its ordinary shareholders for its share in income (loss) of investees by multiplying their diluted earnings per share by the Company’s interest in the investees including its holding in dilutive potential ordinary shares of the investees. In addition, the Company adjusts the weighted average outstanding ordinary shares for the effects of all the dilutive potential ordinary shares of the Company. On June 27, 2016, the Company executed reverse share split of its ordinary

shares, therefore the earnings (loss) per share for previous periods was retrospectively adjusted. See also note 14.

u. Statement of cash flows:

Investments in, and payments on account of, trading property are included as cash flow from operating activities. Interest and dividend received from deposits and investments are included as cash flow from investing activities. Interest paid on the Group's borrowings (including interest capitalized to qualifying assets) and cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control are included as cash flow from financing activities.

v. Discontinued operation:

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- (1) Represents a separate major line of business or geographical area of operations;
- (2) Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- (3) Is a subsidiary acquired exclusively with a view to re-sale.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Discontinued operation (Cont.):

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income and cash flow is re-presented as if the operation had been discontinued from the start of the comparative year.

w. Critical judgment in applying accounting policies and use of estimates:

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, and 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. In addition, in the process of applying the Group's accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts recognized in the financial statements.

The followings are the critical judgments and key sources of estimation that management has made while applying the Group's accounting policies and that have the most significant effect on the amounts recognized in these financial statements.

1. Use of estimates:

a) Write down of trading properties

The recognition of a write down to the Group's trading properties is subject to a considerable degree of judgment and estimates, the results of which, when applied under different principles, conditions and assumptions, are likely to result in materially different results and could have a material adverse effect on the Group's audited consolidated financial statements.

This valuation becomes increasingly difficult as it relates to estimates and assumptions for projects in the preliminary stage of development in addition to the lack of transactions in the real estate market in the CEE and India for same or similar properties.

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.

For special assumption see note 4b, 4c1e and 4d.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Critical judgment in applying accounting policies and use of estimates (Cont.):

1. Use of estimates (Cont.):

b) Litigation and other contingent liabilities:

The Group is involved in litigation, tax assessments and other contingent liabilities in substantial amounts including class actions, FCPA and potential legal acts (see also note 4c1, 13b and note 13c). The Group recognizes a provision for such litigation when it is probable that the Group will be required to settle the obligation, and the amount of the obligation can be reliably estimated. The Group evaluates the probability and outcome of these litigations based on, among other factors, legal opinion and consultation and past experience. The outcome of such contingent liabilities may differ materially from management's estimation. The Group periodically evaluates these estimations and makes appropriate adjustments to the provisions recorded in the audited consolidated financial statements. In addition, as facts concerning contingencies become known, the Group reassesses its position and makes appropriate adjustments to the audited consolidated financial statements. In rare circumstances, when the case is unique, complicated and involves prolong and uncommon proceedings, the Group cannot reliably estimate the outcome of said case

c) Accounting for income taxes:

The calculation of the Group's tax liabilities involves uncertainties in the application and/or interpretation of complex tax laws, tax regulations and tax treaties, in respect of various jurisdictions in which the Group operates and which vary from time to time. In addition, tax authorities may interpret certain tax issues in a manner other than that which the Group has adopted. Should such contrary interpretive principles be adopted upon adjudication of such cases, the tax burden of the Group may be significantly increased. In calculating its deferred taxes, the Group is required to evaluate (i) the probability of the realization of its deferred income tax assets against future taxable income and (ii) the anticipated tax rates in which its deferred taxes would be utilized.

d) Potential penalties, guarantees issued and expired building permits:

Penalties and guaranties are part of the on-going construction activities of the Group, and result from obligations the Group has towards third parties, such as banks and municipalities. The Group's management is required to provide estimations regarding risks evolving from penalties that the Group may have to settle. In addition, the Group's operations in the construction area are subject to valid authorizations and building permits from local authorities. Under certain circumstances the Group is required to determine whether the building permits it obtained have not yet expired. It may occur that building permits have expired which might impose on the Group additional costs and expenses, or delays and even abandon project under construction see also note 4c1.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Critical judgment in applying accounting policies and use of estimates (Cont.):

1. Use of estimates (Cont.):

e) Fair value of hotel:

The fair value of the Radisson Complex is determined based upon the discounted cash flows (“DCF”) approach, the assumptions underlying the model, as well as the ability to support them by means of objective and reasonable market benchmarks, so they can be viewed as assumptions that market participants may have used, are significant in determining the fair value of the hotels. The predominant assumptions that may cause substantial changes in the fair value are: the capitalization rate, exit yield rate, the expected net operating income of the hotel (which is mainly affected by the expected average room rate and the occupancy rate as well as the level of operational expenses of the hotels) the level of refurbishments reserve and the capital expenditures that need to be invested in the hotel. The fair value of the Radisson Complex is performed by and independent appraisals with a local knowledgeable in the hotels business.

2. Critical judgment in applying accounting policies:

De facto Control:

As for December 31, 2017 and 2016, the Company holds approximately 44.9% of PC share capital; DK holds approx. 26.3% of PC share capital and the rest is widely spread by the public. The Company’s management is of the opinion that based on the absolute size of its holdings, the relative size of the other shareholdings and due to the fact that PC’s directors are appointed by normal majority of PC’s General Meeting, it has a sufficiently dominant voting interest to meet the power criterion, therefore the Company has de facto control over PC.

x. New accounting standards and interpretation issued, that are not yet effective:

The following are new accounting standards, amendments to standards and clarifications which are applicable or expected to be applicable, to the Group, and which have not yet become effective:

-IFRS 9 Financial Instruments

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New accounting standards and interpretation issued, that are not yet effective (Cont.):

-IFRS 9 Financial Instruments (Cont.)

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

Loans are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analyzed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, adoption of IFRS 9 will not have a material effect on the classification and measurement of financial assets.

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

The initial application of IFRS 9 will impact the Group's accounting treatment for the modification of financial liabilities without this resulting in derecognition.

Under IAS 39, no gain or loss was recognized at the date of modification of the loans' terms, instead the difference between the original and modified cash flows was amortized over the remaining term of the modified liability by

re-calculating the effective interest rate.

Under IFRS 9, a gain or losses should be recognised in profit or loss. These gains or losses, under IFRS 9, will be calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

In summary, the impact of IFRS 9 adoption is expected to be, as follows:

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

	Adjustments	NIS000
Liabilities and shareholders' equity		
Bonds at amortized cost	(5,751)
Total liabilities	(5,751)
Net impact on equity	(5,751)
Retained earnings	(5,751)

-IFRS 15 Revenue from Contracts with Customers

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New accounting standards and interpretation issued, that are not yet effective (Cont.):

-IFRS 15 Revenue from Contracts with Customers (Cont.)

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

1. Sale of goods

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

a) Variable consideration

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

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

b) Warranty obligations

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New accounting standards and interpretation issued, that are not yet effective (Cont.):

-IFRS 15 Revenue from Contracts with Customers (Cont.)

1. Sale of goods (Cont.)

c) Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosures requirements will not be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation.

In addition, as required by IFRS 15, the Group will disaggregate revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. In 2017 the Group continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

-IFRS 16, "Leases":

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and

disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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

Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. New accounting standards and interpretation issued, that are not yet effective (Cont.):

-IFRS 16, "Leases" (Cont.):

Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

-IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

Whether an entity considers uncertain tax treatments separately;
The assumptions an entity makes about the examination of tax treatments by taxation authorities;
How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
How an entity considers changes in facts and circumstances.

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

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a. Short-term deposits and investments

	December 31	
	2017	2016
	NIS in thousands	
Deposits at banks:		
EURO (1)	-	26,795
NIS (2)	6,463	6,426
Other restricted deposits (3)	-	2,215
	6,463	35,436
Available for sale financial assets	4,032	4,091
	10,495	39,527

As of December 31, 2016, EUR 4 million (NIS 16 million) and EUR 2.5 million (NIS 10 million) is restricted (1) mainly in respect of bank facilities agreements signed to finance Projects in Poland and Serbia, respectively.

During 2017 the project's companies have been sold.

(2) As of December 31, 2017 and December 31, 2016 NIS 4.6 million and NIS 4 million respectively is restricted due to the Company's settlement agreement as described in note 13a1.

(3) As of December 31, 2016 Euro 0.5 million (NIS 2 million) is secured tenants deposit in respect of Suwalki and Torun malls that were sold during 2017.

b. Trade account receivable

	December 31, 2017/2016	
Trade receivables (1)	-	38,210
Less - Allowance for doubtful debts	-	(4,042)

- 34,168

(1) In December 31, 2016 Includes EUR 5.6 million (NIS 23 million) from sale of plots see also note 4c.

c. Other Receivables

	December 31	
	2017	2016
	NIS in	
	thousands	
Income taxes	1,258	1,298
Governmental institutions	936	6,362
Advance to suppliers	-	525
Prepaid expenses	1,818	3,510
Interest to receive	46	514
Other	3,164	1,135
	7,222	13,344

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NOTE 3:- DEPOSITS, RECEIVABLES AND OTHER INVESTMENTS (Cont.)

d. Deposits and other long-term balances

	December 31,	
	2017	2016
	NIS in thousands	
Deposits at banks (1)	-	11,453
Available for sale financial assets	1,596	1,596
Vendor loan (see note 19)	33,221	-
Prepaid expenses	-	7,064
Other	57	3,371
	34,874	23,484

(1) Was deducted in 2017 due to the sale of the Company's subsidiary that holds the Radisson Complex (see note 19).

NOTE 4:- TRADING PROPERTY

a. Composition:

	December 31,	
	2017	2016
	NIS in thousands	
Balance as of January, 1	1,310,549	1,467,760
Construction costs (1)	7,895	108,511
Disposal during the year (2)	(736,484)	(158,786)
Write-down to net realizable value (see b below)	(92,398)	(196,333)
Firstly consolidated entity (see note 4d2)	-	154,598
Foreign currency translation adjustments	3,057	(65,201)

Balance as of December, 31	492,619	1,310,549
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- (1) 2017 and 2016 - mainly due to construction activities in Serbia.
 (2) As for disposition of trading properties in 2017 see c2- c10 below.

Composition of trading property per stages of development:

	December 31,	
	2017	2016
	NIS in thousands	
Projects designated for development	-	226,449
Other trading properties	492,619	1,084,100
Total	492,619	1,310,549

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NOTE 4:- TRADING PROPERTY (Cont.)

b. Additional information:

Composition of trading property distinguished between freehold and leasehold rights:

	December 31,	
	2017	2016
	NIS in thousands	
Freehold	212,075	973,217
Leasehold	280,544	337,332
	492,619	1,310,549

Write down trading properties per project:

	Year ended	
	December 31,	
	2017	2016
	NIS in thousands	
<u>Project name (City, Country)</u>		
Chennai (Kadavantara, India) (see d1 below)	7,879	24,564
Bangalore (Aayas, India) (see d2 below)	35,178	-
Helios Plaza (Athens, Greece)	-	2,992
Lodz Plaza (Lodz, Poland)	4,983	1,618
Krusevac (Krusevac, Serbia)	1,661	809
Casa radio (Bucharest, Romania) (See c1 below)	41,946	137,117
Constanta (Constanta, Romania)	-	3,445
Ciuc (Ciuc, Romania)	-	3,842
Timisoara (Timisoara, Romania)	-	10,514

Lodz residential (Lodz, Poland)	415	-
Kielce (Kielce, Poland)	-	4,448
BAS (Romania)	-	3,235
Arena Plaza extention (Budapest, Hungary)	336	3,749
	92,398	196,333
Change in provision in respect to PAB	(1,641)	(6,741)
	90,757	189,592

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

EUR 1.2 million (NIS 5 million) of write-down in Lodz Plaza project, Poland, which reflects a discount rate of 30% on the market value under special assumption that the marketing period is limited to 12-15 months.

EUR 9.7 million (NIS 40 million) of write-down (net of change in provision in respect to PAB) in Casa Radio project, Romania due to the following: a slight increase in construction cost, a slight decrease in financing interest rate, prolongation of lead-in period in half a year and an increase in the discount factor for restricted marketing period from 25% to 35%. As compared to 2016, deals take longer to exchange as the level of due diligence and scrutiny is heightened domestically and internationally. As a consequence a restricted marketing period would have a marked impact on the realizable value as a greater discount would be sought by a purchaser.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- TRADING PROPERTY (Cont.)

c. Additional information in respect of PC's trading property:

1. Casa radio:

One of PC's most significant projects under development is the Casa radio project in Bucharest, Romania. The Casa radio Project cost in the Group's financial statements as of December 31, 2017, amount to NIS 263 million (2016 - NIS 296 million).

In 2006 PC 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, PC 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 PC 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, PC management believes that it had legitimate reasons for the delays in this timeline, as discussed in subsection (c) below.

a) 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.

b) Discussions with authorities on construction time table deferral

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- TRADING PROPERTY (Cont.)

c. Additional information in respect of PC's trading property (Cont.):

1. Casa radio (Cont.):

b) Discussions with authorities on construction time table deferral (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. PC could be subject to significant delay penalties under the terms of the PPP agreement if it is determined that PC 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, PC 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 (NIS 209.7 million). As of the date of approval of PC's consolidated financial statements the Project SPV did not receive any termination notification by the public authorities.

PC 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.

PC 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 PC'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 PC 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. PC's management believe that, in the case of termination, PC has a strong case to claim compensation for damages.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- TRADING PROPERTY (Cont.)

c. Additional information in respect of PC's trading property (Cont.):

1. Casa radio (Cont.):

b) Discussions with authorities on construction time table deferral (Cont.)

Since 2016 PC's 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 PC for the development of the project and/or potential buyers for the Project. PC's management believes that reputable investors with considerable financial strength can enhance PC's negotiation position vis-à-vis the public authorities and assist in advancing an amicable agreement with the relevant authorities with respect to the development of the project.

PC's management considers the risk of termination of the PPP agreement and/or the imposition of penalties by the authorities to be unlikely and the consolidated financial statements do not include any provision in respect to any potential future penalties in respect to the breach of the PPP agreement.

c) Co-operation with the Romanian Authorities regarding potential irregularities:

In 2015, PC's 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, PC's board appointed the chairman of its 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. PC's 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 PC's management. In addition, it was decided that in the future certain agreements will be brought to PC's board's approval prior to signing.

PC 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. PC, during this process has been verbally informed by the Romania Authorities that it has received immunity from certain potential criminal charges and received further verbal assurance that the mentioned investigation should have no effect on the PC's existing legal rights to the Project and the PPP Agreement. As the investigation by the Romanian Authorities is still on-going, PC is unable to comment further on any details related to this matter. PC's 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.

For more information see note 13 b12.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- TRADING PROPERTY (Cont.)

c. Additional information in respect of PC's trading property (Cont.):

1. Casa radio (Cont.):

d) Provision in respect of PAB:

As mentioned in point a above, when PC entered into an agreement to acquire 75% interest in the Project SPV it assumed a commitment to construct the PAB at its own costs for the benefit of the Romanian Government. Consequently, the statement of financial position includes a provision in the amount of EUR 12.8 million (NIS 53 million) in respect of the construction of the PAB (December 31, 2016: EUR 13.2 million) which is presented as part of other non-current liabilities. During 2017, the Company recorded income in total amount of EUR 0.4 million from change in PAB provision as part of write down of trading properties (in 2016 - EUR 1.7 thousand).

PC's management believes that the current level of provision is an appropriate estimation in the current circumstances. Upon reaching concrete agreements with Authorities, PC will be able to further update the provision.

e) Casa radio valuation was prepared based on the assumption that the net realizable value ("NRV") refers to the net amount that the Group expects to realize from the sale of its trading property in the ordinary course of business.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- TRADING PROPERTY (Cont.)

c. Additional information in respect of PC’s trading property (Cont.):

1. Casa radio (Cont.):

Significant estimates:

The following table shows the valuation techniques used in measuring the net realizable value of the Casa radio project:

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Residual method: The valuation model considers the net present value (based on an NPV factor) based on the estimated value of the project upon completion less the estimated development cost including a provision for the profit for the potential development; Restricted marketing period	<ul style="list-style-type: none"> · Estimated weighted average monthly rental prices per sqm is EUR 26 for the mall, EUR 16 for offices and 14.2 for Hotel/Conference Center (2016: EUR 26.3 for the mall, EUR 15.8 for offices, EUR 14.2 for Hotel/Conference Center); · The Estimated Exit Yield is 8.75% for the mall, 9.25 % for the office component and 10.25% for Hotel/Conference center including additional 1.5% yield to cover for several risks related to the complexity and large scale of the project (2016 - the same) 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> · The estimated rental prices per sqm were higher (lower); · The estimated yield rates were lower (higher);

- The construction hard costs of the project are 760 EUR/sqm for the mall; 1,098 EUR/sqm for Hotel; 751 EUR/sqm for the offices; 370 EUR/sqm for parking (2016: 780 EUR/sqm for the mall; 740 EUR/sqm for the offices; 1,010 EUR/sqm for Hotel, 370 EUR/sqm for parking);
- The construction cost of the project were lower (higher);
- The developer's profit provision for the project were lower (higher);
- The development finance rate is 5.25% (2016:5.5%);
- The development finance provision for the project were lower (higher);
- The scheme would compose the following components: (i) retail; (ii) offices; (iii) hotel & conference center;
- The estimated completion of the project were shorter (longer);
- Developers profit -15% (2016: 15%);
- The occupancy of the mall were higher (lower);
- Discount to Market Value - 35% (2016: 25%);
- The characteristics of the project would be changed;
- Start of construction in 3.5 years (2016: 3 years).
- The discount to market value would decrease (increase)

The following tables provide a sensitivity analysis on the value of PC's certain trading properties (in millions of NIS) assuming the following changes in key inputs used in the valuations:

Plots	Exit Yield		Rental income for all phases							Construction Cost					
	0	+15bps	+25bps	+40bps	+50bps	-10%	-5%	0	+5%	+10%	-10%	-5%	0	+5%	+10%
Casa Radio	209.7	193.2	182.7	167.3	157.6	111.3	160.5	209.7	258.6	307.6	285.6	248.1	209.7	171	13

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- TRADING PROPERTY (Cont.)

c. Additional information in respect of PC's trading property (Cont.):

2. Sale of Suwalki Plaza commercial center:

On February 1, 2017 PC has completed the sale of SPV holding Suwalki Plaza commercial center in Poland to an investment fund. On completion PC has received approximately EUR 16.7 million (NIS 69 million) net cash and recorded a gain of EUR 0.8 million (NIS 3.3 million) and revenue of EUR 43.1 million (NIS 174.7 million) from the disposal.

3. Sale of plot in Shumen:

On February 23, 2017 PC concluded the sale of a 26,057 sqm plot of land in Shumen, Bulgaria for approximately EUR 1 million (NIS 4 million). PC recorded a gain of Euro 0.2 million (NIS 0.8 million) and revenue of EUR 1 million (NIS 3.9 million) from the disposal.

4. Sale of SPV holding Belgrade Plaza commercial center:

On March 2, 2017, an indirect subsidiary of the PC, has completed the sale of SPV holding Belgrade Plaza commercial center (the "SPV"), to a subsidiary of BIG Shopping Centers Ltd. (the "Purchaser").

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

Upon completion of the transaction, PC has received an initial payment of EUR 31.7 million (NIS 125 million) from the purchaser, further EUR 2 million (NIS 8 million) has been received following the opening, further payment of EUR 13.35 million (NIS 53 million) has been received during September 2017 and additional payments are contingent upon certain operational targets and milestones being met. The Purchaser has provided a guarantee to secure these future payments. The received consideration is after the deduction of the bank loan (circa EUR 15.4 million) (NIS 60 million).

The final agreed value of Belgrade Plaza, which will comprise circa 32,300 sqm of GLA, will be calculated based on a general cap rate of 8.25% as well as the sustainable NOI after 12 months of operation, which PC estimates will be approximately EUR 6.2-6.5 million per annum.

Further instalments will be due to PC 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.

PC recorded revenue of EUR 62.5 million (NIS 246 million) from the disposal and a gain of EUR 3.2 million (NIS 13 million). Expected future purchase price adjustment are not included.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- TRADING PROPERTY (Cont.)

c. Additional information in respect of PC's trading property (Cont.):

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

On June 19, 2017, PC has signed the final sale agreement for the disposal of its 2.47-hectare plot in the center of Kielce, Poland, for EUR 2.28 million (NIS 9 million).

PC received a down payment of EUR 0.465 million (NIS 1.8 million) when the preliminary sale agreement was signed at 2016 and the remaining EUR 1.815 million (NIS 7.2 million) has been paid to PC during June 2017.

PC recorded revenue of EUR 2.2 million (NIS 9 million) from the disposal no gain was recorded.

6. Completed sale of Plot in Leszno, Poland:

In July 2017, PC has signed the final sale agreement for the disposal of a 1.8-hectare plot in the city of Leszno for EUR 0.81 million (NIS 3 million). PC recorded revenue of EUR 0.81 million (NIS 3 million) from the disposal.

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

On August 7, 2017 PC has completed the sale of a plot totaling approximately 32,000 sqm in Timisoara, Romania, for Euro 7.25 million (NIS 30.9 million) and a plot totaling approximately 30,000 sqm in Constanta, Romania, for Euro 1.3 million. (NIS 5.5 million).

8. Sale of Land plot in Budapest, Hungary:

On October 2, 2017 PC's subsidiary has concluded the transaction with an international investor, NEPI Rockcastle (the "Buyer"), on the termination of land use right and preliminary easement agreement which created certain easement rights over the Arena Plaza plot registered in favor of PC subsidiary. In consideration for termination of the land use right and the preliminary easement agreement, PC's subsidiary received the net sum of EUR 2.5 million (NIS 10.4 million) and recorded revenue in the amount of EUR 2.5 million (NIS 10.4 million).

9. Sale of SPV holding of the Torun Plaza shopping and entertainment center in Poland:

On November 21, 2017 PC has completed the sale of shares with an investment fund (the "Purchaser") regarding the sale of SPV holding of the Torun Plaza shopping and entertainment center in Poland. PC has received a net cash of approximately Euro 28.3 million, (NIS 117.1 million). This net cash is after the deduction of the bank loan (circa EUR 43.3 million) (NIS 179.3). The above-mentioned sums do not include the earn out payments in an amount of EUR 0.35 million (NIS 1.4 million), reduced by NAV adjustment of EUR 0.2 million (NIS 0.8 million). PC recorded revenue of EUR 71.6 million (NIS 296.4 million) from the disposal and recorded a loss from the sale in amount of EUR 1.5 million (NIS 6.4 million) (not including the earn-out payment mentioned).

10. Disposal of plot in Belgrade, Serbia:

Following the sale of "MUP" plot in Belgrade, Serbia, PC was entitled to an additional contingent consideration of EUR 0.6 million (NIS 2.5 million) once the purchaser successfully develops at least 69,000 sqm above ground. The consideration was received in September 2017 and is recorded as revenue from disposal of trading properties.

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NOTE 4:- TRADING PROPERTY (Cont.)

c. Additional information in respect of PC's trading property (Cont.):

Additional information in respect of trading property:

The following table summarizes general information regarding the Group's significant trading property projects.

Project	Location	Purchase/ transaction date	Rate of ownership by the group (%)	As of December 31, 2017 Nature of rights	As of December 31,	
					2017 Carrying Amount (MNIS)	2016 Carrying Amount (MNIS)
<u>Operational</u>						
Suwalki Plaza	Poland	Jun-06	100	Ownership	Sold	163.5
Torun Plaza	Poland	Feb-07	100	Ownership	Sold	281.8
<u>Undeveloped lands designated for development</u>						
Sport-Star Plaza	Serbia	Dec-07	100	Ownership	Sold	226.2
<u>Undeveloped lands not designated for development</u>						
Casa Radio (see c1 above)	Romania	Feb-07	75	Leasing for 37 years	(*)262.5	(*)296.4
Lodz residential	Poland	Sep-01	100	Ownership/ Perpetual usufruct	1.7	2.0
Timisoara Plaza	Romania	Mar-07	100	Ownership	Sold	28.3
Lodz - plaza	Poland	Sep-09	100	Perpetual usufruct	16.2	20.6
Kielce Plaza	Poland	Jan-08	100	Perpetual usufruct	Sold	8.9
Lesnzo Plaza	Poland	Jun-08	100	Perpetual usufruct	Sold	3.2
Miercurea Csiki Plaza	Romania	Jul-07	100	Ownership	4.2	4.0
Constanta Plaza	Romania	July-09	100	Ownership	Sold	5.3
Shumen Plaza	Bulgaria	Nov-07	100	Ownership	Sold	3.2
Arena Plaza Extension	Hungary	Nov-05	100	Land use rights	Sold	6.1
Helios Plaza	Greece	May-02	100	Ownership	13.7	13.3

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Bangalore (see d below)	India	Mar-08	100	Ownership	113.7	154.6
Chennai (see d below)	India	Dec-07	100	Ownership	73.4	84.5
Other small plots, grouped					7.2	8.6
					492.6	1,310.5

(*) Represents gross value including commitment for PAB construction, which is presented as non-current provision in amount of NIS 53 million as of December 31, 2017, (in 2016 – NIS 54 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- TRADING PROPERTY (Cont.)

d. Additional information in respect of trading property in India:

The following information relates to trading property held by Elbit-Plaza India Real Estate Holding Limited (“EPI”), the total amount of which as of December 31, 2017, amounts to NIS 187.1 million. EPI is jointly controlled by the Company and PC (see note 7c).

1. Chennai, India:

In December 2007, EPI executed agreements for the establishment of a special purpose vehicle (“Chennai Project SPV”) together with a local developer in Chennai (“Local Partner”). The Chennai Project SPV acquired 74.73 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 (NIS 87 million). Since the Local Partner had breached its commitment, EPI exercised its rights and forfeited the Local Partner’s 20% holdings in the Chennai Project SPV. Accordingly, as of the balance sheet date EPI has 100% of the equity and voting rights in the Chennai Project SPV.

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.

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

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

In order to secure its obligation, the Developer paid a total refundable deposit of INR 10 Crores (NIS 5.5 million) following the signing and registration of the JDA.

The JDA may be terminated in the event that the required governmental approvals for establishment of access road to the Property has not been achieved within 12 (twelve) months period from the execution date of the JDA. The required approvals have not yet been obtained at the target date, but none of the parties has canceled the agreement at this juncture. Upon such termination, the Developer shall be entitled to the refund of the relevant amounts paid as Refundable Deposit and any other cost related to such access road or the title over the Property. The JDA may also be terminated by the Chennai Project SPV, inter alia, if the Developer has not obtained certain development milestone and/or breached the terms of the JDA.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- TRADING PROPERTY (Cont.)

- d. Additional information in respect of trading property in India (Cont.):

1.Chennai, India (Cont.):

Due to this fact, the financial statements of the SPV include a provision in an amount of INR 30 Crores (NIS 16 million) for cost reimbursement, including INR 10 Crores (NIS 5.5 million) advanced payment received.

Net realizable value measurement of Chennai project

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

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

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

2. Bangalore:

In March, 2008 EPI entered into a share subscription and framework agreement (the “Agreement”), with a third party local developer (the “Partner”), and a wholly owned Indian subsidiary of EPI which was designated for this purpose (“SPV”), to acquire together with the Partner, through the SPV, up to 440 acres of land in Bangalore, India (the “Project”) in certain phases as set forth in the Agreement. As of December 31, 2017, the Partner has surrendered sale deeds to the SPV for approximately 54 acres (the “Plot”). In addition, under the Agreement the Partner has also been granted with 10% undivided interest in the Plot and have also signed a Joint Development Agreement with the SPV in respect of the Plot.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- TRADING PROPERTY (Cont.)

- d. Additional information in respect of trading property in India (Cont.):

2. Bangalore (Cont.):

2015 agreement

On December 2, 2015 EPI has signed an agreement to sell 100% of its interest in the SPV to the Partner (the “Sale Agreement”). The total consideration upon completion of the transaction was INR 3,210 million (approximately EUR 42 million) which should have been paid no later than September 30, 2016 (“Long Stop Date”). On November 15, 2016, the Partner informed EPI that it will not be able to execute the advance payments.

As a result of the foregoing, the Company has received from the escrow agent the sale deeds in respect of additional 8.3 acres (the “Additional Property”) which has been mortgaged by the Partner in favour of the SPV in order to secure the completion of the transaction on the Long Stop Date. The Additional Property has not yet been registered in favour of the SPV. In addition, as per the Sale Agreement, the Company took actions in order to get full separation from the Partner with respect to the Plot and specifically the execution of the sale deed with respect of the 10% undivided interest, all as agreed in the Sale Agreement.

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

2017 agreement

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

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

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

2018 agreement

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

Since the signing of the revised agreement, the Purchaser has paid non-refundable advance payments totaling INR 55 Crores (circa NIS 30 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- TRADING PROPERTY (Cont.)

- d. Additional information in respect of trading property in India (Cont.):

2. Bangalore (Cont.):

In March 2018, the Company signed an amended revised agreement as follows: The Purchaser and EPI have agreed that the total purchase price shall be increased to INR 350 Crores (approximately NIS 190 million). Following the signing of the revised agreement the Purchaser paid EPI additional INR 10 Crores (approximately NIS 5 million) further to the INR 45 Crores (approximately NIS 25 million) that were already paid during the recent year. Additional INR 83 Crores (approximately NIS 45 million) will be paid by the Purchaser in unequal monthly installments until the Final Closing. The Final Closing will take place on 31 August 2019 when the final installment of INR 212 Crores (approximately NIS 115 million) will be paid to EPI against the transfer of the outstanding share capital of the SPV.

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

As of 31 December 2017 advances received from the Purchaser in the amount of NIS 21.8 million are included in the financial statements as part of other non-current liabilities.

Environmental update on Bangalore project - India:

On May 4, 2016, the National Green Tribunal (“NGT”), an Indian governmental tribunal established for dealing with cases relating to the environment, passed general directions with respect to areas that should be treated as “no construction zones” due to its proximity to water reservoirs and water drains (“Order”). The restrictions in respect of the “no construction zone” are applicable to all construction projects.

The government of Karnataka had been directed to incorporate the above conditions in respect of all construction projects in the city of Bangalore including the Company's project which is adjacent to the Varthur Lake and have several storm-water crossing it.

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

Net realizable value measurement of Bangalore project

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

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 4:- TRADING PROPERTY (Cont.)**

- d. Additional information in respect of trading property in India (Cont.):

2. Bangalore (Cont.):

The plot in Bangalore is still in land stage and therefore the value of the plot has been derived using land comparable method. The valuation of the property reflects the risk related to NGT order described above, the interest that the partner still holds in the plot (10% as described above), the size of the plot and the non-contiguous land parcel. The decrease in the value during 2017 is attributable mainly to the proposed change in zoning regulations. The local authorities have proposed a revised master plan for Bangalore under which it is proposed to change certain regulations pertaining to zoning of the plot which if given effect might adversely affect the development prospects on the plot. The Company being aggrieved by the proposed change was entitled to and has filed the necessary objections with the concerned authorities and believes that the current zoning regulations will be maintained. Management believes that the current discount rate used towards this end is an appropriate estimation in the current circumstances.

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- INVESTMENTS IN ASSOCIATES

a. InSightec Ltd. (“InSightec”):

InSightec Ltd. (the “Company”) was incorporated in the State of Israel in March 1999 and commenced operations in 1. the development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment shortly thereafter. The Company operates in one operating segment.

As for December 31, 2017, the Company holds (directly and indirectly, through Elbit Medical), 22.5% of InSightec’s voting and equity rights (18.6% on a fully diluted basis). Yet, due to the fact that the Group invested in preferred shares and regular shares which are subordinated to the share granted in the last rounds of investment, the Group share in InSightec loss is 41.5%.

Substantially all of InSightec’s current sales are derived from a few applications of InSightec’s products. Other applications of InSightec’s technology are in the early stages and there can be no assurance that these applications will be successful. InSightec is continuing research and development for additional applications for such products.

2. Financing round in InSightec:

On December 14, 2017 InSightec Ltd. (“InSightec”), has signed a Share Purchase Agreement with Koch Disruptive Technologies, pursuant to which Koch Disruptive Technologies together with other investors will invest in InSightec a total amount of between US\$75 million and US\$150 million, in consideration for the issuance of a new series of preferred stock of InSightec (Preferred E share). The main terms of the Transaction are as follows:

1) The Transaction reflects a pre money valuation for InSightec of approximately USD 460 million (on a fully-diluted basis).

2)

Holders of Preferred E share shall have preferred rights in the event of a dividend distribution and certain material events as set forth in the transaction documents.

The transaction documents also set forth the rights of Koch Disruptive Technologies and other major shareholders of Insightec (in an amended Securityholders Agreement and amended Articles of Association), including, that following the consummation of the Transaction, Insightec's board of directors shall consist of a maximum of nine (9) board members. Each of the four major shareholders in Insightec (including Elbit Medical) will be entitled to appoint one director for as long as each of them holds at least 5% of the outstanding share capital of Insightec. The directors appointed by three of the major shareholders (including the one appointed by Elbit Medical) may together appoint up to four (4) additional directors. The CEO of Insightec will also serve as director.

On December 28, 2017 Insightec completed the initial closing of the transaction in which it raised approximately US\$90 million (out of which US\$75 million was invested by Koch Disruptive Technologies).

On January Insightec has completed the second (and final) closing of its Series E investment round in a total amount of \$60 million.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- INVESTMENTS IN ASSOCIATES (Cont.)

a. InSightec Ltd. (“InSightec”) (Cont.):

2. Financing round in Insightec (Cont.):

The lead investor in the round was Koch Disruptive Technologies (a subsidiary of Koch Industries, Inc.) who invested in total \$100 million in Insightec. York participated in this round as well in the total investment of 6 million \$.

The Series E Preferred Shares of Insightec issued in the first and second closings represent, immediately following their issuance, approximately 29.1% of the outstanding share capital (24.7% on a fully-diluted basis) of INSIGHTEC’s share capital. The Company did not participate in the investment rounds.

Following the completion of the second closing, the Company holds (directly and indirectly through its subsidiary - Elbit Medical Technologies Ltd.) approximately 19.8% (16.7% on a fully-diluted basis) and York holds 22.6% of InSightec issued and outstanding share capital (19.1% on a fully diluted basis).

3. Significant events in Insightec during 2016-2017:

On November 14, 2017 the Taiwanese Food and Drug Administration (TFDA) has approved its Exablate Neuro system for the treatment of essential tremor in patients who do not respond to medication.

On December 14, 2017 The Centers for Medicare and Medicaid Services (the “CMS”) updated the reimbursement code for Exablate Neuro treatment for essential tremor, as follows:

1. On November 2016 the CMS has decided to associate Insightec’s Exablate Neuro system (for essential tremor treatment), a reimbursement code with a payment level of USD 9,751.

2.

Beginning January 1, 2018, the primary procedure code for Movement Disorders (essential tremor) is assigned to new technology level and will be paid at USD 17,500.50 for medicare beneficiaries (if deemed medically appropriate).

The CMS decision is only one of the necessary conditions necessary to receive an insurance compensation for the treatment. Pursuant to the CMS approval, the approval of each of the regional CMS representatives in the USA is required in order to receive insurance compensation for patients for the treatment. As of the date, an approval from 3. a CMS representative in one area only (National Government Services Medicare, local Medicare contractor (MAC) for jurisdictions 6 & K¹ (has been received and Insightec is acting to receive the rest of the CMS representatives' approvals, but cannot estimate when whether these approvals will be received.

On May 24, 2016, InSightec Health Canada has approved InSightec's Exablate Neuro system for the treatment of essential tremor.

On July 2016, the FDA has approved InSightec's Exablate Neuro system for a non-invasive treatment of essential tremor (ET) in patients who have not responded to medication.

Exablate Neuro uses focused ultrasound waves to precisely target and ablate issue deep within the brain with no incisions or implants. The treatment is done under Magnetic Resonance Imaging (MRI) guidance for real time treatment monitoring.

¹ This region refers to the following states: Illinois, Minnesota, Maine, Massachusetts, New Hampshire, Connecticut, New York, Rhode Island Vermont and Wisconsin.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- INVESTMENTS IN ASSOCIATES (Cont.)

a. InSightec Ltd. (“InSightec”) (Cont.):

3. Significant events in InSightec during 2016-2017 (Cont.):

InSightec has signed a cooperation agreement with Siemens

On August 15, 2016, INSIGHTEC has signed a non-exclusive cooperation agreement with Siemens Healthcare GmbH (“Siemens”), a leading manufacturer and developer of diagnostic imaging equipment in general and Magnetic Resonance scanners specifically, to develop compatibility between INSIGHTEC’s MRI guided Focused Ultrasound Systems (MRgFUS) and Siemens MRI scanners (the “Systems”) with the intention to expand the MRgFUS market globally (the “Agreement”). According to the Agreement, the Parties will cooperate regarding the performance of R&D, integration, testing and approving the compatibility of the Parties’ Systems. Each Party shall be solely responsible, at its own cost, to obtain the regulatory approval for its systems, and InSightec shall be solely responsible, at its sole cost, to obtain the regulatory approval for the combined system. Each Party shall bear all of its internal and external costs relating to its performance under the Agreement, except that InSightec shall reimburse Siemens an amount agreed upon in the Agreement, for its R&D costs. The Agreement also determines that each Party shall act independently in the marketing and sales of its component portion of the Combined System, and determines the amount InSightec shall pay Siemens for sales of the Combined Systems.

The term of the Agreement is five (5) years from the first commercial sale of the combined system and shall automatically renew for additional 1-year periods, unless either Party has provided a notice for its non-renewal or of its termination, in accordance with the terms of the Agreement. Each Party shall have a limited liability towards the other Party for direct damages only. In addition, each Party is required to maintain a minimal insurance coverage for the purpose of the Agreement during the term of the Agreement and for a few years thereafter.

b. Gamida Cell Ltd. (“Gamida”):

1.

Gamida is engaged in developing cellular and immune therapies for the treatment of cancer and orphan genetic diseases. As of December 31, 2017, the Group holds, through Elbit Medical, approximately 16% in Gamida's voting and equity rights (approximately 12% on a fully diluted basis).

Gamida is devoting substantially all of its efforts toward research and development activities. In the course of such activities, Gamida has sustained operating losses and expects such losses to continue in the foreseeable future. Gamida's accumulated deficit as of December 31, 2017, is USD 116,282 thousand and negative cash flows from operating activities for years ended December 31, 2017 are \$17,760. Gamida requires additional financing in order to continue to fund its current operations and pay existing and future liabilities

Gamida's auditor' report with respect to Gamida's 2017 financial statements includes emphasize of matter with respect to going concern uncertainty.

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ELBIT IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- INVESTMENTS IN ASSOCIATES (Cont.)

b. Gamida Cell Ltd. (“Gamida”) (Cont.):

2. Financing round in Gamida:

On July 9, 2017, the Company was informed by Gamida that an approximately \$40 million private financing investment has been completed (“the Investment”). The Investment was led by Shavit Capital Fund joined by the pharmaceutical company Novartis and additional investors, including VMS Investment Group, Israel Biotech Fund, IHCV and Clal Biotechnology Industries (the “Investors”). Following the Investment, a preferred shares were allotted to the Investors, based on \$120 million pre-money valuation to Gamida (the “Allotted Shares”). In addition, the investors received options to preferred shares in the amount of 60% of the Allotted Shares. The exercise price of the options is 120% of the shares price which have been paid on the Investment closing date. The options will expire 5 years after the Investment closing date. The Company did not participate in the investment rounds.

3. Significant events in Gamida during 2016-2017:

On October 10, 2016, Gamida informed the Company that U.S. Food and Drug Administration (“FDA”) has granted Breakthrough Therapy Designation status to Gamida’s NiCord® (“Nicord”), due to improvement in absorption of neutrophils blood cells in bone marrow transplant for patients with high risk hematological malignancies (blood cancers).

Breakthrough therapy designation is granted to a drug that is intended to treat serious or life-threatening diseases, and that preliminary clinical evidence indicates that the drug may demonstrate substantial improvement on a clinically significant endpoint(s) over available therapies.

A breakthrough therapy designation entitles the company to various benefits, such as: intensive FDA guidance, involvement of senior FDA managers in the process, option for a FDA rolling review of Nicord marketing approval application in the U.S (i.e. the FDA may agree to review parts of the application file which are submitted in phases,

with no obligation of filling the whole file prior to the review commencement).

On March 23, 2017, the Company was informed by Gamida, that the orphan drug designation which has been granted by the European Medicines Agency's (EMA) Committee for Orphan Medicinal Products (COMP) regarding NiCord® has been broadened and now includes any treatment which based on blood system stem cells (haematopoietic stem cells) transplant.

On December 12, 2017 Gamida presented final results from the phase I/II trial evaluating NiCord® (the "Trial") at the annual meeting of the American Society for Hematology (ASH). The Trial that included 36 patients with hematologic malignancies, met its primary endpoint as well as safety and efficiency targets

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NOTE 5:- INVESTMENTS IN ASSOCIATES (Cont.)

c. Aggregate information of associates:

	Year ended December 31	
	2017	2016
	NIS in thousands	
The Group's share of loss from continuing operations	(20,202)	(57,630)
The Group's share of total comprehensive income	(20,202)	(57,630)
Aggregate carrying amount of the Group's interests in these associates	-	21,215

NOTE 6:- INVESTMENTS IN JOINT VENTURES

a. Investment in joint venture held in Kochi, India:

The Company has rights under certain share subsection agreement to hold 50% shareholding in Indian SPV ("Project SPV"). The Project SPV has entered into an agreement for the purchase of a land located in Kochi, India according to which it has acquired 13 acres ("Property A") for a total consideration of INR 1,495 million (NIS 84 million) payable subject to fulfilment of certain obligations and conditions by the seller. Up to the balance sheet date the Project SPV has paid INR 720 million (NIS 40 million) to the seller in consideration for the transfer of title in Property A to the Project SPV. The Company's share in such acquisition amount to approximately NIS 20 million.

On January 14, 2016, the Company has signed an agreement to waive any of its rights and interest in the Project SPV. The total consideration for the Company is INR 10 Crores (approximately NIS 5 million), which will be paid to the Company upon the closing of the transaction.

The transaction is subject to certain conditions precedent, and closing will take place (as extended) once these conditions are met and no later than June 30, 2018. The local Investor has provided certain security in order to guarantee the aforementioned deadline.

b. Aggregate information of joint ventures that are not individually material:

	December 31	
	2017	2016
	NIS in thousands	
The Group's share of profit (loss) from continuing operations	-	3,317
The Group's share of total comprehensive income (loss)	-	3,317
Aggregate carrying amount of the Group's interests in these joint ventures	5,592	5,750

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ELBIT IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- ADDITIONAL INFORMATION AS TO INVESTMENTS IN MATERIAL SUBSIDIARIES AND CHANGES THEREOF

a. Elbit Medical Technologies:

Elbit Medical Technologies Ltd., is an Israeli company traded on the TASE (“Elbit Medical”) which holds the medical business of the Group through the holdings of two portfolio companies: InSightec (approximately 19% holding on a fully diluted basis) and Gamida (approximately 13% holding on a fully diluted basis). For additional information in respect of InSightec and Gamida - see note 5a and 5b.

As for December 31, 2017, the Company holds 89% (88.7% on a fully diluted basis) of the issued and outstanding share capital of Elbit Medical.

For the issuance of convertibles notes by Elbit Medical after the balance sheet date see note 13c11.

b. Plaza Center N.V. (“PC”):

PC conducts its activities in the field of establishing, selling and operating (until their sale) Commercial centers, as well as other mixed use projects (retail, office, residential) in Central and Eastern Europe. As of December 31, 2017, the Group holds 44.9% in PC’s voting and equity rights (42.7% on a fully diluted basis).

2. Going concern and liquidity position of PC:

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

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

As at December 31, 2017 PC's outstanding obligations to bondholders are EUR 123.2 million (NIS 512 million).

In November 2016, PC 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, PC 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 PC and the two Israeli Series of Bonds including a new repayment schedule (See Note 11e3).

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

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	Total Payment Due by period		Total Payment Due by period	
	(in TEUR)		(in TNIS)	
Liquidity Requirements	Within 1 year	Within 1-1.25 years	Within 1 year	Within 1-1.25 years
Debentures including current portion and interest	(*) 23,700	36,700	(*) 98,426	152,415
General & administrative	3,100	600	12,874	2,492
Total liquidity requirements	26,800	37,300	111,300	154,907
Total Sources (**)	16,300	4,400	67,694	18,273
Total deficit	(10,500)	(32,900)	(43,606)	(136,634)

(*) An amount of circa EUR 37.45 million (NIS 155.5 million) was repaid (excluding interest) following the balance sheet date.

(**) The Company expects to increase the amount of its liquid balances during the 15 months starting April 1, 2018, by sale of plots of lands (including India) and others.

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

PC'S Management acknowledges that the above expected cash flows are based on forward-looking plans and estimations which rely on the information known to PC 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 PC's control. Therefore, delays in the realization of the PC's assets and investments or realization at lower price than expected by management could have an adverse effect on the PC's liquidity position and its ability to meet its contractual obligations on a timely manner.

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

As of December 31, 2017 PC 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.

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ELBIT IMAGING LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- ADDITIONAL INFORMATION AS TO INVESTMENTS IN MATERIAL SUBSIDIARIES AND CHANGES THEREOF (Cont.)

b. Plaza Center N.V. (“PC”) (Cont.):

2. Going concern and liquidity position of PC (Cont.):

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

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

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

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

3. PC’s non-controlling interest details:

Place of incorporation	Proportion of	Loss allocated to non-controlling	Accumulated
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	ownership interests and voting rights held by non-controlling interests		December 31		non-controlling interests	
	2017	2016	2017	2016	2017	2016
			NIS'000	NIS'000	NIS'000	NIS'000
Netherland	55%	55%	(51,986)	(109,934)	60,617	121,615

4. PC's summarized financial information (The summarized financial information below represents amounts before intragroup eliminations):

	December 31	
	2017	2016
	NIS in thousands	
Current assets	189,546	94,721
Non-current assets	394,622	1,207,882
Current liabilities	(496,081)	(1,098,525)
Non-current liabilities	(53,353)	(55,990)
Equity attributable to owners of the Company	25,884	(26,473)
Non-controlling interests	(60,617)	(121,615)

TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 7:- ADDITIONAL INFORMATION AS TO INVESTMENTS IN MATERIAL SUBSIDIARIES AND CHANGES THEREOF (Cont.)****b. Plaza Center N.V. (“PC”) (Cont.):**

4. PC’s summarized financial information (The summarized financial information below represents amounts before intragroup eliminations) (Cont.):

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
Revenue	814,826	192,435	283,926
Expenses	(923,646)	(394,085)	(500,262)
Loss for the year from continuing operations	(108,820)	(201,650)	(216,336)
Loss for the year	(108,820)	(201,650)	(216,336)
Loss attributable to owners of the Company	(48,833)	(91,080)	(97,122)
Loss attributable to the non-controlling interests	(59,987)	(110,570)	(119,214)
Loss for the year	(108,820)	(201,650)	(216,336)
Other comprehensive income attributable to owners of the Company	(3,095)	519	5,452
Other comprehensive income attributable to the non-controlling interests	(3,798)	636	6,690
Other comprehensive income for the year	(6,893)	1,155	12,142
Total comprehensive (loss) attributable to owners of the Company	(51,928)	(90,561)	(91,670)
Total comprehensive (loss) attributable to the non-controlling interests	(63,785)	(109,934)	(112,524)
Total comprehensive (loss) for the year	(115,771)	(200,495)	(204,194)
Net cash inflow (outflow) from operating activities	(1,637)	(260,148)	(10,481)

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Net cash inflow (outflow) from investing activities	400,812	165,014	92,273
Net cash (outflow) from financing activities	(239,979)	(144,980)	(159,363)
Net cash inflow (outflow)	159,196	(240,114)	(77,571)

5. Pursuant to PC's restructuring PC shall not make any dividend distributions, unless (i) at least 75% of the Unpaid Principal Balance of the Notes has been repaid and the Coverage Ratio on the last Examination Date prior to such Distribution is not less than 150% following such distribution, or (ii) a Majority of the Plan Creditors consents to the proposed distribution.

Notwithstanding the aforesaid, in the event an additional capital injection of at least NIS 85 million occurs, then after one year following the date of the additional capital injection million, 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.

6. Pursuant to PC's restructuring plan, PC will assign 75% of the net proceeds received from the sale or refinancing of any of its assets to early repayment of the Unsecured Debt.

As for the amendment to an early prepayment term under the restructuring plan see note 11e

c. Elbit- Plaza India Real Estate Holding Ltd. ("EPI"):

The Company and PC each holds 47.5% of the shares of of Elbit Plaza India Real Estate Holdings Limited ("EPI") which holds plots in Bangalore and Chennai, India (see note 4d). The remaining 5% equity rights are held by the Company's former Executive Vice Chairman (VC) of the Board. The VC Shares shall not be entitled to receive any distributions or payment from the EPI until the Group's investments (principal and interest calculated in accordance with a mechanism provided for in the agreement) in EPI have been fully repaid. The Company and PC each have the right to appoint 50% of the board members of EPI.

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 8:- PROPERTY, PLANT AND EQUIPMENT**

a. Composition:

	December 31, 2017			
	Real estate			
	Hotels at revaluation	At cost model		
		Land	Other	Total
	Operating	and	fixed	
		buildings	assets	
	NIS in thousands			
Cost:				
Balance as of January, 1	711,906	15,236	31,516	758,658
Adjustment of Depreciation and amortization balance as of December 31, 2017	(28,880)	-	-	(28,880)
Additions during the year	3,156	-	-	3,156
Revaluation of hotels during the year	11,637	-	-	11,637
Disposals during the year (*)	(696,072)	(15,288)	(3,685)	(715,045)
Foreign currency translation adjustments	(1,748)	72	463	(1,213)
Balance as of December, 31	-	20	28,294	28,314
Accumulated depreciation:				
Balance as of January 1,	-	7,482	25,051	32,533
Adjustment of Depreciation and amortization balance as of December 31, 2017	(28,880)	-	-	(28,880)
Additions during the year	28,880	52	71	29,003
Disposals during the year	-	(7,514)	(2,528)	(10,042)
Foreign currency translation adjustments	-	-	380	380
Balance as of December, 31	-	20	22,974	22,994
Provision for impairment:				
Balance as of January, 1	-	-	4,490	4,490

Balance as of December, 31	-	-	4,490	4,490
Net book value	-	-	830	830

(*)See also Note 19.

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 8:- PROPERTY, PLANT AND EQUIPMENT (Cont.)**

a. Composition (Cont.):

	December 31, 2016		At cost model		
	Real estate	Hotels at	Land	Other	Total
	revaluation model (*)	plot	and	fixed	
		designated	buildings	assets	
		for hotel			
	NIS in thousands				
Cost:					
Balance as of January, 1	678,516	18,700	16,049	38,078	751,343
Adjustment of Depreciation and amortization balance as of December 31, 2016	(37,017)	-	-	-	(37,017)
Additions during the year	2,473	-	-	68	2,541
Revaluation of hotels during the year	106,842	-	-	-	106,842
Disposals during the year	-	(18,700)	-	(5,712)	(24,412)
Foreign currency translation adjustments	(38,908)	-	(813)	(918)	(40,639)
Balance as of December, 31	711,906	-	15,236	31,516	758,658
Accumulated depreciation:					
Balance as of January 1,	-	-	7,858	31,129	38,987
Adjustment of Depreciation and amortization balance as of December 31, 2016	(37,032)	-	-	-	(37,032)
Additions during the year	37,032	-	-	307	37,339
Disposals during the year	-	-	-	(5,513)	(5,513)
Foreign currency translation adjustments	-	-	(376)	(872)	(1,247)
Balance as of December, 31	-	-	7,482	25,051	32,533
Provision for impairment:					
Balance as of January, 1	-	3,700	-	4,490	8,190

Balance as of December, 31	-	-	-	4,490	4,490
Net book value	711,906	-	7,754	1,975	721,635

(*) Had the Group continued to present the hotel based on the cost model, their net book value as of December 31, 2016, would have been NIS 284 million.

b. Composition of real estate assets included in property plant and equipment distinguished between freehold and leasehold rights:

	Year ended December 31, 201 7 2016 NIS in thousands
Freehold rights	- 711,906
Leasehold rights	- -
Net book value	- 711,906

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

c. Annual depreciation rates - see note 2l.

d. On June 23, 2016, the Company announced a termination of the lease agreement with the Israel Land Administration (“ILA”) in respect of plot located in, Tiberias Israel.

Following the termination of the Agreement, ILA released two bank guarantees in the aggregated amount of approximately NIS 13 million, which have been provided to ILA in order to secure the Company’s undertakings under the lease agreement and an additional amount of approximately NIS 27 million. The company recorded in the year ended December 31 2017 and 2016 a gain in the amount of NIS 3 million and NIS 8 million respectively.

NOTE 9:- CURRENT MATURITIES OF LONG TERM BORROWING AND SHORT-TERM CREDITS

a. Composition:

December 31,
2017 2016
NIS in thousands

Current maturities and short term credits (*) (**)	780,861	1,128,768
--	---------	-----------

(*)The Balance as of December 31, 2017, is comprised mainly:

(I) PC’s notes in the total amount of NIS 486 million which was reclassified as current liabilities due to the breach of covenants set in trust deeds (see note 7 b 2).

(II)The Company notes in the amount of NIS 295 which are due on May 2018 (see note 11d).

(**) During December 2017, the Company repaid the entire loan to Bank Hapoalim in amount of approximately NIS 59 million.

(***) Following the sale of PC subsidiaries, all PC bank loan were derecognized in amount of approximately NIS 333 million.

b. For liens - see note 13d.

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NOTE 10:- PAYABLES AND OTHER CREDIT BALANCES

	December 31,	
	2017	2016
	NIS in thousands	
Income taxes	437	3,070
Other governmental institutions	14	1,235
Wages and fringe benefits	6,488	2,235
Derivative (i)	-	1,831
Provision for real estate tax (see also note 13.b13)	4,213	-
Income in advance	136	6,429
Provision in respect of plots in India (see also note 4.d.)	16,308	5,646
Provision (see also note 13)	29,167	15,354
Accrued expenses, and others	6,530	10,899
	63,293	46,699

NOTE 11:- BORROWINGS

a. Composition:

	December 31,	
	2017	2016
	NIS in thousands	
At amortized cost:		
Loans from banks and financial institutions (see c below)	-	761,710
Notes issued by the Company (see d below)	538,668	498,637
Notes issued by PC (see e below)	485,504	721,292
	1,024,172	1,981,639
Less - current maturities (see note 9)	(780,861)	(1,128,769)
	243,311	852,870

b. Linkage basis and interest rates:

December 31, 2017		
Interest rates		NIS in thousands
%		
NIS Israeli CPI + 6 - 6.9		1,002,913
PLN 6m Wibor + 6		21,259

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 11:- BORROWINGS (Cont.)

- c. The following table provides breakdown of the Group's loans from banks and financial institutions:

	December 31, 2017/2016 NIS in thousands
Loans provided to the Company (*)	- 59,082
Loans provided to PC (mainly with respect to trading property) (**)	- 332,705
Loans provided to SPV holding the Radisson Complex (see note 19)	- 369,923
	- 761,710

(*) During December 2017, the Company repaid the entire loan to Bank Hapoalim in amount of approximately NIS 59 million.

(**) Following the sale of PC subsidiaries, all PC bank loan were derecognized in amount of approximately NIS 333 million.

For collaterals see also note 13d.

d. 1. Issuance of notes by the Company:

On February 20, 2014 two series of notes were issued by the Company:

The first series of notes ("Series H") was in the aggregate principal amount of NIS 448 million, repayable in a single payment at May 31, 2018. The second series of notes ("Series I") was in the aggregate principal amount of NIS 218 million, repayable in a single payment at December 1, 2019. Both series of the notes are bearing interest at the rate of

6% per annum and are linked to the Israeli consumer price index. Interest on the series H notes will be payable in cash on a semi-annual basis, while interest on series I notes will be accrued to the principal and will be payable on the final maturity date.

In addition, the notes include mandatory prepayment provisions in the event the Company pays a cash dividend or makes any other distribution, such that the Company is obligated to prepay an amount equal to the amount distributed by the Company, in the following order: (i) first, towards all unpaid amounts under the Series H, and (ii) secondly, towards all unpaid amounts under Series I.

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 11:- BORROWINGS (Cont.)**

The following table present the terms of the Company's Notes as for December 31, 2017:

	Effective interest rate	interest rate	Principal final maturity	Adjusted par value	Carrying amounts as at December 31, 2017
	%	%			
			NIS in thousands		
Series H notes	9.47	CPI+6	2018	296,160	295,363
Series I notes	12.8	CPI+6	2019	217,279	184,955
Accumulated interest on Series I notes				58,350	58,350
				571,789	538,668

The Company's notes as for December 31, 2016:

	Effective interest rate	interest rate	Principal final maturity	Adjusted par value	Carrying amounts as at December 31, 2016
	%	%			
			NIS in thousands		
Series H notes	9.47	CPI+6	2018	296,160	282,935
Series I notes	12.8	CPI+6	2019	217,279	172,954
Accumulated interest on Series I notes				42,748	42,748
				556,187	498,637

For collaterals see note 13d2.

2. Buyback and early repayment plan of Company's debentures:

Series H

As for December 31, 2017, the Company purchased NIS 150 million par value from series H, for a total consideration of NIS 138 million, resulting in a gain of NIS 2.3 million in 2016 and NIS 3.4 million 2015 which was recorded in the statement of income. All the notes repurchased have been fully redeemed. See also note 16c.

On January 5, 2018, the Company repaid an early repayment of NIS 240 million par value of Series H.

During March 2018 the Company repurchase NIS 7.1 million par value of series H for a total consideration of NIS 7.2 million. As a result, no material income/expenses is expected to be recorded in the statement of profit and loss.

The remaining amount of Series H as for the date of approving the financial statement is NIS 50 million and are due on May 2018.

Series I

During March 2018, the Company purchased NIS 42.2 million par value from series I, for a total consideration of NIS 49.2 million. As a result, the Company is expected to be recorded NIS 2 million expenses in the statement of profit and loss.

The remaining amount of Series I as for the date of approving the financial statement is NIS 226 million and are due on November 2019.

TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 11 - BORROWINGS
(Cont.)**

e. PC's notes:

The following table present PC's notes as of December 31, 2017:

	Effective interest rate	Contractual interest rate	Principal final maturity(*)	Adjusted par value	Carrying amounts as at December 31 2017
	%	%		NIS in thousands	
Series A Notes	9.47	% CPI+6	2020	198,974	190,865
Series B Notes	13.48	% CPI+6.9	2019	291,333	273,380
Polish Notes	10.46	% 6%+ 6M WIBOR	2018	21,176	21,259
				511,483	485,504

The following table present PC's notes as of December 31, 2016:

	Effective interest rate	Contractual interest rate	Principal final maturity (*)	Adjusted par value	Carrying amounts as at December 31 2016
	%	%		NIS in thousands	
Series A Notes	9.47	% CPI+6	2020	257,772	248,716
Series B Notes	13.48	% CPI+6.9	2019	453,264	429,871
Polish Notes	10.46	% 6%+ 6M WIBOR	2018	42,988	42,705

754,024 721,292 (*)

(*)The Debentures are classified as current liabilities (see note 7 b2).

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

(2) Approved amendment to an early prepayment term under the Restructuring

PC 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 notes that 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 "Extended Repayment Schedule").

The Restructuring Plan further provides that, if PC does not prepay an aggregate amount of at least NIS 434 million on the principal of the notes 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").

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - BORROWINGS (Cont.)

e. PC's notes (Cont.):

On November 29, 2016, PC's note holders approved to 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 (a reduction of 12% on the original amount).

In addition, PC agreed to pay to its Noteholders, on March 31, 2018, a one-time consent fee in the amount of approximately EUR 488 thousand (NIS 2 million) (which is equal to 0.25% from the Company's outstanding debt under the Notes at that time) (the "Consent Fee"). The consent Fee has been paid to PC's Noteholders on a pro rata basis.

During first three months 2017, PC paid to its bondholders a total amount of NIS 191.7 million as an early redemption. Upon such payments, the PC 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 Note holders:

Casaradio proceeds - If PC shall sell the Casaradio project located in Romania (hereinafter: the "Project") to a third party, including by way of selling its holdings in any of the entities through which the Company holds the Project (and said sale shall be carried out before the full repayment of the debentures and until no later than December 31, 2019 ("Final Date")), for an amount which exceeds EUR 45 million net (.e. after brokerage fees (if any), taxes, fees, ^a levies or any other obligatory payment due to any authority in respect to the said sale) which shall actually be received by PC, then the holders of notes 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 - PC 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.

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

In January 2018, a settlement agreement was signed by and among the PC 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 PC and its directors and officers; and
To waive the request for publication of quarterly financial reports by the Company.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - BORROWINGS (Cont.)

e. PC's notes (Cont.):

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 PC's restructuring plan, and as such has no effect on the Polish Bondholders.

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

(4) The net cash flow received by the PC 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.

Mandatory repayment of subsequent to the reporting date (without early repayments):

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

	EUR	NIS
2018	24,175	100,398
2019	84,568	351,210
2020	14,417	59,874
	123,160	511,482

For PC's notes collaterals and covenants - see note 13d2 13c2. For liens - see note 13d13c.

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a. Composition:

	Year ended		
	December 31,		
	2017	2016	2015
	NIS in thousands		
Current	-	804	2,166
For previous year	11,404	-	-
Deferred	(160)	2,216	2,236
	11,244	3,020	4,402

b. Principle tax laws applicable the major Group companies in their country of residence:

1. Israel:

a) Corporate tax rate applicable to companies in Israel in 2017 and 2018 is 24% and 23% respectively (in 2016 was 25% and in 2015 - 26.5%).

b) As from January 1, 2003, certain statutory provisions came into force and effect, concerning, among other things, the tax reform in Israel in respect of the following:

1)(a) Taxation of profits of foreign companies considered as Controlled Foreign Companies (“CFC”), if all the following conditions are met: (i) its shares or its rights on it are not listed in a stock exchange, however if they are partly listed, then less than 30% of the shares or of the rights of the company were offered to the public (ii) majority of revenues thereof are passive, as same is defined by law, or majority of profits thereof derive from passive revenues; (iii) the tax rate applying to the passive profits thereof in their country of residence does not exceed 20%; and (iv) more than 50% of the means of control therein are held, directly or indirectly, by Israeli residents.

In accordance with the statutory provisions, a controlling shareholder in those companies having unpaid profits, as defined by law, is deemed to have been distributed as a dividend representing its respective share in such profits (“Deemed Dividend”).

- (b) Taxation of a dividend received in Israel, out of profits generated or accrued abroad, as well as a dividend originating abroad.

A Deemed Dividend and/or the distribution of dividends, as stated, will be subject to a tax rate of 25%, less withholding taxes which would have been paid abroad in respect of such dividend, had it in fact been distributed. Each Israeli resident company has the right to elect, at its sole discretion, to be assessed according to the Israeli corporate tax rate less taxes payable abroad in respect of these profits (including under certain circumstances taxes payable by a company held by the distributing company), as the case may be.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - INCOME TAXES (Cont.)

b. Principle tax laws applicable the major Group companies in their country of residence (Cont.):

1. Israel (Cont.):

2) Capital gain from the realization of assets which were acquired subsequent to January 1, 2003 will be taxed at a rate of 25%. Capital gain for assets which were acquired before January 1, 2003, will be taxed at a rate of 25% for the portion of the gain relating to the period subsequent to this date up to the realization date and corporate tax rate for the portion of the gain relating to the period from the acquisition date up to January 1, 2003.

3) Method of loss offsetting - regarding business losses, capital losses, passive losses, marketable securities losses and CFC losses.

2. 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 backwards 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").

Dividend distributions from a Netherlands company to qualifying Israeli corporate shareholders holding at least 25% of the shares of such Netherlands company is subject to withholding tax at a rate of 5% provided certain compliance related formalities have been satisfied.

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c. Effective tax rate:

The following is reconciliation between the income tax expenses computed on the pretax income at the ordinary tax rates applicable for the Company (“the theoretical tax”) and the tax amount included in the consolidated statement of operations:

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
Profit (loss) before income taxes	(237,534)	(316,961)	(366,751)
Israeli company’s statutory tax rate (%)	24	25	26.5
The theoretical tax	(57,008)	(79,241)	(97,189)
Differences in tax burden in respect of:			
Exempt income, net of unrecognized expenses	11,139	673	9,991
Prior-year losses for which deferred taxes had not previously been recorded, including utilization	(940)	(2,873)	(17,805)
Losses and other timing differences for which deferred taxes had not been recorded	39,272	60,545	104,115
The effect of different measurement principles applied for the financial statements and those applied for income tax purposes (including exchange differences)	5,330	(1,493)	7,457
Differences in tax rates on income of foreign subsidiaries	(2,034)	11,830	(13,916)
The Group’s share in results of associated companies	4,849	13,579	11,620
Taxes for prior years	11,404	-	-
Other differences, net	(768)	-	129
	11,244	3,020	4,402

d. Carry forward losses and deductions:

As of December 31, 2016, the Group companies had accumulated tax losses and deductions amounting to NIS 1,207 million, which may be utilized in the coming years against taxable income at rates ranging from 12.5% to 35% depending on the country of residence. The realization of the carry-forward losses is subject to taxable income available in those periods when these losses are deductible.

Tax laws in respect of certain Group subsidiaries operating outside of Israel have set a time limitation on the utilization of losses. Accordingly, the right to utilize carry-forward losses in the amount of NIS 1,207 million, against taxable income, will gradually expire over the following years:

	December 31 2017 (in thousand NIS)
2018	3,339
2019	26,157
2020	47,601
2021 and thereafter	805,601
	882,698

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NOTE 12 - INCOME TAXES (Cont.)

e. Deferred income taxes:

1. Composition:

	Year ended December 31, 2017				Balance as of
	Balance as of January 1, 2017	Charge to profit and loss account	Deconsolidation (*)	Foreign currency translation adjustments	December 31, 2017
	NIS in thousands				
Differences between book value of property, plant and equipment and value for income tax purposes	(92,472)	-	92,472	-	-
Temporary difference associated with investment in subsidiaries	(7,216)	7,216	-	-	-
Timing differences - income and expenses	(8,654)	1,880	-	291	(6,483)
Carry forward tax losses and deductions	15,400	(8,936)	-	19	6,483
Net deferred taxes	(92,942)	160	92,472	310	-
(*) See Note 19.					
	Year ended December 31, 2016				Balance as of
	Balance as of January 1, 2016	Charge to profit and loss account	Charged to revaluation reserve	Foreign currency translation adjustments	December 31, 2016
	NIS in thousands				
Differences between book value of property, plant and equipment and value for income tax purposes	(82,990)	1,319	(17,046)	6,245	(92,472)
	-	(7,216)	-	-	(7,216)

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Temporary difference associated with investment in subsidiaries

Timing differences - income and expenses	(15,969)	6,721	(319)	913	(8,654)
Carry forward tax losses and deductions	17,900	(425)	-	(2,075)	15,400
Net deferred taxes	(81,059)	399	(17,365)	5,083	(92,942)

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e. Deferred income taxes (Cont.):

2. The Group did not record deferred tax assets in respect of the following items:

	December 31,	
	2017	2016
	NIS in thousands	
Timing differences - income and expenses	1,429	1,602
Carry forward tax losses and deductions	271,542	270,882
	272,971	272,484

f. Final tax assessments:

The Company and certain Israeli subsidiaries have received final tax assessments, through 2010. Currently the Company is discussing the tax assessments for the years 2011-2014. Certain foreign group companies have received final tax assessments while others have not been assessed since incorporation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS

a. Claims:

Certain legal claims have been filed against the Group's companies, including a claim that has been applied to certify as class actions suits.

In the opinion of the managements of the Group, which is based, inter alia, on legal opinions as to the probability of the claims, including the applications for their approval as class action, appropriate provisions have been included in the financial statements, with respect to the exposure involved in such claims.

In the opinion of the managements of the Group's companies, the amount of the additional exposure as of December 31, 2017, in respect of claims with chances to be realized which are not remote, amounts to approximately NIS 7 million, excluding the class action and VAT assessments. Said amount does not include interest. In respect to motions to certify a claim as class actions, see items (1) below. In respect of VAT assessments see (3) below.

Following are the Group's material claims as of December 31, 2017:

1. The Company - application for 1999 class action:

In November 1999, a number of institutional and other investors (the "Plaintiffs"), holding shares in Elscint Ltd.(a subsidiary of the Company which was merged into the Company ("Elscint")) instituted a claim against the Company, Elscint, the Company's former controlling shareholders, past officers in the said companies and others. Together with the claim a motion was filed to certify the claim as a class action on behalf of everyone who was a shareholder in Elscint on September 6, 1999 and until the submission of the claim, excluding the Company and certain other shareholders.

The plaintiffs argued that a continued and systematic oppression of the minority shareholders of Elscint took place, causing the minority monetary damage. According to the plaintiffs, said oppression started with the oppressive agreements made by Elscint for the realization of its main assets, continued with the sale of the control in the Company by Elron Ltd (and therefore indirectly also in Elscint) to companies held by former controlling shareholders (“Harmful Sale”), continued further with the breach of a tender offer made by Company to purchase the minority shares in Elscint (“Breach of Tender Offer”) and ended with an agreement between Elscint and companies held by the former controlling shareholder for the acquisition by Elscint of the hotels portfolio and the Arena commercial center in Israel in exchange to excessive payment from Elscint. (“Hotels and Marina Transactions”). It should be mentioned that the Harmful Sale allegation is directed first and foremost against Elron which was the controlling shareholder of the Company at that time.

Due to these acts the Plaintiffs allege that the value of Elscint’s shares dropped during the period between February 24, 1999 and the date at which the claim was instituted from USD 13.25 per share to USD 7.25. The main relief sought in the original claim was an order for the Company to consummate the purchase offer for USD 14 per share, and alternatively, to purchase Elscint’s shares held by the Plaintiffs at a price to be set by the court. Further alternatively, the plaintiffs asked the court to grant injunction prohibiting the execution of Hotels and Marina Transactions and for the restitution of all money paid in connection with the above-mentioned transactions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (Cont.)

a. Claims (Cont.):

1. The Company - application for 1999 class action (Cont.):

In January 2009, the district court dismissed the Plaintiffs' motion to certify the claim as a class action, which was appealed by them to the Israeli Supreme Court in March 2009. In May 2012, the Israeli Supreme Court upheld the plaintiff's motion to certify the claim as a class action with regard to the Hotels and Marina Transactions. In addition, the Supreme Court has upheld the Harmful Sale allegation that related to Elron and rejected certain other claims that were included in the original proceedings.

The Supreme Court noted that even though the claim was based on 'countless' allegations and on 'dozens' of legal grounds, the claim was certified as a class action based on only two causes of action: oppression of minority on the one hand and breach of fiduciary duties and recklessness on the other hand. The Supreme Court remanded the case to the District Court with instructions.

On January 8, 2018, the District Court approved settlement agreement according to which the plaintiffs, their attorneys and the class members will receive NIS 50 million as a final compensation in a final court ruling. On March 15, 2018, the District Court have also ruled to approve the Additional Agreement.

The Company's share in the aforementioned compensation is NIS 4.6 million and the rest will be financed by the Company's D&O Insurance.

A motion for leave to appeal the District Court's ruling of 27 September, 2017 was filed by Be'eri to the Supreme Court, constituting of claims that are similar in nature to the claims that Be'eri had previously raised in his objection to the Settlement Agreement (that the settlement agreement is a result of a conspiracy, and so forth).

Initially, the court's secretary refused to receive Be'eri's motion and initiate an appeal procedure. Be'eri objected the secretary's decision, and on December 26, 2017 a Supreme Court Registrar decided to annul the secretary's decision and allow Be'eri to initiate a motion for leave to appeal.

However, Be'eri did not initiate such an appeal procedure, and on February 13, 2018 the court was asked by some of the defendants to declare that Be'eri is barred from appealing the District Court's decision due to his inactivity.

On March 12, 2018 Be'eri declared he does not have the means to pay the fees and deposits needed in order to initiate the motion for leave to appeal, and informed the Supreme Court that he intended to ask the court to exempt him from making such payments. No such motion for exemption was filed so far, and therefore the Supreme Court has not yet decided on the issue. Subsequently, no motion for leave to appeal was opened. On April 20, 2018 The Supreme Court decided that Be'eri is exempted from paying court fees but obligated to pay a 5,000 NIS deposit until May 6, 2018. Failing to pay the deposit could lead to striking out the appeal.

According to The District Court's decision of April 20, 2018, the compensation will be held by the Plaintiff's counsel in escrow and will not be distributed until it is clear that (a) Be'eri did not initiate an appellate procedure; or (b) an appellate procedure, if filed, would end without significantly changing the settlement agreement.

The Company based on its legal advisor cannot estimate the chances of an appellate procedure that was not filed yet, but considering the nature of Be'eri's claims the Company asses that his motion for leave to appeal, should it be filed, is more likely to be denied than successful.

As for a dispute with an insurer which insured this law suit, see c7 below.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (Cont.)

a. Claims (Cont.):

2. VAT and Customs assessments:

The Company received from the respective VAT and Customs authorities assessments for the years 2006-2012 in the total amount of approximately NIS 25 million (excluding interest linkage and penalties). The Company filed appeals on the assessments it received. Discussions were held and summaries were submitted by both sides to the court.

As of signing the financial statements, the Company is awaiting for the court ruling. Management, based on its tax advisor opinion, recorded an appropriate provision in the financial statement for this exposure.

3. Other legal proceedings in the ordinary course of business:

As of December 31, 2017, the Company and its subsidiaries are involved in various legal proceeding relating to their ordinary course of business. Although the final outcome of these claims cannot be estimated at this time, the managements of these companies believe based on legal advice, that the claims, individually and in the aggregate, are not expected to materially impact the Company's financial statements.

b. Other contingent liabilities:

1. Indemnification to directors and officers of the Company:

The General Meeting of the Company's shareholders has approved the grant of prospective indemnification undertaking to the Company's directors (including the controlling shareholder) and officers (including for their service as officers at the Company's subsidiaries, where applicable). The total aggregate indemnification shall not exceed USD

40 million, and all in excess of an amount paid (if paid) by insurance companies under applicable insurance policy/ies. The Company's Board of directors and Audit committee has also approved an exemption of officers from liability for any damage caused by breach of a duty of care towards the Company.

2. Indemnification to directors and officers of Elscint:

Elscint's shareholders have approved, at their General Meeting (on October 2000), the grant of prospective indemnification undertaking to directors and officers of Elscint (including for their service as officers of Elscint's subsidiaries where applicable). The total indemnification shall not exceed the lower of 25% of the shareholders' equity as set forth in Elscint's most recent audited consolidated financial statements prior to such payment or USD 50 million, in excess of any amounts paid (if paid) by insurance companies pursuant to the insurance policy maintained by the Company from time to time.

Elscint's shareholders have also approved an exemption of directors and officers from liability in respect of any damage caused to Elscint by breach of duty of care. On March 7, 2011 Elscint was merged into Elbit and ceased to exist. Upon and as a result from the merger, all Elscint's undertakings and liabilities were transferred to and assumed by Elbit.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (Cont.)

b. Other contingent liabilities (Cont.):

3. Indemnification to directors and officers of Plaza Centers:

PC has entered into an indemnity agreement with directors (including the Company's chairman of the board and other director of the Company at their role as directors of PC) and PC's senior management. The maximum indemnification amount to be granted by PC to its directors shall not exceed 25% of the shareholders' equity of PC based on PC's shareholders' equity set forth in PC last audited consolidated financial statements prior to such payment.

4. Indemnification to directors and officers of InSightec:

InSightec (an associated company) is obliged to indemnify and to hold harmless its directors and officers (including one of the Company's directors who serves as a director in InSightec), to the fullest extent permitted by the laws of any relevant jurisdiction, against any liability. The total indemnification for all InSightec's directors and officers, in accordance with the letter of indemnification (in addition to the amounts received from the insurers), shall not exceed the higher of USD 10 million or USD 2 million per office holder with the addition of the reimbursement of legal expenses totalling USD 1 million.

Furthermore, InSightec has granted its officers and directors an exemption from all responsibility and any damage that will be caused to InSightec by them, in case of breaching their duty of care towards InSightec, other than with respect to a breach of duty of care in connection with a Distribution, as defined in the Israeli Companies Law subject to the Israeli Companies Law.

5. Indemnification to directors and officers of Gamida:

Gamida has granted its directors, an indemnification undertaking letter for any monetary obligation with respect to a claim, including a compromise agreement or arbitration award, carried out in respect to actions taken by the director during the time of his/her service as Gamida's or Gamida's Subsidiary or Affiliate's (as such terms defined therein) Director and in such capacity, as well as with respect to reasonable legal expenses including payments of legal fees paid by the Directors as a result of an investigation or proceeding initiated against the Director. The indemnification is limited to USD 6 million.

6. Indemnification to directors and officers of Elbit Medical Technologies:

In November 2010, the shareholders' of Elbit Medical Technologies have approved the grant of an exemption and indemnification to directors and officers of Elbit Medical Technologies (including such that serve also as officers of the Company). In the framework of the exemption and indemnification undertaking letter (as amended pursuant to the approval Elbit Medical Technologies shareholders on July 2012), Elbit Medical Technologies exempted the recipients of the indemnification undertaking letters also from liability for actions performed while serving as officers of Elbit Medical Technologies or its subsidiaries or a company in which Elbit Medical Technologies is an interested party.

The total indemnification that Elbit Medical Technologies shall pay to each of the indemnified parties (in addition to amount received from the insurance companies according to the insurance policy) shall not exceed USD 40 million. The maximum indemnification amount shall not be affected by payment according to any insurance policy or its existence unless the indemnification amount claimed was already covered by the insurance companies or by any third party.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (Cont.)

b. Other contingent liabilities (Cont.):

The Company received, in 2003, a letter from a certain insurer (“the Insurer”) of EIL, Elscint and the Company (the “Insured Companies”), which insured against, inter alia, the lawsuit as described in item b1 above, alleging against the Insured Companies, inter alia, that the Insured Companies have breached their disclosure duties under the Insurance Contract Law 1981, by failing to disclose to the Insurer material information prior to the issuance of additional cover to the policy purchased by EIL (the “Policy”), effective as of July 1999 (the “Additional Cover”), and prior to the replacement of the Policy and the Additional Cover by the issuance of a new policy effective as of August 1999 (the “Replacement Cover”). The letter states that the Policy, Additional Cover and Replacement Cover (the “Insurance Cover”) issued by the Insurer will be cancelled unless the Insured Companies indicate that circumstances as at the issuance of the Insurance Cover differ from those stated in the letter. The Company’s legal counsel replied on behalf of the Insured Companies in March 2003, rejecting all allegations. The parties conducted discussions between them pertaining to the matter referred to herein to negotiate a settlement.

8. Indemnifications relating to sale of real estate assets:

In the framework of the transactions for the sale of the Group’s real estate as well other transactions, the Group has undertaken to indemnify the respective purchasers for any losses and costs incurred in connection with the sale transactions. The indemnifications usually include: (i) Indemnifications in respect of integrity of title on the assets and/or the shares sold (i.e: that the assets and/or the shares sold are owned by the Group and are free from any encumbrances and/or mortgage and the like). Such indemnifications generally survived indefinitely and are capped to the purchase price in each respective transaction and (ii) Indemnifications in respect of other representation and warranties included in the sales agreements (such as: development of the project, responsibility to defects in the development project, tax matter, environmental matters, employees and others). Such indemnifications are limited in time and are generally capped to certain percentages of the purchase price.

9. Pending lease payments to a purchaser of a commercial center:

A former subsidiary of PC incorporated in Prague, Czech Rep. (“Bestes”), which was sold in June 2006 is a party to an agreement with a third party (“Lessee”), for the lease of commercial areas in a center constructed on property owned

thereby, for a period of 30 years, with an option to extend the lease period by additional 30 years, in consideration for EUR 6.9 million (NIS 28 million), which as of the balance sheet date has been fully paid. According to the lease agreement, the Lessee has the right to terminate the lease subject to fulfilment of certain conditions as stipulated in the agreement.

In case the Lessee leaves the mall before expiration of lease period PC will be liable to repay the remaining consideration in amount of EUR 1.9 Million (NIS 8 million) as of balance sheet date, unless the buyer finds other tenant that will pay higher annual lease payment than the Lessee. PC's management does not expect to bear a material loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (Cont.)

b. Other contingent liabilities (Cont.):

10. Waiver and reimbursement to Gamida and/or its officers:

In November 2010, Elbit Medical Technologies irrevocably undertook towards Gamida and/or its officers, that they shall not be under liability, of any kind, directly or indirectly, towards it, its interested parties, its officers and towards any other person and/or third party, regarding the prospectus published by Elbit Medical Technologies with respect to the transaction according to which the Company acquired control over Elbit Medical Technologies (hereinafter, respectively the “Prospectus” and the “Transaction”) provided that Gamida’s will provide the information in good faith and that such information must be at all times complete and accurate.

During February 2018, Elbit Medical completed the issuing of convertible Notes (Series C), which are convertible to regular shares of Elbit Medical and are secured by a lien on part of Elbit Medical’s shares in Gamida Cell Ltd. (“Gamida”) and Insightec Ltd. (“Insightec”). The lien on Gamida and Insightec’s shares was made possible following

11. an amendment to both of their Articles of association (‘Articles’) to reflect that the lien on Gamida and Insightec’s shares does not constitute a Right of First Refusal that Gamida Cell and Insightec’s shareholders have arising out of the Articles, and that solely realization of these shares will activate the aforementioned Right of First Refusal (the “Amendment”).

As a precondition for the Amendment, Elbit Medical undertook to indemnify Insightec and each of its officers, directors, managers, members, partners, employees and agents, shareholders and any other persons controlling Insightec or any of its affiliates (collectively: “Indemnified Persons”) to the fullest extent lawful, from and against any liabilities, losses, damage or expenses (including payment to advisors) incurred that arises out of or in connection with the Amendment, whether or not resulting from an Indemnified Person’s negligence (“Losses”), provided, however, that Elbit Medical shall not be responsible for any Losses that arise out of or are based on any action of or failure to act by Insightec to the extent such Losses are determined, by a final, non-appealable judgment by a court, to have resulted solely from Insightec’s gross negligence or willful misconduct.

Likewise Elbit Medical Technologies has irrevocably undertaken, towards Gamida, its officers, Gamida's jointly controlled subsidiary and Teva Pharmaceutical Industries Ltd that, subject to the conditions specified in the undertaking document, it shall indemnify them, for any liability and/or damage and/or expense and/or loss that is caused to any of the aforementioned with respect to the Transaction and the Prospectus, as well as any reports or other action of the Company with respect to the aforementioned information and/or to Gamida, its activities, its business etc.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (Cont.)

b. Other contingent liabilities (Cont.):

12. Foreign Corrupt Practices Act (FCPA) Issues:

On March 12, 2018, the Securities and Exchange Commission (“SEC”) approved an offer of settlement that was submitted to it by the Company regarding concerns of a violations of the books and records and internal accounting controls provisions of the Foreign Corrupt Practices Act of 1977 (“FCPA”), as follows: 1. In March 2016 Plaza Centers N.V. (a subsidiary of the Company) (“PC”) announced that its board of directors became aware of certain issues with respect to certain agreements that were executed in the past by PC in connection with the Casa Radio Project in Romania (see also note 4c1) that may indicate potential violation of the requirements of the FCPA, including the books and records provisions of the FCPA. 2. In addition, in April 2017 the Company’s board of directors and PC’s board of directors became aware of certain issues with respect to an agency and commission agreement from 2011 regarding the sale in 2012 of property in the U.S. jointly owned by PC and the Company. The characteristics of the said agreements could raise red flags that this agreements may be a potential violation of the requirements of the FCPA, including the books and records provisions of the FCPA. 3. Upon the discovery of each of the cases described above, the Company appointed an internal committees to examine these events and at the same time updated the SEC. 4.

The internal committees has concluded their examination of these matters and submitted their recommendations to the Company’s board of directors. The Company’s board of directors fully adopted the committee’s recommendations, and is working to implement them. 5. Following discussions with the SEC regarding the potential violation of the requirements of the FCPA, the Company submitted an Offer of Settlement (“Offer”). 6. 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 (except as to the SEC’s jurisdiction over it and the subject matter of these proceedings, which are admitted) the Company consented to the entry of an order containing the SEC’s findings. -2- 15527/1403/7157186v1 7. The SEC has determined to accept the Offer and ordered that: 7.1. Pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), the Company 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. 7.2. The Company paid 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). 8. In determining to accept the Offer, the SEC considered remedial acts that the Company 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (Cont.)

b. Other contingent liabilities (Cont.):

13. Contingent liability due to Tax:

In respect of PC subsidiary which holds a plot in the Europe region, certain tax aspects have been raised in respect to the past. PC management decided, following a thorough analysis and based on its tax advisor's estimations, to record a provision in amount of EUR 1 million (NIS 4.2 million) for potential losses which are recorded in other losses in the profit or loss financial statements. In respect of a potential real estate tax claim, PC has been advised by its external advisors that notwithstanding the overall ambiguities of the applicable framework and its implementation that could result to a possible tax dispute there are good chances of success in case of litigation since the shares of the subsidiary are ultimately held by entities which shares are admitted for trading in regulated Stock Exchanges and therefore the substantial requirements for the tax exemption are met. Accordingly, no provision for any liability has been made in these financial statements.

Following analysis of certain tax aspects, a provision of approximately NIS 8 million was recorded, at amount which management believes is appropriate.

c. Liens, collateral and guarantees:

1. The Company notes:

Series H notes are secured by a first ranking floating charge on all the Company's property and assets and first ranking charges over the Company's existing and future interest and rights in and to the Company's wholly owned subsidiaries and Elbit Ultrasound (Luxembourg) B.V./Sa.r.l ("EUL LUX"), including rights to any amount owed to the Company by EUL LUX. Series I notes has similar second ranking charges. In addition the Company has granted to both series H and series I notes) a corporate guarantee by EUL LUX and a negative pledge over the respective assets of EUL LUX. The collaterals securing the notes are subject to exceptions as set forth in the Arrangement. The Company holds through EUL LUX its shareholdings in PC.

The Company and its wholly owned subsidiaries, EUL LUX have not created, nor undertook to create any pledges contrary to their obligations under the notes.

In 2018, the Company mortgaged the repayments of the Vender loan (as mention in note 19), with a first-ranking lien, in favor of the trustee of holders of Series H.

And in a second lien in favor of the trustee of the holders of Series I.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (Cont.)

2. PC notes:

The following provisions will apply to PC's notes:

a) Restrictions on issuance of additional notes - PC undertake not to issue any additional notes other than as expressly provided for in the Restructuring Plan.

b) Restrictions on amendments to the terms of the bonds- PC 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 PC also obtains the approval of the holders of all other series of bonds issued by PC by ordinary majority.

c) Negative Pledge on Real Estate Asset ("REA") of PC - PC undertakes that until the notes has been repaid in full, it shall not create any encumbrance on any of the REA, held, directly or indirectly, by PC except in the event that the encumbrance is created over PC'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.

d) Negative Pledge on the REA of Subsidiaries - PC's subsidiaries shall undertake that until the notes have been repaid in full, none of them will create any encumbrance on any of REA except in circumstances permitted under the provision of the notes.

e) Limitations on incurring new FI by PC and the subsidiaries - PC undertakes not to incur any new FI (including by way of refinancing an existing FI with new FI) until the outstanding notes debt (as of November 30, 2014,) have been repaid in full, except in circumstances permitted under the provision of the notes.

f) Limitation on distribution dividend - see note 7b5.

- g) 75% mandatory early repayment - see note 11e to other sections in this note.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS (Cont.)

d. PC's notes financial covenants:

a) Coverage Ratio Covenant ("CRC"):

The CRC is a fraction calculated based on known Group valuations 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. As of December 31, 2017 calculated CRC is 103%. 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, PC shall not perform any of the following: (a) a sale, directly or indirectly, of a Real Estate Asset ("REA") owned by PC or its subsidiaries, with the exception that it shall be permitted to sell the REA if it has an obligation to do so which was entered into prior to the said cut-off date, (b) investments in new REA's; or (c) an investments that regards an existing project of the Company or of a subsidiary, unless it does not exceed a level of 20% of the construction cost of such project (as approved by the lending bank of these projects) and the certain loan to cost ratio of the projects are met.

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

As a result of covenants breach, PC classified its bonds in the total amount of EUR 116,914 thousands (NIS 485,498 thousands) as current liabilities in the financial statements as of 31 December 2017.

b) Minimum Cash Reserve Covenant (MCRC):

cash reserve of PC has to be greater than the amount estimated by PC's management required to pay all administrative and general expenses and interest payments to the Note holders falling due in the following six months, minus sums of proceeds from transactions that have already been signed (by PC or a subsidiary) and closed and to the expectation of the PC's management have a high probability of being received during the following six months. As for December 31, 2017, the MCRC is maintained.

c) PC is allowed to execute actual investments only if its cash reserves contain an amount equal to general and administrative expenses and interest payments for the Unsecured Debt for a six-month period (for this purpose also receivables with a high probability of being collected in the subsequent six-month period will be taken into account for the required minimal cash reserve).

NOTE 14 - SHARE CAPITAL

Composition:

	Ordinary shares of NIS no par value each		
	2017	2016	2015
	No nominal par value	NIS 1.00 par value	NIS 1.00 par value
Authorized share capital	11,666,667	11,666,667	35,000,000
Issued and outstanding	9,190,808	9,190,808	27,572,426

The Ordinary Shares confer upon the holders thereof all rights accruing to a shareholder of the Company, inter alia, the right to receive notices of, and to attend meetings of shareholders; for each share held, the right to one vote at all meetings of shareholders; and to share equally, on a per share basis, in such dividend and other distributions to shareholders of the Company as may be declared by the Board of Directors in accordance with the Company's Articles and the Israeli Companies Law, and upon liquidation or dissolution of the Company, in the distribution of assets of the Company legally available for distribution to shareholders in accordance with the terms of applicable law and the Company's Articles. All Ordinary Shares rank pari passu in all respects with each other.

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NOTE 15 - OPTIONS PLANS

a. Options plan adopted by the Company and its subsidiaries:

On October 13, 2016, the Company's general meeting adopted option plan to the Company's executive Chairmen of the board ("The Chairman"). According to the plan, the Chairman was granted options exercisable into 38,445 1. ordinary shares, no par value, of the Company, constituting approximately 0.4% of the Company's issued and outstanding share capital on a fully diluted basis. The exercise price of the options is equal to NIS 13.426 per share. The option term is for 5 years and it will be vested equally over a period of 3 years.

2. Elbit Medical plan:

	Year ended December 31			
	2017	Weighted	2016	Weighted
	Number of	average	Number of	average
	options	exercise	options	exercise
		price		price
		(NIS)		(NIS)
Balance at the beginning of the year	158,592,747	0.14	140,035,935	0.14
Granted (1)	500,000	0.13	22,298,912	0.10
Forfeited	(104,685,257)	0.13	(3,742,100)	0.40
Exercised	(36,670,449)	0.13	-	-
Balance at the end of the year	17,737,041	0.11	158,592,747	0.11
Options exercisable at the year end	2,371,100	0.13	136,293,835	0.13

3. Includes 8,199,275 options granted to the Company's Chairman of the Board on October 13, 2016 for a period of 5 years and an exercise price of NIS 0.106 per option. The options will be vested equally over a period of 3 years.

b. Options plan adopted by PC:

Over the years, the PC has adopted few option plans over its shares. The below table summarized the significant terms in respect of PC's option plans as for December 31, 2017

	Number of options	Max exercisable number of shares	average exercise price	Vested as of December 31, 2017	average contractual life	Option granted to key personnel
PC's plan	235,520	356,781	GBP 43	253,520	5.06 years	30,000

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NOTE 16 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT

	Year ended		
	December 31,		
	2017	2016	2015
	NIS in thousands		
a. Cost of commercial centers			
Direct expenses:			
Cost of trading property sold	771,765	112,346	227,910
Wages and fringe benefits	396	1,503	3,341
Energy costs	1,900	3,868	6,073
Taxes and insurance	2,405	4,764	6,999
Maintenance of property and other expenses	2,442	5,351	8,286
	778,908	127,832	252,609
Other operating expenses:			
Wages and fringe benefits	11,726	13,497	16,716
Professional services	9,224	8,458	7,638
Advertising	2,884	6,685	7,247
Other	2,759	2,932	5,363
	26,593	31,572	36,964
Depreciation and amortization	122	402	787
	805,623	159,806	290,360
b. General and administrative expenses			
Wages and fringe benefits	4,372	3,744	6,687
Stock-based compensation expenses	325	27	1,086
Depreciation and amortization	12	19	29
Expenses relating to the Company's plan of arrangement	122	221	412
Professional expenses	5,728	2,326	2,867
Other	4,371	3,920	5,597
	14,930	10,257	16,678

c. Financial expense

Interest and CPI linkage on borrowings	103,360	193,116	200,169
Gain from buy back of notes and bank loan (see note 11d2)	-	(78,193)	(55,475)
Loss from foreign currency translation differences	7,273	30,018	69,003
Other financial expenses (income)	1,651	1,405	(5,976)
Total financial expenses	112,284	146,346	207,721
Financial expenses capitalized to qualified assets	12	(21,992)	-
	112,296	124,354	207,721

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NOTE 16 - ADDITIONAL DETAILS CONCERNING INCOME STATEMENT (Cont.)

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
d. Financial income			
Interest on deposits and receivables	168	203	649
Gain (loss) from foreign currency translation differences	91	(1,259)	1,505
Other financial income	1,552	-	-
	1,811	(1,056)	2,154
e. Change in fair value of financial instruments measured at fair value through profit and loss			
Loss from change in fair value of derivatives (mainly swap and forward transactions)	-	(2,707)	-
Gain on marketable securities	-	-	2,568
	-	(2,707)	2,568
f. Write down, charges and other expenses, net			
Write down of trading property (i)	89,345	189,592	86,717
Realization of foreign currency translation reserve to the profit and loss	-	-	3,534
Initiation expenses (ii)	12,461	1,796	6,239
Other, net (iii)	(686)	(29,070)	2,802
	101,120	162,318	99,292

(i) See note 4b regarding trading property write downs.

(ii) Includes mainly cost and expenses in respect of the Group's operations in India.

(iii) In 2016 - Including gain from increase in holdings in Indian subsidiaries. Refer also to note 4d.

j. Earnings per share (*)

Basic and diluted earnings per share:

The earnings and weighted average number of ordinary shares used in the calculation of the basic earning per share are as follows:

Profit (Loss) from continuing operations	(185,132)	(202,630)	(242,709)
Profit (Loss) from discontinued operation	(152,903)	7,913	56,231
Weighted average number of shares used in computing basic earnings per share (thousands)	9,191	9,191	9,191

(*) The earnings used in the calculation of all diluted earnings per share are same as those for the equivalent basic earnings per share measures.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - RELATED PARTIES

a. Transactions with related parties:

Transactions between the Company and its subsidiaries which are related parties of the Company, have been eliminated on consolidation and therefore are not disclosed in this note.

As of December 31, 2017, the Company does not have ultimate controlling party. The Company identifies the following entities, inter alia, as the Company's related parties: York Capital Management Global Advisors, LLC ("York") which holds approximate 19.6% of Company's share capital and Davidson Kempner Capital Management LLC ("DK") which holds approximate 14.3% of Company's share capital.

As for the investment agreement in InSightec by York and other investors see note 5a.

b. Benefits to key management personnel:

1. a) Insurance policy for the Company's directors and officers:

The directors and officers of the Company and its subsidiaries (excluding PC and its subsidiaries which are covered under a separate policy - see b below), are covered by directors' and officers' liability insurance policy of up to USD 40 million per occurrence and in the aggregate during the duration of the policy. In addition, the directors and officers of the Company (excluding any subsidiary) are covered by additional directors' and officers' liability insurance policy of up to USD 20 million per occurrence and in the aggregate during the duration of the policy. The shareholders of the Company have approved the renewal of such policy and the purchase of another directors and officers' liability insurance policy and the purchase of any other similar policy upon the expiration of such policies, provided that the coverage will not exceed certain premium and that the premium for the renewed policy(ies) will not exceed an amount representing an increase of 20% as compared to the previous year. The insurance policy of the Company will expire on March 1, 2019. In addition to the ongoing police, on the closing of the Company's plan of Arrangement on February 20,2014 the Company's then exiting on-going policy has been converted into a Run Off policy which will

expired following the elapse of seven years thereafter (i.e., February 20, 2021).

b) Insurance policy for PC's directors and officers:

PC maintains Directors' and Officers' liability insurance policy, presently at the maximum amount of USD 60 million which will expire on November 1 2017. The new policy does not exclude past public offering and covers the risk that may be incurred by the Directors through public offerings of equity up to USD 50 million.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 - RELATED PARTIES (Cont.)

b. Benefits to key management personnel (Cont.):

c) Insurance policy for InSightec's directors and officers:

InSightec's directors and officers are covered by two insurance policies; (i) Run Off policy, which is valid for a period of 7 years commencing December 2012, covering damages that has occurred until December 2012 up to USD 20 million, and (ii) a second policy covering damages that had occurred or might occur from December 2012 and on up to USD 60 million, and it precedes and does not have the right to participate in the policies of directors and officers held by any of the shareholders of InSightec, including a component of special coverage for risk management (up to an amount of USD 100 thousands) with worldwide coverage. InSightec's directors and officers insurance includes a retroactive cover and contains a 7 year extended reporting period provision.

d) Insurance policy for the Gamida's directors and officers:

Gamida's directors and officers are covered by D&O liability Insurance Policy. The policy covers claim first made against the insured during the policy period and notified to the insurer during the policy period for any wrongful act in the insured's capacity as a director or officer of the company - all in accordance with the policy terms and conditions. The policy limit of liability is USD 6 million. Total aggregate for all loss, arising out of all claims made against all insured is under all insurance covers combined.

2. As for directors' indemnification - see note 13b1 – 13b6

3. Options issued to related parties - see note 15.

c. The following table presents the components of the Group related party transactions and benefit (including bonus) granted to the Group's key management personnel:

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Year ended December
31,
2017 2016 2015
NIS in thousands

Benefits to key management personnel

Salaries, directors' fees and bonuses	4,655	3,373	4,798
Termination benefits of former key personnel	200	-	-
Post-employment benefits	-	239	257
Amortization of stock based compensation expenses	399	53	866
	5,254	3,665	5,921

Number of recipients (excluding directors)	7	7	7
--	---	---	---

d. Balances with related parties:

December 31,
2017 2016
NIS in thousands

Liabilities:

The Company's and PC's traded notes	116,130	211,790
Benefits payable to key management personnel	3,499	2,114
	119,629	213,904

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - SEGMENTS REPORTING

a. General:

The Group's Chief Operating Decision-Maker ("CODM") reviews the Group's internal reporting to assess the performance and to allocate resources. The CODM assesses the performance of the Group's segments based on Net Operating Income. Such Net Operating Income is excluding general and administrative expenses attributable to the Company's headquarter, financing income (expenses) and income taxes. In addition, the CODM is assessing separately the specific financial expenses of each segment based on the borrowings which are specifically attributable to the segment. All other financing expenses (income) (i.e.: financing expenses in respect of non-specific borrowing, interest income on investments and deposits and changes in fair value of financial instruments) were considered as unallocated financing expenses (income).

Investments in INSIGHTEC is reviewed by the CODM in the same manner as subsidiary companies, i.e. each investment's income, expenses are reviewed on a separate basis. The amounts included are not adjusted to reflect the Group's share and accordingly reviewed in its entirety (100%). Accordingly, the amounts within each segment include these components of equity method investments, and are reconciled to the consolidated statements as adjustments.

For purpose of these financial statements the following business segments were identified:

Medical Industries and devices - through the Company indirect holdings in two companies which operates in the field of life science: (i) INSIGHTEC which operates in the field of development, production, and marketing of treatment-oriented medical systems, based on a unique technological platform combining the use of focused ultrasound and magnetic resonance imaging for the purpose of performing noninvasive treatments in human beings; and (ii) Gamida which operates in the field of research, development and manufacture of products designated for certain cancer diseases.

Plots in India - plots designated for sale, initially designated to residential projects.

Plots in Eastern Europe- initially designated for development of commercial centers - includes plots in Eastern Europe (and in Greece) held by our subsidiary Plaza Centers N.V. (“PC”) whose business strategy is to no longer develop commercial centers but to dispose of its real estate assets at optimal market conditions.

The Group’s reportable segments for each of the years ended December 31 2017, 2016 and 2015 are: Medical Industries and devices, Plots in India and Commercial Centers, All other operations identified by the CODM are included as “other activities”. The assets of a reportable segment include plots in India and trading property attributable to the Commercial Centers. Unallocated assets include mainly cash and cash equivalent as well as short and long term deposits and investments.

The liabilities of the reportable segments include mainly specific borrowings provided directly to the Project Companies (mainly companies which are engaged in the operation, construction and initiations of commercial centers) and which are usually secured by a mortgage on the property owned by these Project Companies. Other borrowings which were raised by the Group with no identification to certain operations (mainly notes issued by the Company and PC) were considered as unallocated liabilities.

The accounting policies of all reportable segments are the same as those of the Group, as described in note 2.

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b.Data regarding business segments:

Year ended December 31, 2017

	Commercial centers	Medical industries and devices	Plots in India	Other activities and allocations	Equity method adjustments	Total
Revenues	814,826	117,488	-	-	(117,488)	814,826
Segment profit (loss)	(36,929)	(135,445)	(55,422)	-	135,445	92,450
Financial income (expenses)	(5,281)	-	-	-	-	(5,281)
Share in losses of associates, net	-	(15,156)	-	-	(5,047)	(20,202)
Adjustments:						
Unallocated general and administrative expenses						(14,930)
Unallocated other expenses						532
Unallocated financial expenses						(107,015)
Financial income						1,811
Loss before income taxes						(237,534)
Additions to segment assets	7,895	-	-	-	-	7,895
Unallocated						3,156
Total additions						11,051
Depreciation and amortization of segment assets	52	-	-	-	-	52
Unallocated						28,951
Total Depreciation and amortization						29,003
Impairment of segment assets	47,700	-	43,057	-	-	90,757
Unallocated						-
Total Impairment						90,757

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Assets and Liabilities December 31, 2017:

Segment assets	305,503	-	187,509	5,845	-	498,856
Equity basis investments	-	-	-	-	5,437	5,437
Unallocated						513,078
Total Assets						1,017,371
Liabilities						
Segment liabilities	54,792	-	38,477	-	-	93,269
Unallocated liabilities						1,072,887
Total Liabilities						1,166,156

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 18 - SEGMENTS REPORTING (Cont.)**

b. Data regarding business segments (Cont.):

Year ended December 31, 2016

	Commercial centers (i)	Medical industries and devices	Plots in India	Other activities and allocations	Equity method adjustments	Total
Revenues	210,014	96,333	-	-	(113,911)	192,436
Segment profit (loss)	(135,061)	(119,689)	9,354	-	116,361	(129,035)
Financial income (expenses)	60,454	-	-	-		60,454
Share in losses of associates, net	-	(7,960)	-	-	(46,353)	(54,313)
Adjustments:						
Unallocated general and administrative expenses						(10,257)
Unallocated other expenses						(652)
Unallocated financial expenses						(184,809)
Financial income						(1,056)
Change in fair value of financial instruments measured at FVTPL						2,707
Loss before income taxes						(316,961)
Additions to segment assets	94,406	-	154,598	-	-	249,004
Unallocated						2,473
Total additions						251,477
Depreciation and amortization of segment assets	306	-	-	-	-	306
Unallocated						37,109
Total Depreciation and amortization						37,415
Impairment of segment assets	165,028		24,564			189,592
Unallocated						-

Total Impairment						189,592
Assets and Liabilities December 31, 2016:						
Segment assets	1,126,871	-	245,092	6,453	(5,702)) 1,372,714
Equity basis investments		15,916			11,033	26,949
Unallocated						861,546
Total Assets						2,261,209
Liabilities						
Segment liabilities	428,386	-	3,319	-	(43)) 431,662
Unallocated liabilities						1,780,933
Total Liabilities						2,212,595

(i) Includes mainly revenues from commercial centers under operation until their sale and consideration from sales of commercial centers.

TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 18 - SEGMENTS REPORTING (Cont.)****b. Data regarding business segments (Cont.):****Year ended December 31, 2015**

	Commercial centers (i) NIS in thousands	Medical industries and devices	Plots in India	Other activities and allocations	Equity method adjustments	Total
Revenues	309,302	69,432	-	-	(88,095)	290,639
Segment profit (loss)	(74,170)	(95,805)	(12,325)	-	92,656	(89,644)
Financial income (expenses)	29,605	1,353	-	-	-	(30,958)
Share in losses of associates, net	-	(13,465)	-	-	(29,460)	(42,925)
Adjustments:						
Unallocated general and administrative expenses						(16,678)
Unallocated other expenses						(9,369)
Unallocated financial expenses						(176,763)
Financial income						2,154
Change in fair value of financial instruments measured at FVTPL						(2,568)
Loss before income taxes						(366,751)
Additions to segment assets	28,562	-	-	133	-	28,695
Unallocated						23,183
Total additions						51,878
Depreciation and amortization of segment assets	863	-	-	38	-	896
Unallocated						32,184

Total Depreciation and amortization						33,085
Impairment of segment assets	85,918	-	-	-	-	85,918
Unallocated						-
Total Impairment						85,918
Assets and Liabilities						
December 31, 2015:						
Segment assets	1,579,921	262,183	247,383	7,081	(599,531)	1,497,038
Equity basis investments	-	24,233	-	-	267,950	292,183
Unallocated						914,331
Total Assets						2,703,552
Liabilities						
Segment liabilities	658,994	92,644	2,624	-	(217,930)	536,332
Unallocated liabilities						1,863,156
Total Liabilities						2,399,488

(i) Includes mainly revenues from commercial centers under operation until their sale and consideration from sales of commercial centers.

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 18 - SEGMENTS REPORTING (Cont.)**

c. Data regarding geographical areas:

1. Revenues by geographical areas:

Revenues information above is based, mainly, on the locations of the assets.

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
East and central Europe(i)	814,826	192,436	133,631
India	-	-	150,296
Other	-	-	6,712
	814,826	192,436	290,639

(I) The following table provides an additional information in respect of the revenues in east and central Europe per countries:

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
Poland	514,291	76,724	71,219
Czech Republic	-	43,519	9,240
Romania	36,538	2,898	45,217
Serbia	246,534	68,165	3,832
Other	17,463	1,130	4,123

814,826 192,436 133,631

2. Non-current assets by geographical areas:

The Group's non-current assets provided in the following table include also trading property and payment on account of trading property.

	Segment assets	
	December 31,	
	2017	2016
	NIS in thousands	
East and central Europe	300,165	1,084,749
Israel	1,599	24,189
India	193,450	245,091
	495,214	1,354,029

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - DISCONTINUED OPERATIONS

Sale of the “Radisson complex”

On November 29, 2017, the Company has announced, that its wholly owned indirect subsidiary (the “Vendor”) has signed a definitive sale and purchase agreement (the “Agreement”) for the sale of its entire shareholding (comprising approx. 98.2% of the outstanding share capital) in the company (the “SPV”) which owns the Radisson Hotel Complex in Bucharest, Romania, based on a property value of €169.2 million (the “Transaction”). The Agreement has been signed with an acquisition vehicle jointly owned by two international investment funds (the “Purchaser”).

The net proceeds that was derived from the Transaction (after offsetting the SPV’s senior bank loan, working capital and other adjustments, as well as transaction expenses) was approximately €81 million. Part of the net proceeds equal to €8 million was used to finance a vendor loan which has been granted for a period of 3 years, bearing interest at the rate of 5% per annum (the “Vendor Loan”).

The Vendor Loan acts as collateral for customary post-closing liabilities of the SPV, whereby the Purchaser may offset adjudicated losses which may be incurred by it as a result of a breach of warranties or in respect of certain indemnities given by the Vendor in terms of the Agreement. Additionally, the Company has granted a letter of guarantee in favor of the Purchaser pursuant to which it has undertaken to fulfill the Vendor’s undertakings and obligations under the Agreement (if and to the extent that the Vendor fails to do so).

On December 18, 2017 the Company has completed the transaction. Part of the Net Proceeds were applied in order to repay the Company outstanding loan to Bank Hapoalim Ltd. in the amount of approximately Euro 11.6 million and NIS 240 million were applied to an early repayment of interest and principal to the Company (series H) noteholders

Following the Closing and consummation of the transaction, the Company has ceased to operate the “Radisson Complex” hotel activity, and accordingly the said activity was classified as discontinued operation including comparative information.

Sale of Elbit Fashion

On January 5, 2015 Elbit Fashion has completed the sale of the operation and business of “Mango” retail stores in Israel from Elbit Fashion to Fox- Wiesel Ltd (the “Closing”) for consideration of approximately NIS 37.7 million. Following the Closing and consummation of the transaction, Elbit Fashion has ceased to operate the “Mango” retail stores activity, and accordingly the said activity was classified as discontinued operation.

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 19 - DISCONTINUED OPERATIONS (Cont.)****Results of discontinued operations:**

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
	(except for per-share data)		
Revenues from hotel operations and management	130,142	135,839	147,886
Revenues from fashion merchandise	-	-	1,857
	130,142	135,839	149,743
Expenses and losses			
Cost of fashion merchandise	-	-	4,123
Cost of hotel operations and management	105,678	115,367	126,849
Financial expenses	20,103	19,634	31,444
Other income, net	(669)	(6,961)	(70,133)
	(125,112)	(128,040)	(92,283)
Profit (loss) from discontinued operations before income taxes	(5,030)	7,799	57,460
Income tax (income) expenses	80	(114)	1,229
Profit (loss) from discontinued operations	(5,110)	7,913	56,231
Gain from sale of hotels	(55,835)	-	-
Release of capital funds as a result of the sale of hotels	213,848	-	-
Total Profit from discontinued operations	152,903	7,913	56,231
Basic and diluted earnings per share	(16.64)	0.85	6.11

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 19 - DISCONTINUED OPERATIONS (Cont.)****Reclassification of comparative information:**

	As previously reported	Amendment	As presented in these financial statements
	NIS in thousands		
Revenues			
Revenues from sale of commercial centers	200,078	-	200,078
Revenues from Hotels operations and management	147,886	(147,886)	-
Total revenues	347,964	(147,886)	200,078
Gains and other			
Rental income from commercial centers	83,849	-	83,849
Gain from sale of investees	6,712	-	6,712
Total gains	90,561	-	90,561
Total revenues and gains	438,525		290,639
Expenses and losses			
Cost of commercial centers	290,360	-	290,360
Hotels operations and management	126,849	(126,849)	-
General and administrative expenses	16,678	-	16,678
Share in losses of associates, net	42,925	-	42,925
Financial expenses	236,288	(28,567)	207,721
Financial income	(2,154)	-	(2,154)
Change in fair value of financial instruments measured at fair value through profit and loss	5,446	(2,878)	2,568
Write-down, charges and other expenses, net	38,298	60,994	99,292

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	754,690	(97,300)	657,390
Loss before income taxes	(316,165)	(50,586)	(366,751)
Income taxes expenses (tax benefits)	5,631	(1,229)	4,402
Loss from continuing operations	(321,796)	(49,357)	(371,153)
Profit from discontinued operations, net	6,874	49,357	56,231
Loss for the year	(314,922)	-	(314,922)
Attributable to:			
Equity holders of the Company	(186,150)	-	(186,150)
Non-controlling interest	(128,772)	-	(128,772)
	(314,922)	-	(314,922)
Loss from continuing operations			
Equity holders of the Company	(193,024)	(49,685)	(242,709)
Non-controlling interest	(128,772)	309	(128,463)
	(321,796)	(49,376)	(371,172)
Profit from discontinued operation, net			
Equity holders of the Company	6,874	49,666	56,540
Non-controlling interest	-	(309)	(309)
	6,874	49,357	56,231

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The statement of cash flows includes the following amounts relating to discontinued operations, the majority of which as of December 2015, are attributable to the discontinued fashion apparel and hotels operations:

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
	(except for per-share data)		
Operating activities	49,142	26,443	(5,921)
Other investment activities	297,875	14,082	216,957
Other financing activities	(157,948)	118,556	(189,203)
Net cash provided by (used in) discontinued operations	189,069	159,081	(21,833)

NOTE 20 - FINANCIAL INSTRUMENTS**a. Principal accounting policies:**

The principal accounting policies adopted by the Group in respect of financial instruments and equity components including recognition criteria, measurement and charges to the statement of income and other comprehensive income are included in note 2.

b. Balances of financial instruments by categories:

1. Composition:

	December 31,	
	2017	2016
	NIS in thousands	
Financial assets		
Cash and cash equivalents	465,740	89,688
Loans and receivables	44,545	88,199
Available for sale financial instruments	4,032	4,091
	514,317	181,978
Financial Liabilities		
Derivative financial liabilities at fair value through profit and loss	-	1,832
Financial liabilities at amortized cost	1,088,479	2,051,905
	1,088,479	2,053,737

2. Additional information:

As for financing income and expenses resulting from the aforementioned financial instruments - see note 16e.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)

c. Management of financial risks:

The operations of the Group expose it to risks that relate to various financial instruments, such as: market risks (including currency risk, cash flow risk with respect to interest rates and other price risk), credit risk and liquidity risk.

Market risk - is the risk that the fair value or future cash flow of financial instruments will fluctuate because of changes in market prices

Credit risk - is the risk of financial loss to the Group if counterparty to a financial instrument fails to meet its contractual obligations.

Liquidity risk - is the risk that the Group will not be able to meet its financial obligations as they fall due.

The comprehensive risk management program of the Group focuses on actions to minimize the possible negative effects on the financial performance of the Group. In certain cases, the Group uses derivatives financial instruments in order to mitigate certain risk exposures.

The Company's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board is managing the risks faced by the Group, and confirms that any appropriate actions have been or are being taken to address any weaknesses.

The Group has exposure to the following risks which are related to financial instruments:

1. Foreign currency risk:

The Group has international activities in many countries and therefore it is exposed to foreign currency risks as a result of fluctuations in the different exchange rates.

Foreign currency risks are derived from transactions executed and/or financial assets and liabilities held in currency which is different than the functional currency of the Group's entity which executed the transaction or hold these financial assets and liabilities. In order to minimize such exposure the Group policy is to hold financial assets and liabilities in a currency which is the functional currency of the Group's entity. The Company's functional currency is the NIS and its investees use different functional currencies (mainly the EURO, Indian Rupee and the RON).

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)

c. Management of financial risks (Cont.):

1. Foreign currency risk (Cont.):

The following tables present sensitivity analysis to a change of 10% in the Group's main foreign currencies against their relevant functional currency and their effect on the statements of income and the shareholders' equity (before tax and before capitalizing any exchange results to qualified assets):

As of December 31, 2017:

	Functional currency	Linkage currency	Change in the exchange rate (%)	Profit (loss) In thousand NIS
Assets				
Cash and deposits	NIS	EURO	+10%	368
Cash and deposits	NIS	USD	+10%	131
Cash and deposits	EURO	PLN	+10%	174
Cash and deposits	EURO	USD	+10%	243
Cash and deposits	EURO	NIS	+10%	13,305
				14,221
Financial liabilities				
Loans at amortized cost	EURO	PLN	+10%	(2,125)
Notes at amortized cost	EURO	NIS	+10%	(46,425)
				(48,550)

As of December 31, 2016:

	Functional currency	Linkage currency	Change in the exchange rate (%)	Profit (loss) In thousand NIS
Assets				
Cash and deposits	NIS	EURO	+10%	501
Cash and deposits	NIS	USD	+10%	181
Cash and deposits	EURO	PLN	+10%	947
Cash and deposits	EURO	USD	+10%	135
Cash and deposits	EURO	USD	+10%	260
				2,024
Financial liabilities				
Loans at amortized cost	NIS	EURO	+10%	(5,908)
Loans at amortized cost	EURO	PLN	+10%	(4,271)
Notes at amortized cost	EURO	NIS	+10%	(67,859)
Loans at amortized cost	RON	EURO	+10%	(36,992)
				(115,030)

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)**

c. Management of financial risks (Cont.):

1. Foreign currency risk (Cont.):

As of December 31, 2015:

	Functional currency	Linkage currency	Change in the exchange rate (%)	Profit (loss) In thousand NIS
Assets				
Cash and deposits	NIS	EURO	+10%	1,637
Cash and deposits	EURO	NIS	+10%	857
Cash and deposits	EURO	PLN	+10%	883
Cash and deposits	EURO	RON	+10%	1,163
Cash and deposits	EURO	USD	+10%	1,005
				5,545
Financial liabilities				
Loans at amortized cost	NIS	EURO	+10%	(15,746)
Loans at amortized cost	EURO	PLN	+10%	(5,503)
Notes at amortized cost	EURO	NIS	+10%	(71,615)
Loans at amortized cost	RON	EURO	+10%	(25,344)
				(118,208)

2. Credit risk:

The Group holds cash and cash equivalents, short term investments and other long- term investments in financial instruments in various reputable banks and financial institutions. These banks and financial institutions are located in different geographical regions, and it is the Group's policy to disperse its investments among different banks and financial institutions. The maximum credit risk exposure of the Group is approximate to the financial assets presented in the balance sheet.

Due to the nature of its activity, the company, which operate at commercial centers, are not materially exposed to credit risks stemming from dependence on a given customer. The company examine on an ongoing basis the credit amounts extended to their customers and, accordingly, record a provision for doubtful debts based on those factors they consider having an effect on specific customers.

3. Interest rate risk:

Fair value risk:

A significant portion of the Group's long term loans and notes bearing a fixed interest rate and are therefore exposed to change in their fair value as a result of changes in the market interest rate. The vast majority of these loans and notes are measured at amortized cost and therefore changes in the fair value will not have any effect on the statement of income.

For further information see note 11.

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)**

c. Management of financial risks (Cont.):

3. Interest rate risk (Cont.):

Cash flow risk

Part of the Group's long term borrowings are bearing variable interest rate (see note 11). Cash and cash equivalent, short term deposits and short term bank credits are mainly deposited in or obtained at variable interest rate. Change in the market interest rate will affect the Group's finance income and expenses and its cash flow.

The following table presents the effect of an increase of 1% in the Libor rate with respect to financial assets and liabilities which are exposed to cash flow risk (before tax and before capitalization to qualifying assets):

	Profit (loss)		
	Year ended		
	December 31,		
	2017	2016	2015
	NIS in thousands		
Loans linked to the EURO (*)	-	(3,918)	(5,928)
Notes linked to the PLN	(213)	(427)	(550)
	(213)	(4,345)	(6,478)

4. Liquidity risk:

The Group's capital resources include the following: (a) proceeds from sales of trading property and real estate assets subject to market condition (b) lines of credit obtained from banks, and others; (c) proceeded from sales of shares in the Group held companies in the medical field (d) available cash and cash equivalents. Such resources are used for the following activities:

a) Interest and principal payments on the Group notes and loans;

b) Payment of general and administrative expenses;

As for the Company's financial position and PC's going concern - see note 1c and 7 b2 respectively.

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)**

c. Management of financial risks (Cont.):

4. Liquidity risk (Cont.):

The following tables present the cash flow of financial liabilities and assets (principal and interest) in accordance with the contractual repayment dates:

As of December 31, 2017:

	1st year (i)	2nd year	3rd year	4th year	5th year and thereafter	Total
	NIS in thousands					
<u>Financial liabilities</u>						
Borrowing with fixed interest rate						
PC's notes linked to the Israeli CPI (1)	238,898	236,812	55,566	-	-	531,276
Notes linked to the Israeli CPI	303,564	310,222	-	-	-	613,786
	542,462	547,034	55,566	-	-	1,145,062
Borrowing with variable interest rate						
Notes linked to the PLN	21,949	-	-	-	-	21,949
Suppliers, payable and other credit balances	47,999	-	-	-	-	47,999
Total financial liabilities	612,410	547,034	55,566	-	-	1,215,010
<u>Financial assets</u>						
Cash and cash equivalent	465,740	-	-	-	-	465,740
Short term deposits	10,496	-	-	-	-	10,496

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Trade receivables and other receivables	3,210	-	-	-	-	3,210
Long term deposits, loans and investments	-	-	33,221	-	1,653	34,874
Total financial assets	479,446	-	33,221	-	1,653	514,320

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)**

c. Management of financial risks (Cont.):

4. Liquidity risk (Cont.):

As of December 31, 2016:

	1st year (i)	2nd year	3rd year	4th year	5th year and thereafter	Total
	NIS in thousands					
<u>Financial liabilities</u>						
Borrowing with fixed interest rate						
Loans linked to EURO	29,376	29,719	30,495	334,890	-	424,480
PC's notes linked to the Israeli CPI (1)	211,934	152,116	387,256	61,481	-	812,787
Notes linked to the Israeli CPI	17,770	303,564	310,486	-	-	631,820
	259,080	485,399	728,237	396,371	-	1,869,087
Borrowing with variable interest rate						
Loans linked to the EURO	261,453	9,923	10,588	89,784	53,240	424,988
Notes linked to the PLN	16,542	30,393	-	-	-	46,935
	277,995	40,316	10,588	89,784	53,240	471,923
Suppliers, payable and other credit balances	53,532	-	-	1,972	-	55,504
Total financial liabilities	590,607	525,715	738,825	488,127	53,240	2,396,514
Financial assets						
Cash and cash equivalent	89,688	-	-	-	-	89,688
Short term deposits	39,527	-	-	-	-	39,527
Trade receivables and other receivables	54,577	-	-	-	-	54,577
Long term deposits, loans and investments	-	2,827	-	13,593	-	16,420

Total financial assets	183,792	2,827	-	13,593	-	200,212
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(1) This note assumes the minimum contractual payments on the debentures to achieve the Deferral see note 11 e

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)**

c. Management of financial risks (Cont.):

5. Consumer Price Index ("CPI") risk:

A significant part of the Group borrowings consists of notes raised by the Company and PC in the Tel Aviv Stock Exchange which are linked to the increase in the Israeli CPI above the base index at the date of the notes issuance. An increase of 2% in the Israeli CPI will cause an increase in the Group finance expenses for the years ended December 31, 2017, 2016 and 2015 (before tax) in the amount of NIS 20 million, NIS 23 million and NIS 25 million, respectively.

6. Collaterals:

The following table presents the book value of financial assets which are used as collaterals for the Group's liabilities:

	December 31,	
	2017	2016
	NIS in thousands	
Long term borrowings	-	38,117
Guarantees provided by the Group	1,813	2,363
	1,813	40,480

d. Fair value levels:

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1: fair value measurements derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: fair value measurements derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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TABLE OF CONTENTS**ELBIT IMAGING LTD.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 20 - FINANCIAL INSTRUMENTS (Cont.)**

d. Fair value of financial instruments (Cont.):

The following table presents the book value and fair value of the Group's financial assets (liabilities), which are presented in the financial statements at other than their fair value:

		December 31		2016	
		Book	Fair	Book	Fair
		Value	Value	Value	Value
	Level	NIS in thousands			
Long- term loans at fixed interest rate	Level 3	-	-	(369,923)	(369,923)
Notes	Level 1	(1,024,168)	(911,051)	(1,219,929)	(1,071,436)
		(1,024,168)	(911,051)	(1,589,852)	(1,441,359)

NOTE 21 - SUBSEQUENT EVENTS

a. On February 19, 2018 Elbit Medical has completed a public offering of notes convertible into ordinary shares of Elbit Medical and secured by a pledge on a portion of Elbit Medical's holdings in INSIGHTEC Ltd. and Gamida Cell Ltd. (the "Notes"). The main terms of the Notes are: (1) Total amount raised: NIS 180 million. (2) Maturity Date: March 1, 2022. (3) Interest: Annual interest of 5% in the first two years and 10% in the remaining period, payable twice a year - in March and September. (4) Conversion: Each NIS1.47 par value in Notes into convertible into one Elbit Medical ordinary share. (5) Certain Covenants as loan to value: certain limitations including on the ability of Elbit Medical to distribute dividends or raise additional debt. (6) Collateral: The Notes are secured by a pledge on a portion of Elbit Medical's holdings in INSIGHTEC Ltd. and Gamida Cell Ltd in a "value to loan" ratio of 200%. (7) Use of Proceeds: (a) payment of all expenses in connection with the issuance of the Notes (approximately NIS6 (approx. US\$ 1.7 million)); (b) NIS18 million (approx. US\$ 5 million) were deposited with the trustee for interest payments due on the Notes for the first two years; (c) NIS4 million (approx. US\$ 1 million) for ongoing operational

expenses; and (d) the remaining proceeds was used to repay Elbit Medical's intercompany debt to the Company (approximately NIS 154 million (approx. US\$ 43 million)). In April, 2018 the balance of Elbit Medical's debt to the Company, in the total amount of approximately NIS2 million (approximately USD 580 thousand) was converted to approximately NIS2 million par value Notes.

b. 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 PC., 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 4.c.1.c and 13.b.12. The Company is currently examining the motion with its legal advisors and intend to respond in due course.

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SCHEDULE X – CONDENSED FINANCIAL INFORMATION OF REGISTRANT

ELBIT IMAGING LTD.

CONDENSED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

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Tel-Aviv 6492102, Israel ey.com

REPORT OF INDEPENDENT AUDITORS

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF

ELBIT IMAGING LTD.

We have audited the consolidated financial statements of Elbit Imaging Ltd. and subsidiaries (the "Company") as of December 31, 2017 and December 31, 2016 and for each of the two years in the period ended December 31, 2017, and have issued our report thereon dated April 25, 2018. Our audit also included the condensed financial statement as of December 31, 2017 and December 31, 2016 and for each of the two years in the period ended December 31, 2017, included under schedule of the Company ("the financial statement schedule"). This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule present fairly, in all material respects, the information set forth therein when considered in conjunction with the consolidated financial statements.

We also audited the adjustments described in Note 5 that were applied to adjust the 2015 financial statements due to discontinued operation. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review or apply any procedures to the 2015 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements taken as a whole.

Emphasis of matters:

Note 1(C) to the consolidated financial statements, which describes the Company's financial position and the resources until November 2019 that are expected to serve the repayment of Company's liabilities. The Company's management and board of directors are of the opinion, based on its projected cash flows and the assumptions described, that the Company can execute its plans and that it would be able to serve its indebtedness in the foreseeable future.

1. management and board of directors are of the opinion, based on its projected cash flows and the assumptions described, that the Company can execute its plans and that it would be able to serve its indebtedness in the foreseeable future.
2. Note 7(B)(2) to the consolidated financial statements, which describes conditions that indicate the existence of a material uncertainty that casts significant doubts about the ability of Company's subsidiary to continue as a going concern. Subsidiary's management plans with regard to these matters are discussed in Note 7(B)(2). The financial statements do not include any adjustments to the carrying amounts and classifications of assets and liabilities that would result if the Company's subsidiary were unable to continue as a going concern.
3. Note 4(C)(1)(c) which discloses potential irregularities regarding to Casa Radio project in Romania and their potential implications.

Note 4(c)(1)(b) which discloses the risk that the public authorities may seek to terminate the Public Private Partnership Agreement (“PPP Agreement”) and/or relevant permits and/or could seek to impose delay penalties on the basis of perceived breaches of the subsidiary’s commitments under the PPP Agreement. In the event that the public authorities seek to terminate the PPP Agreement and/or seek to impose penalties, the Company's subsidiary 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 (NIS 209.7 million).

Tel-Aviv, Israel **KOST FORER GABBAY & KASIERER**

April 25, 2018 A Member of Ernst & Young Global

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Elbit Imaging Ltd.

We have audited, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 19 to the consolidated financial statements, the consolidated statements of income, comprehensive income, changes in equity, and cash flows of Elbit Imaging Ltd. and subsidiaries (the "Company") for the year ended December 31, 2015, and have issued our report thereon dated March 31, 2016. Our audit also included the condensed financial information schedule, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 5 to the condensed financial information schedule, for the year ended December 31, 2015 (the 2015 condensed financial information schedule before the effects of the adjustments discussed in Note 5 to the condensed financial information schedule are not presented herein). This condensed financial information schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit. In our opinion, such condensed financial information schedule, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments for the discontinued operations discussed in Note 5 to the condensed financial information schedule and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

Without qualifying our opinion, we draw attention to:

Note 4 (c) (1) (c) and note 13 (c) (12) in the consolidated financial statements which disclose, among other things,
1. potential irregularities concerning the Casaradio Project in Romania and their potential consequences, including Foreign Corrupt Practice Act implications as of December 31, 2015.

2. As discussed in Note 13, claims have been filed against group companies as of December 31, 2015, one of which was certified as a class action.

Brightman Almagor Zohar & Co.

Certified Public Accountants

A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel

March 31, 2016

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TABLE OF CONTENTSELBIT IMAGING LTD.CONDENSED BALANCE SHEETS

	December 31		2017
	2017	2016	Convenience translation (note 2D) U.S.\$'000
	Note (in thousand NIS)		
Current Assets			
Cash and cash equivalents	265,877	43,771	76,688
Short-term deposits and investments	6,464	6,426	1,864
Other receivables	2,281	1,778	658
	274,622	51,975	79,210
Non-Current Assets			
Deposits, loans and other long-term balances	34,856	1,596	10,054
Loans and investments in subsidiaries, associates and joint venture	3 71,672	455,129	20,673
Property, plant and equipment	87	33	25
	106,615	456,758	30,752
	381,237	508,733	109,962

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TABLE OF CONTENTSELBIT IMAGING LTD.CONDENSED BALANCE SHEETS

	December 31		2017
	2017	2016	2017
	Note (in thousand NIS)		Convenience translation (note 2D) U.S.\$'000
Current Liabilities			
Current maturities of long term borrowings and short-term credits	295,363	59,082	85,193
Payables and other credit balances	36,082	17,787	10,407
	331,445	76,869	95,600
Non-Current Liabilities			
Borrowings	243,306	498,637	70,178
Other liabilities	921	21,716	266
	244,227	520,353	70,444
Shareholders' Equity			
Share capital and share premium	1,105,974	1,105,974	319,000
Reserves	(870,043)	(787,765)	(250,950)
Retained losses	(430,366)	(406,698)	(124,132)
	(194,435)	(88,489)	(56,082)
	381,237	508,733	109,962

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

Ron Hadassi

Yael Naftali

Chief Executive Officer and Chairman of the Board of Directors

Chief Financial Officer

Approved by the Board of Directors on: April 25, 2018

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TABLE OF CONTENTSELBIT IMAGING LTD.CONDENSED STATEMENTS OF INCOME

	Year ended December 31			
	2017	(*)2016	(*)2015	2017 Convenience translation (Note 2D) U.S.\$'000
	Note	(in thousand NIS)		
Revenues from providing management services	796	1,035	1,472	230
General and administrative expenses	(13,081)	(8,745)	(11,868)	(3,773)
Financial expenses, net	(21,858)	(38,332)	(58,605)	(6,305)
Other income (expense), net	712	(485)	(116,658)	205
Loss before income taxes	(33,431)	(46,527)	(185,659)	(9,643)
Income tax expenses	(7,000)	-	-	(2,019)
	(40,431)	(46,527)	(185,659)	(11,662)
Company's share in results of investee companies	(144,700)	(156,196)	(57,031)	(41,736)
Loss from continuing operations	(185,131)	(202,723)	(242,690)	(53,398)
Profit (loss) from discontinued operations, net	(152,903)	7,893	56,540	(44,102)
Loss for the year	(338,034)	(194,830)	(186,150)	(97,500)

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

(*)Reclassified (discontinued operations); refer to Note 5.

TABLE OF CONTENTSELBIT IMAGING LTD.CONDENSED STATEMENTS OF CASH FLOWS

	Year ended December 31			2017
	2017	2016	2015	Convenience translation (Note 2D) U.S.\$'000
	(in thousand NIS)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the year from continued operations	(338,034)	(194,830)	(192,780)	(97,500)
Finance expenses recognized in profit and loss	227,149	32,717	67,888	65,518
Depreciation and amortization	12	80	640	3
Share in losses of associates, net	91,513	155,846	40,755	26,395
Stock based compensation expenses	336	27	845	97
Other	(759)	(55)	(488)	(219)
Receivables and other debit balances	(33,724)	3,516	3,101	(9,727)
Payables and other credit balances	18,127	(3,877)	(6,180)	5,228
Net cash used in operating activities of continuing operations	(35,380)	(6,576)	(86,219)	(10,205)
Net cash used in discontinued operating activities	-	-	(2,700)	-
Net cash used in operating activities	(35,380)	(6,576)	(86,219)	(10,205)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property plant and equipment, investment property and other assets	-	-	(103)	-
Proceeds from realization of investments in subsidiaries and associates	-	-	1,925	-
Investments and loans to subsidiaries and associates	204,084	172,027	180,406	58,865
Proceed from dividend	131,645	-	-	37,971
Proceed from realization of (investment in) long-term deposits and long-term loans	-	15,785	(1,184)	-
Short-term deposits and marketable securities, net	(40)	(3,009)	(481)	(12)
Net cash provided by investing activities	335,689	184,803	180,563	96,824

TABLE OF CONTENTSELBIT IMAGING LTD.CONDENSED STATEMENTS OF CASH FLOWS

	Year ended December 31			2017
	2017	2016	2015	Convenience translation (Note 2D) U.S.\$'000
	(in thousand NIS)			
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid in cash	(19,603)	(23,717)	(37,902)	(5,654)
Interest received in cash	-	-	32	-
Repayment of long-term borrowings	(58,600)	(182,025)	(75,577)	(16,902)
Net cash used in financing activities	(78,203)	(205,742)	(113,447)	(22,556)
Increase (decrease) in cash and cash equivalents	222,106	(27,515)	(21,803)	64,063
Cash and cash equivalents at the beginning of the year	43,771	71,286	95,086	12,625
Net effect on cash due to currency exchange rate changes	-	-	(1,996)	-
Cash and cash equivalents at the end of the year	265,877	43,771	71,287	76,688

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

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ELBIT IMAGING LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

NOTE 1 - GENERAL

Elbit Imaging Ltd. ("the Company") was incorporated in Israel. The Company's shares are registered for trade on the Tel Aviv Stock Exchange and in the United States of America on the NASDAQ Global Select Market.

A. 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

B. The Group engages, directly and through its investee companies, in Israel and abroad, mainly in the following areas:

Medical industries and devices - through the Company indirect holdings in two companies which operates in the field of life science: (i) INSIGHTEC which operates in the field of development, production, and marketing of treatment-oriented medical systems, based on a unique technological platform combining the use of focused ultrasound and magnetic resonance imaging for the purpose of performing noninvasive treatments in human beings; and (ii) Gamida which operates in the field of research, development and manufacture of products designated for certain cancer diseases.

Plots in India - plots designated for sale which were initially designated to residential projects.

Plots in Eastern Europe initially designated for development of commercial centers - This segment includes plots in Eastern Europe (and in Greece) held by our subsidiary Plaza Centers N.V. ("PC") whose business strategy is to no longer develop commercial centers but to dispose of its real estate assets at optimal market conditions.

With regards to the sale of Radisson hotel Complex in Bucharest Romania on December, 18 2017, see note 5. Accordingly, this operation is presented in these financial statements as discontinued operation.

C. Financial position:

With respect to the Company's financial position, including the consummation of the Plan of Arrangement, see note 1c and 1d of the annual consolidated financial statements.

D. Definitions:

The Company - Elbit Imaging Ltd.

Group - The Company and its Investees

Investees - Subsidiaries, joint ventures and associates

PC - Plaza Centers N.V. Group, a subsidiary of the Company, which in past operated mainly in the field of commercial centers and is traded in the Main Board of the London Stock Exchange, the Warsaw stock Exchange ("WSE") and Tel Aviv Stock Exchange. As of December 31, 2017, the Company holds 44.9% in PC.

Elbit Medical - Elbit Medical Technologies Ltd., a public Israeli company traded on the Tel Aviv Stock Exchange. As for December 31, 2017, the Company holds approximately 89% of Elbit Medical share capital (88.7% on a fully diluted basis).

Related parties - As defined in International Accounting Standard ("IAS") No. 24. For details see note 17 of the annual consolidated financial statements.

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ELBIT IMAGING LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Statement of compliance:

The condensed financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

B. Basis for preparation:

1. The Parent Company financial information is prepared in accordance with the Israeli SEC regulations for stand alone financial statements. Based on those regulations the investment in subsidiaries, joint ventures and associates are accounted for using the equity method. Moreover the net profit and the equity of Company in those financial statements equals the amounts in the consolidated financial statements.

2. The accounting policies applied in the above condensed data are identical to those applied in the consolidated financial statements as detailed in Note 2, except:

The accounting treatment of investments in shares of investees - pursuant to IAS 27:

When presenting the data from the separate financial statements of the parent company ("solo"), investments in shares of subsidiaries and jointly controlled entities are accounted for at cost, at fair value in accordance with IAS 39 or at equity. The Company has elected to account for said investments at equity and, accordingly, the investments in shares of subsidiaries, jointly controlled entities and associates are presented at equity.

C. Presentation of the income statements:

The Groups operations are characterized by diverse activities. Accordingly, management believes that its income statements should be presented in the "Single - step form". According to this form, all costs and expenses (including general and administrative and financial expenses) should be considered as continuously contributing to the

generation of the overall revenues and gains. Management also believes that its operating expenses should be classified by function to: (i) those directly related to each revenue (including general and administrative expenses and selling and marketing expenses relating directly to each operation); and (ii) overhead expenses which serve the business as a whole and are to be determined as general and administrative expenses.

D. Convenience translation:

The balance sheet as of December 31, 2017 and statement of income, statement of other comprehensive income and statement of cash flows for the year then ended have been translated into U.S. Dollar using the representative exchange rate as of that date (\$1= NIS 3.467). Such translation was made solely for the convenience of the U.S. readers. The dollar amounts so presented in these financial statements should not be construed as representing amounts receivable or payable in dollars or convertible into dollars but only a convenience translation of reported NIS amounts into U.S. Dollar, unless otherwise indicated. The convenience translation supplementary financial data is unaudited and is not presented in accordance with IFRS.

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TABLE OF CONTENTSELBIT IMAGING LTD.NOTES TO THE CONDENSED FINANCIAL STATEMENTS**NOTE 3 - LOANS AND INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE****Investment in joint venture held in Kochi, India:**

The Company has rights under certain share subsection agreement to hold 50% shareholding in Indian SPV ("Project SPV"). The Project SPV has entered into an agreement for the purchase of a land located in Kochi, India according to which it has acquired 13 acres ("Property A") for a total consideration of INR 1,495 million (NIS 84 million) payable subject to fulfilment of certain obligations and conditions by the seller. Up to the balance sheet date the Project SPV has paid INR 720 million (NIS 40 million) to the seller in consideration for the transfer of title in Property A to the Project SPV. The Company's share in such acquisition amounts to approximately NIS 20 million.

On January 14, 2016, the Company has signed an agreement to waive any of its rights and interest in the Project SPV. The total consideration for the Company is INR 10 Crores (approximately NIS 5 million), which will be paid to the Company upon the closing of the transaction.

The transaction is subject to certain conditions precedent, and closing will take place (as extended) once these conditions are met and no later than June 30, 2018. The local Investor has provided certain security in order to guarantee the aforementioned deadline.

Additional information

December 31
2017 2016
(In thousand NIS)

Loans	37,661	291,780
Investments	34,011	163,349
	71,672	455,129

NOTE 4 - COMMITMENTS, CONTINGENCIES, LIENS AND COLLATERALS

A. With respect to the Company's claims, see note 13a of the annual consolidated financial statements.

B. With respect to the Company's other contingent liabilities, see note 13b of the annual consolidated financial statements.

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ELBIT IMAGING LTD.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

NOTE 5 - DISCONTINUED OPERATIONS

Sale of the "Radisson complex"

On November 29, 2017, the Company has announced, that its wholly owned indirect subsidiary (the "Vendor") has signed a definitive sale and purchase agreement (the "Agreement") for the sale of its entire shareholding (comprising approx. 98.2% of the outstanding share capital) in the company (the "SPV") which owns the Radisson Hotel Complex in Bucharest, Romania, based on a property value of €169.2 million (the "Transaction"). The Agreement has been signed with an acquisition vehicle jointly owned by two international investment funds (the "Purchaser").

The net proceeds that was derived from the Transaction (after offsetting the SPV's senior bank loan, working capital and other adjustments, as well as transaction expenses) was approximately €81 million. Part of the net proceeds equal to €8 million was used to finance a vendor loan which has been granted for a period of 3 years, bearing interest at the rate of 5% per annum (the "Vendor Loan").

The Vendor Loan acts as collateral for customary post-closing liabilities of the SPV, whereby the Purchaser may offset adjudicated losses which may be incurred by it as a result of a breach of warranties or in respect of certain indemnities given by the Vendor in terms of the Agreement. Additionally, the Company has granted a letter of guarantee in favor of the Purchaser pursuant to which it has undertaken to fulfill the Vendor's undertakings and obligations under the Agreement (if and to the extent that the Vendor fails to do so).

On December 18, 2017 the Company has completed the transaction. Part of the Net Proceeds were applied in order to repay the Company outstanding loan to Bank Hapoalim Ltd. in the amount of NIS 49 million (approximately Euro 11.6 million) and NIS 240 million were applied to an early repayment of interest and principal to the Company (series H) noteholders.

Following the Closing and consummation of the transaction, the Company has ceased to operate the "Radisson Complex" hotel activity, and accordingly the said activity was classified as discontinued operation including comparative information.

Sale of Elbit Fashion

On January 5, 2015 Elbit Fashion has completed the sale of the operation and business of "Mango" retail stores in Israel from Elbit Fashion to Fox- Wiesel Ltd (the "Closing") for consideration of approximately NIS 37.7 million. Following the Closing and consummation of the transaction, Elbit Fashion has ceased to operate the "Mango" retail stores activity, and accordingly the said activity was classified as discontinued operation.

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TABLE OF CONTENTSELBIT IMAGING LTD.NOTES TO THE CONDENSED FINANCIAL STATEMENTS**NOTE 5 - DISCONTINUED OPERATIONS (Cont.)****Results of discontinued operations:**

	Year ended December 31		
	2017	2016	2015
	(in thousand NIS)		
Revenues from providing management services	2,340	1,928	-
General and administrative expenses	-	-	-
Financial income (expenses), net	(205,290)	5,615	(9,525)
Other expense, net	(3,139)	-	45,860
Profit (loss) before income taxes	(206,089)	7,543	36,335
Income tax expenses	-	-	-
	(206,089)	7,543	36,335
Company's share in results of investee companies	53,186	350	20,205
Profit (loss) from discontinuing operations	(152,903)	7,893	56,540

Reclassification of comparative information:

	Year ended December 31, 2015		
	As previously reported	Amendment	Reclassified
	(in thousand NIS)		
Revenues from providing management services	1,472	-	1,472
General and administrative expenses	(11,868)	-	(11,868)
Financial expenses, net	(67,888)	9,527	(58,605)
Other expense, net	(73,741)	(42,917)	(116,658)
Profit (loss) before income taxes	(152,025)	(33,390)	(185,659)
Income tax expenses	-	-	-
	(152,025)	(33,390)	(185,659)
Company's share in results of investee companies	(40,755)	(16,276)	(57,031)
Profit (loss) from continuing operations	(192,780)	(49,666)	(242,690)
Profit (loss) from discontinued operations, net	6,630	49,666	56,540
Profit (loss) for the year	(186,150)	-	(186,150)

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TABLE OF CONTENTSELBIT IMAGING LTD.NOTES TO THE CONDENSED FINANCIAL STATEMENTS**NOTE 5 - DISCONTINUED OPERATIONS (Cont.)****Statement of Cash flows**

The statement of cash flows includes the following amounts relating to discontinued operations, the majority of which as of December 2015, are attributable to the discontinued fashion apparel and hotels operations:

	Year ended December 31		
	2017	2016	2015
	(in thousand NIS)		
	(except for per-share data)		
Operating activities	(1,692)	1,928	42,916
Other investment activities	298,434	152,951	136,495
Other financing activities	-	-	-
Net cash provided by (used in) discontinued operations	296,742	159,081	179,411

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INSIGHTEC LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

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INSIGHTEC LTD.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors and of Insightec Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Insightec Ltd. and subsidiaries (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of operations, shareholders’ equity and cash flows, for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Brightman Almagor Zohar &Co.

Certified Public Accountants

A Member Firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel

February 8, 2018

We have served as the Company's auditor since 1999

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TABLE OF CONTENTSINSIGHTEC LTD.CONSOLIDATED BALANCE SHEETS(Dollars in thousands, except share and per share data)

	December 31,	
	Note 2017	2016
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$21,891	\$6,975
Deposits	70,036	30,516
Trade accounts receivables	13,928	3,377
Inventories	3 5,792	3,186
Other receivables and current assets	4 2,765	1,972
	114,412	46,026
Fixed assets, net	5 3,230	850
Other long-term assets		
Long term deposits and prepaid expenses	172	3,177
Total Assets	\$117,814	\$50,053
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade accounts payables	\$8,370	\$3,576
Other payables and current liabilities	6 18,787	14,520
	27,157	18,096
Long-term liabilities	926	546
Total Liabilities	28,083	18,642
Shareholders' equity	8	
Ordinary shares, NIS 0.01 par value; authorized 243,380,611; shares issued and outstanding 14,240,462 on December 31, 2017 and 14,176,212 on December 31, 2016.	35	35
Preferred B shares, NIS 0.01 par value; Authorized 14,037,888; shares issued and outstanding 14,037,888 on December 31, 2017 and 2016.	34	34
Preferred B1 shares, NIS 0.01 par value; Authorized 32,201,524; shares issued and outstanding 32,201,524 on December 31, 2017 and 2016.	85	85
	72	72

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Preferred C shares, NIS 0.01 par value; Authorized 27,519,390; shares issued and outstanding 27,519,390 on December 31, 2017 and 2016.		
Preferred D shares, NIS 0.01 par value; Authorized 48,473,238; shares issued and outstanding 48,473,238 on December 31, 2017.and 2016.	133	133
Preferred E shares, NIS 0.01 par value; Authorized 55,970,149; shares issued and outstanding 33,378,830 on December 31, 2017.	95	-
Additional paid-in capital	419,083	329,613
Accumulated deficit	(329,806)	(298,561)
	89,731	31,411
	\$117,814	\$50,053

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

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TABLE OF CONTENTSINSIGHTEC LTD.CONSOLIDATED STATEMENTS OF OPERATIONS(Dollars in thousands, except share and per share data)

	Year ended December 31,		
	2017	2016	2015
Revenues	\$32,083	\$25,074	\$16,146
Cost of revenues	16,390	13,671	9,854
Gross profit	15,693	11,403	6,292
Research and development expenses, net of participations of \$306, \$1,543 and \$2,159, on December 31, 2017, 2016 and 2015, respectively	24,840	18,823	14,291
Sales and marketing expenses	16,699	13,833	9,417
General and administrative expenses	4,914	5,242	6,710
Operating loss	30,760	26,495	24,126
Financing (income) expenses, net	135	(393)	70
Loss before taxes on income	30,895	26,102	24,196
Taxes on income	350	93	48
Loss for the year	\$31,245	\$26,195	\$24,244

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

TABLE OF CONTENTSINSIGHTEC LTD.STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)Dollars in thousands, except share and per share data

	Number of Ordinary Shares	Number of Preferred B Shares	Number of Preferred B1 Shares	Number of Preferred C Shares	Number of Preferred D Shares	Number of Preferred E Shares	Ordinary Shares	Preferred B Shares	Preferred B1 Shares	Preferred C Shares	Preferred D Shares
Balance – January 1, 2015	14,056,212	14,037,888	32,201,524	27,519,390	30,417,587	-	\$35	\$34	\$85	\$72	\$
Issuance of Preferred Shares D (Note 8)	-	-	-	-	13,146,693	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	-	-	-	-	-	-
Balance - December 31, 2015	14,056,212	14,037,888	32,201,524	27,519,390	43,564,280	0	\$35	\$34	\$85	\$72	\$
Issuance of Preferred Shares D (Note 8)	-	-	-	-	4,908,958	-	-	-	-	-	-
Exercise of share options	120,000	-	-	-	-	-	- (*)	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	-	-	-	-	-	-
Balance - December 31, 2016	14,176,212	14,037,888	32,201,524	27,519,390	48,473,238	0	\$35	\$34	\$85	\$72	\$
Issuance of Preferred Shares E (Note 8)	-	-	-	-	-	33,378,830	-	-	-	-	-
	64,250	-	-	-	-	-	- (*)	-	-	-	-

Exercise of share options										
Stock-based compensation	-	-	-	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	-	-	-	-	-
Balance -										
December 31, 2017	14,240,462	14,037,888	32,201,524	27,519,390	48,473,238	33,378,830	\$35	\$34	\$85	\$72

(*) Less than \$1.

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

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TABLE OF CONTENTSINSIGHTEC LTD.CONSOLIDATED STATEMENTS OF CASH FLOWS(Dollars in thousands, except share and per share data)

	Year ended December 31,		
	2017	2016	2015
<u>Cash flows - Operating Activities:</u>			
Loss for the year	\$(31,245)	\$(26,195)	\$(24,244)
Adjustments to reconcile loss to net cash used in operating activities:			
Depreciation and amortization	634	404	391
Stock-based compensation	1,760	2,213	4,251
Decrease (increase) in Interest Receivable	212	(117)	(17)
Decrease (increase) in trade accounts receivable	(10,551)	754	219
Decrease (increase) in other receivables and Prepaid expenses	(1,059)	513	(715)
Decrease (increase) in inventories	(2,606)	2,117	(2,249)
Increase (decrease) in trade accounts payables, other payables, current liabilities and other long term liabilities	9,441	3,948	(413)
Net cash used in operating activities	(33,414)	(16,363)	(22,777)
<u>Cash flows - Investing Activities:</u>			
Purchase of fixed assets	(3,014)	(511)	(551)
Bank Deposit	(36,461)	6,500	8,000
Net cash provided by (used in) investing activities	(39,475)	5,989	7,449
<u>Cash flows - Financing Activities:</u>			
Issuance of Preferred Shares, net	87,805	2,134	25,439
Net cash provided by financing activities	87,805	2,134	25,439
Increase (decrease) in cash and cash equivalents	14,916	(8,240)	10,111
Cash and cash equivalents at beginning of the year	6,975	15,215	5,104
Cash and cash equivalents at end of the year	\$21,891	\$6,975	\$15,215
<u>Supplemental information:</u>			
Income tax paid	350	33	77

Interest received in cash	478	247	279
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The accompanying notes are an integral part of the consolidated financial statements.

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INSIGHTEC LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 1 - GENERAL

Business Description:

Insightec Ltd. (the “Company”) was incorporated in the State of Israel in March 1999 and commenced operations in A. the development, production and marketing of magnetic resonance imaging guided focused ultrasound treatment equipment shortly thereafter. The Company operates in one operating segment.

The current main shareholders of the Company are as follows: Elbit Medical Technologies Ltd. (“EMT”); York Global Finance II S.à r.l., (“York”); Koch Disruptive Technologies (“Koch”); Focused Holdings LP and Focused Holdings Canada Limited (“Exigent”); Shanghai GEOC Hengtong Investment Limited Partnership (“GEOC”); General Electric Company (through its Healthcare division) (“GE Company” or “GE”) and MediTech Advisors LLC (“MTA”).

The Company has wholly owned subsidiaries as follows: (i) in the United States of America, InSightec Inc. (formerly InSightec- TxSonic Inc.) which was incorporated in the State of Delaware, U.S.A. in November 1998; (ii) a wholly owned subsidiary in Japan, Insightec Japan Y.K., which was incorporated in Tokyo, Japan, in March 2005; and (iii) a wholly owned subsidiary in China, InSightec Trading (Shanghai) Co., Ltd., which was incorporated in Shanghai on December 2014 (together: the “Subsidiaries”). The Subsidiaries engaged in pre-sale activities, in managing clinical trials and in providing technical support to the Company’s customers.

The industry in which the Company operates is characterized by rapid technological development. Substantially all of the Company’s current sales are derived from a few applications of the Company’s product line. Many of the B. Company’s development applications are in the early stages and there can be no assurance that these applications will be successful. The Company is continuing research and development for additional applications for such products.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States of America.

A. Functional currency and translation of foreign currencies:

The currency of the primary economic environment in which the Company and its Subsidiary operate is the U.S. dollar (also “dollar”, “\$US” or \$). Accordingly, the Company and its Subsidiaries use the dollar as their functional and reporting currency.

Transactions and balances denominated in dollars are presented at their dollar amounts. Non-dollar transactions and balances are re-measured into dollars in accordance with the principles set forth in ACS 830-10 “Foreign Currency Translation” of the Financial Accounting Standards Board (“FASB”).

All exchange gains and losses from re-measurement of monetary balance sheet items resulting from transactions in non-dollar currencies are included in net financing income (expense) as they arise.

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INSIGHTEC LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. Principles of Consolidation:

The Company's financial statements include the financial statements of the Company and its Subsidiaries (the "Group") after elimination of material inter-company transactions and balances.

C. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

D. Cash and cash equivalents:

Cash and cash equivalents are comprised of cash and demand deposits in banks with maturity dates not exceeding three months from the date of deposit.

E. Allowance for doubtful accounts:

The allowance for doubtful accounts is computed for specific accounts, which, in management opinion are doubtful of collection.

F. Inventories:

Inventories are stated at the lower of cost or net realizable value. Inventory write-offs are provided for slow-moving items or technological obsolescence for which recoverability is not probable. Cost is determined for raw materials on the basis of moving average cost per unit. Cost is determined for finished products on the basis of standard cost, which approximates actual production cost (materials, labor and indirect manufacturing costs).

G. Unites under Demo:

Units assembled that are used for demonstration are classified out of inventory to fixed assets and depreciated over the estimated useful life of 2 years.

H. Fixed assets:

Fixed assets are presented at cost less accumulated depreciation. Depreciation is calculated based on the straight-line method over the estimated economic lives of the assets, as follows:

	Years
Electronic (including medical) equipment	3-7
Office furniture and equipment	7-14
Motor vehicles	7
Leasehold improvements	5

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful lives of the assets or the remaining term of the lease (including the period of renewal options that the Company intends to exercise).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Impairment of long-lived assets:

The Company's long-lived assets are reviewed for impairment in accordance with ACS 360-10 "Accounting for the Impairment or Disposal of Long-Lived Assets", whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2016, no impairment losses have been identified.

J. Revenue Recognition:

In accordance with ASC Topic 605 "Revenue Recognition", the Company recognizes revenues from sale of products when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered, (iii) the price to the customer is fixed or determinable; and (iv) collection of the resulting receivable is reasonably assured. These criteria are usually met at the time of product shipment.

In instances in which the Company enters into transactions that represent multiple deliverables arrangements, with elements including system sales, installation at the customer's site and technical service, the Company apply ASC 605-25 Multiple Elements Arrangements. The ASC requires allocation of arrangement consideration among the separate units of accounting based on their relative selling prices. The selling price for each unit of accounting is determined based on a selling price hierarchy using either vendor specific objective evidence ("VSOE") of selling price, third party evidence of selling price ("TPE") or the vendor's best estimate of estimated selling price ("ESP") for that deliverable. Use of the residual method is prohibited. The objective of ESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis.

Products are typically considered delivered upon shipment. In instances where final acceptance of the system is specified by the customer, revenue is deferred until all acceptance criteria have been met. Technical support services revenue is deferred and recognized ratably over the period during which the services are performed, which is typically from one to two years. The Company's arrangements generally do not include any provisions for cancellation, termination, or refunds that would significantly impact recognized revenue.

In most instances, the Company is not able to establish VSOE for all deliverables in an arrangement with multiple elements, due to the Company's history of infrequent sales in which each element is separately sold. When VSOE cannot be established, the Company attempts to establish selling price of each element based on BESP. BESP is generally used for services and it applies to a small proportion of the Company's arrangements with multiple deliverables. BESP for services is based on technical support services, which are sold separately through renewals of annual contracts.

The Company determines ESP for a product or service by considering multiple factors including, but not limited to, geographies, market conditions, competitive landscape, internal costs, gross margin objectives, and pricing practices. The determination of ESP is made through consultation with and formal approval by the Company's management.

The Company regularly reviews VSOE and ESP and maintains internal controls over the establishment and updates of these estimates

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. Research and Development:

Research and development costs are charged to operations as incurred. Grants received (mainly royalty-bearing) from the Government of Israel through the Office of the Chief Scientist (“OCS”) and from other sources, as participation in certain research and development projects. The accrual for grant receivable is determined based on the terms of the projects, provided that the criteria for entitlement have been met.

The grants are not to be repaid, but instead the Company is obliged to pay royalties as a percentage of future sales if and when sales from the funded projects will be generated. These grants are recognized as a deduction from research and development costs at the time the applicable entity is entitled to such grants on the basis of the research and development costs incurred. Since the payment of royalties is not probable when the grants are received, the Company records a liability in the amount of the estimated royalties for each individual contract, when the related revenues are recognized, as part of cost of revenues. For more information regarding OCS royalties’ commitment, see Note 7A.

L. Severance Pay:

Israeli law and labor agreements determine the obligations of the Company to make severance payments to retiring employees and to employees leaving employment under certain other circumstances. The Company reached an agreement with its employees, according to which they would accept the provisions of Section No.14 of the Severance Compensation Law, 1963 (“Section 14”). Section 14 allows the Company to make deposits in severance pay funds according to the employees’ current salary. Such deposits release the Company from any further obligation with this regard. The deposits made are available to the employee at the time when the employer-employee relationship ends, regardless of cause of termination.

Severance expenses for the years ended December 31, 2014, 2015 and 2016 amounted to approximately \$585, \$660 and \$718 respectively.

M. Income taxes:

The Company accounts for income taxes utilizing the asset and liability method in accordance with ACS 740-10, "Accounting for Income Taxes" of the FASB. Accordingly current tax liabilities are recognized for the estimated taxes payable on tax returns for the current year. Deferred tax liabilities or assets are recognized for the estimated future tax effects attributable to temporary differences between the income tax bases of assets and liabilities and their reported amounts in the financial statements and for tax loss carry forwards. Measurement of current and deferred tax liabilities and assets is based on provisions of enacted tax laws, and deferred tax assets are reduced, if necessary, by a valuation allowance for the amount of tax benefits, the realization of which is not considered more-likely-than-not based on available evidence.

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INSIGHTEC LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. Concentration of credit risk:

Financial instruments that potentially subject the Company's to concentrations of credit risk consist principally of cash and cash equivalents, short and long-term deposits. Cash and cash equivalents, short and long-term deposits are invested in major banks in Israel and in the United States. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

The Company has no significant off-balance sheet concentration of financial instruments subject to credit risk such as foreign exchange contracts, option contracts or other hedging arrangements.

O. Stock-based compensation:

The Company applies the provisions of ASC Topic 718 under which, share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee's requisite service period.

Fair value is determined on the basis of private placements or other transactions in the Company's equity securities and on the basis of other available evidence and management's estimates, with the following weighted-average assumptions (annualized percentages):

	Year ended December 31,		
	2017	2016	2015
Risk-free interest rate	1.6 %	1.63 %	1.73 %

Expected life of options	4.25-7	5	5
Forfeiture rate	3	% 3	% 9 %
Expected volatility	55	% 55	% 60 %
Expected dividend yield	None	None	None

P. Fair value of financial instruments:

The financial instruments of the Company consist mainly of cash and cash equivalents, short and long-term interest-bearing bank deposits, current and non-current accounts receivable and trade accounts payable. In view of their nature, the fair value of the financial instruments is usually identical or close to their carrying amounts.

Q. New Accounting Pronouncements:

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments. This ASU provides updated guidance on eight specific cash flow issues to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are effective for nonpublic business entities for fiscal years beginning after December 15, 2018, and interim periods for fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the impact of the adoption on the statement of cash flows.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Q. New Accounting Pronouncements: (Cont.)

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. With respect to assets measured at amortized cost, such as held-to-maturity assets, the update requires presentation of the amortized cost net of a credit loss allowance. The credit loss estimate can now reflect an entity's current estimate of all future expected credit losses as opposed to the previous standard, when an entity only considered past events and current conditions. The update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption on the financial condition and results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases, in order to establish the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. This update introduces a new standard on accounting for leases, including a lessee model that brings most leases on the balance sheet.. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company is currently evaluating the impact of the adoption on the financial condition and results of operations but would not expect the update to have a material effect on its financial operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, in order to clarify the principles of recognizing revenue. This standard establishes the core principle of recognizing revenue to depict the transfer of promised goods or services in an amount that reflects the consideration the entity expects to be entitled in exchange for those goods or services. The FASB defines a five-step process that systematically identifies the various components of the revenue recognition process, culminating with the recognition of revenue upon satisfaction of an entity's performance obligation. By completing all five steps of the process, the core principles of revenue recognition will be achieved. In March 2016, the FASB issued an update to the new revenue standard (ASU 2014-09) in the form of ASU 2016-08, which amended the principal-versus-agent implementation guidance and illustrations in the new revenue guidance. In April 2016, the FASB issued another update to the new revenue standard in the form of ASU 2016-10, which amended the guidance on identifying performance obligations and the implementation guidance on licensing. The new revenue standard (including updates) will be effective for nonpublic entities annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company's intends to early adopt the requirements of this standard effective January 1,

2018. Although not completed, the Company started its evaluation of the effect of the new revenue recognition standard. Based on the initial evaluation, the Company expects that deliverables in legacy GAAP will be similar to performance obligations under the new standard and as such would not expect a material effect on its financial position and operations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Q. New Accounting Pronouncements: (Cont.)

In November 2016 the FASB issued ASU 2016-18 Statement of Cash Flows - Restricted Cash, the key requirements of the ASU are as follows:

An entity should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The ASU does not define the terms “restricted cash” and “restricted cash equivalents” but states that an entity should continue to provide appropriate disclosures about its accounting policies pertaining to restricted cash in accordance with other GAAP. The ASU also states that any change in accounting policy will need to be assessed under ASC 250.

A reconciliation between the statement of financial position and the statement of cash flows must be disclosed when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents.

Changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows.

An entity with a material balance of amounts generally described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions.

For the Company is the effectiveness will be for fiscal years beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted, and must be applied retrospectively to all periods presented. The company would not expect the update to have a material effect on its financial position.

In August 2017, the FASB issued Accounting Standard Update (“ASU”) 2017-12 which targets improvements to accounting for hedging activities which amends and simplifies existing guidance in order to allow companies to more

accurately present the economic effects of risk management activities in the financial statements. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company early adopted this guidance with no impact on its consolidated financial statements.

NOTE 3 - INVENTORIES

Composition:

	December 31,	
	2017	2016
Raw materials	\$4,451	\$2,790
Finished products	1,341	396
	\$5.792	\$3.186

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	December 31,	
	2017	2016
Office of the Chief Scientist	\$235	\$417
Prepaid expenses	700	705
Governmental authorities (Mainly V.A.T)	451	203
Others	1,379	647
	\$2,765	\$1,972

NOTE 5 - FIXED ASSETS, NET**Composition:**

	December 31,	
	2017	2016
Cost:		
Electronic and medical equipment	\$9,906	\$7,292
Demo systems	555	555
Office furniture and equipment	570	495
Leasehold improvements	2,083	1,758
	\$13,114	\$10,100
Accumulated depreciation:		
Electronic and medical equipment	\$7,131	\$6,559
Demo systems	555	555
Office furniture and equipment	419	388
Leasehold improvements	1,779	1,748
	\$9,884	\$9,250

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INSIGHTEC LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2017, the Company has received or was entitled to receive, grants in the aggregate amount of \$29,802 from the OCS. In consideration for such grants, the Company has undertaken to pay royalties amounting to 3.5% of the revenues until the entire amount is repaid. The royalties will be paid up to the amount of the grants **A.** provided by the OCS, linked to the dollar and for grants received after January 1, 1999, also bearing annual interest at a rate based on LIBOR. Refund of the grants thereon is contingent on future revenues and the Company has no obligation to refund grants if sufficient revenues are not generated. The Company provides for such royalties based on its total revenues. The technology developed with OCS funding is subject to transfer restrictions.

These restrictions may impair the Company's ability to sell its technology assets (know-how) or to outsource manufacturing and the restrictions continue to apply even after the Company has paid the full amount of royalties, payable for the grants. In addition, the restrictions may impair the Company's ability to consummate a merger or similar transaction in which the surviving entity is not an Israeli company.

The total amounts of grants received or were entitled to receive net of royalties paid or accrued including interest as of December 31, 2017 was approximately \$35,878.

Royalty expenses to the OCS in the year ended December 31, 2015, 2016 and 2017, amounted to \$790, \$565 and \$1,123, respectively and included in cost of revenues.

B. The Company rents its facilities under various operating lease agreements, which expire on various dates. In March 2005 the Company signed an operating lease agreement for its main facility in Israel which was amendment several times. The Last amendment was in December 2015, according to which the Company extended the leased in the same building for a period of 3 years until March 2019.

The minimum rental payments (assuming no exercise of extension options in the agreements) are as follows:

Year
2018 \$1,603
2019 \$739
2020 \$384
2021 \$384

Rental expense for the facilities amounted to \$1,272, \$1,285 and \$1,611 for the years ended December 31, 2015, 2016 and 2017, respectively.

The Company leases vehicles under various operating lease agreements, which expire on various dates. The minimum rental payment is \$147 which was already paid and included as part of short-term and long-term prepaid expenses in the balance sheet.

Vehicle lease expense amounted to \$766, \$804 and \$1,030 for the years ended December 31, 2015, 2016 and 2017, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 7 - COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

In October 17, 2012 Technology, Co-operation, and Distribution Agreement, between the Company and GE (the C. “2012 Distribution Agreement”) was signed in which GE Company was awarded world-wide distribution rights for marketing and sales of the Company’s products.

At a subsequent closing of the Series D Transaction (December 30, 2015), the Company and GE executed a third amendment to the 2012 Distribution Agreement, pursuant to which the Company was appointed as a non-exclusive distributor for GEHC’s MR Scanners in order for the Company to sell the scanners as an Integrated Therapy Platform (ITP) together with the Company’s products. In addition, the last remaining rights granted to GE to receive royalties payments from the Company was revoked and the term of the 2012 Distribution Agreement was extended for a period of five years from December 30, 2015.

In connection with the initial closing of the Series E Transaction (December 27, 2017) specified below, the Company and GE executed a fourth amendment to the 2012 Distribution Agreement, pursuant to which the Company is no longer authorized to serve as a non-exclusive distributor for GEHC’s MR Scanners in conjunction with the Company’s products as an Integrated Therapy Platform (ITP). In addition, the fourth amendment: (i) Makes changes to the applicable procedures for adding new products to the 2012 Distribution Agreement such that all new products will automatically be added to the agreement and thereafter the parties will have 60 days to agree upon pricing terms; (ii) Provides that “other MRI system original equipment manufacturers (OEMs)” to third parties and the Company’s dealers are to be included in the Company’s obligation to ensure that the transfer price for GE is lower than the lowest applicable price in the applicable territory; (iii) Provides that GE is no longer permitted to sell competing MRgFUS products in certain circumstances; and (iv) Includes a new provision which provides that, subject to GE giving the Company access to scanners for integration and validation and providing support for approving InSightec coils, InSightec will complete the compatibility, verification and testing between the (a) InSightec neuro system and GE’s Artist and Architect MRI systems by December 31, 2017; and (b) the Company’s “table top” neuro system and GE’s Premier (Rio) MRI system by June 30, 2018.

D. The FUS Foundation (“FUSF”), a non-profit organization, whose mission is to develop new applications and accelerate the worldwide adoption of MRgFUS through research programs with leading research institutions.

The FUSF agreed to finance the stage 1 Neuro research treatments during these years.

Expenses related to the FUSF support for the years ended December 31 2015 and 2016, amounted to \$247 and \$ 152 respectively.

E. On August 11, 2016 the Company entered into a non-exclusive Cooperation Agreement with Siemens Healthcare GmbH. In accordance with this Agreement the Company and Siemens will collaborate regarding R&D and the development of integration and system compatibility between the Siemens MR scanners and the Company's therapy platforms. Upon the completion of the integration and system compatibility, each party will market and sell its component portion of the combined system. Each party will also provide end user support, warranty and maintenance services with regard to its component portion of the combined system. The term of the agreement commenced on the August 11, 2016 and will continue for a period of five years from the first commercial sale of the combined system (as defined in the agreement), and shall automatically renew for additional one year periods.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 8 - SHAREHOLDERS' EQUITY

A. Registered Share Capital:

The registered share capital of the Company is NIS 4,215,828 divided into (a) 243,380,611 Ordinary Shares, having a par value of NIS 0.01 each; (b) 55,970,149 Series E Preferred Shares, having a par value of NIS 0.01 each, (c) 48,473,238 Series D Preferred Shares, having a par value of NIS 0.01 each, (d) 27,519,390 Series C Preferred Shares, having a par value of NIS 0.01 each, (e) 14,037,888 Series B Preferred Shares, having a par value of NIS 0.01 each, and (f) 32,201,524 Series B-1 Preferred Shares, having a par value of NIS 0.01 each.

B. Series E Transaction:

On December 13, 2017 the Company entered into a Series E Preferred Share Purchase Agreement with KDT Medical Investments Corporation ("KDT"), pursuant to which KDT and subsequent investors (including shareholders of the Company) invested a total sum of \$150 million in the Company, at a price per share equals to \$2.68 (the "Series E Transaction") in consideration for 55,970,149 Series E Preferred Shares. The Series E Transaction was consisted of two closings: Initial closing, in which the Company raised approximately \$90 million and subsequent closing, in which the Company raised approximately \$60 million. [TBC following the Second Closing]

The Series E Transaction reflects a pre-money valuation for Insightec of approximately USD460 million (on a fully-diluted basis).

Holders of Preferred Stock shall have preferred rights in the event of a dividend distribution and certain material events as set forth in the transaction documents.

Following the consummation of the Series E Transaction

C. Series D Transaction:

On June 26, 2014 the Company entered into a Series D Preferred Share Purchase Agreement with York, as amended on September 7, 2014, on December 15, 2014, on February 10, 2015, on June 10, 2015 and on December 30, 2015 pursuant to which York and subsequent investors invested a total sum of \$84.5 million in the Company, at a price per share equals to \$1.94 (the "Series D Transaction") in consideration for 43,564,282 Series D Preferred Shares.

Series D price per share was adjusted and reduced by 8% to \$1.78. Therefore, on February 29, 2016 the investors of the Series D Transaction were issued additional 3,788,198 Series D Preferred Shares.

The Series D Transaction reflected a pre-money valuation (prior to the first Series D investment consummated on June 2014) of the Company of \$200 million (on a fully diluted, as-converted basis).

In addition, Dr. Ferré was granted the right to invest an additional \$2 million, at the same terms of the Series D Transaction, for the purchase of Series D preferred shares of the Company (in addition to the amounts invested under the Series D Transaction described above). Such right should have expired on the earlier of: (i) June 15, 2016; (ii) the date of consummation of an initial public offering (IPO) of the Company; or (iii) sale of the Company or its assets.

The Company's board and the Company's shareholders approved on June 8, 2016 and on June 15, 2016, respectively, the extension of Dr. Ferré right through June 30, 2016 and the assignment of the right by Dr. Ferré to certain investors. Accordingly, on June 30, 2016, certain investors exercised such right which was assigned to them, and purchased a total of 1,120,760 Series D Preferred Shares for total investment of \$2 million.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 8 - SHAREHOLDERS' EQUITY (Cont.)

D. General Provisions:

Series E Preferred Shares are senior to all other outstanding shares of the Company. Secondary to Series E Preferred Shares are Series D Preferred Shares. Following Series D Preferred Shares are Series C Preferred Shares. (1) Following Series C Preferred Shares are Series B and Series B-1 Preferred Shares. The rights provided to the holders of Series B-1 Preferred and Series B Preferred Shares are similar, mutatis mutandis (other than the original purchase price thereof).

Each Ordinary Share and each Preferred Share shall confer upon its holder the right to receive notices of, and to attend and vote in General Meetings. Each holder of Ordinary Shares shall have one vote for each Ordinary Share (2) held by him. Each holder of Preferred Shares shall have one vote for each Ordinary Share into which the Preferred Shares held by such holder may be converted.

The Company's Amended and Restated Articles of Association (the "AOA") provides, inter alia, for (i) special (3) majority requirements with respect to certain resolutions, e.g. dividend distribution, issuance of shares ranking equal or senior to the Preferred Shares, material change in the line of business, certain initial public offering, Exit Event; and (ii) restrictions on certain transfers of Company's shares and bring along and tag along rights.

According to the AOA, the holders of the Preferred Shares are entitled, inter alia, to a 'dividend preference', to the (4) extent such dividend is declared by the Board of Directors of the Company, and a 'liquidation preference' in the events stipulated thereunder.

(5) The AOA further provides that the holders of the Preferred Shares have the right, at any time, to convert all or any of the shares held by them into Ordinary Shares and that automatic conversion shall apply in certain circumstances.

NOTE 9 - STOCK OPTION PLANS

As of December 31, 2017, 34,438,755 options are outstanding under all the Company's options plans.

A. 2006 Option Plan (“2006 Original Plan”) and 2006 Revised Option Plan (“2006 Revised Plan”):

On January 30, 2006 the Company’s Board of Directors approved and adopted an option plan to employees, officers, directors and consultants (“2006 Original Plan”).

On December 3, 2012 the Company’s Shareholders approved, following the Board’s approval, to amend 2006 Plan (“2006 Revised Plan”) and to adopt US Annex. The total number of options reserved for issuance under the 2006 Revised Plan is 35,000,000 out of which 20,000,000 options reserved under the US Annex.

The vesting period of the options granted prior to December 11, 2014, under 2006 Revised Plan and US Annex is as follows: 25% of the Options shall become vested each year on the anniversary of the Grant Date (such that the Options shall become fully vested on the fourth anniversary of the Grant Date). The options granted under this plan expire after seven years from the Grant Date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 9 - STOCK OPTION PLANS (Cont.)

A. 2006 Option Plan (“2006 Original Plan”) and 2006 Revised Option Plan (“2006 Revised Plan”) (Cont.):

On December 11, 2014 the Company’s Shareholders approved, following the Board’s approval, to amend the 2006 Revised Plan and the US Annex in order to include a cashless exercise mechanism. In addition, according to such amendment the vesting period of the options granted under 2006 Revised Plan and US Annex is as follows: 50% of the Options shall become vested on the second anniversary of the Grant Date, additional 25% of the Options shall become exercisable on the third anniversary of the Grant Date, and additional 25% of the Options shall be exercisable on the fourth anniversary of the Grant Date (such that the Options shall be fully vested on the fourth anniversary of the Grant Date).

On March 28, 2017 the Company’s Shareholders approved, following the Board’s approval, to amend the 2006 Revised Plan and the US Annex and to extend the term of all options granted under 2006 Revised Plan by three years (the “Extension”). Following the Extension, the revised term of the Options will be 10 years from the Commencement Date, as such term defined under the 2006 Revised Plan. The Extension would apply to all options granted with the exception of options granted to employees who ceased to be employed by the Company prior to February 7, 2017 and have not exercised their options as of this date. For the avoidance of any doubt, the Extension will apply to options granted to directors, who ceased to be directors of the Company prior to February 7, 2017, which were not expired as of the date of the above shareholders resolution.

B. Grant of Options:

On December 11, 2014, the Company granted 6,771,612 and 1,354,322 options to Dr. Ferré and Mr. Delevic, respectively, reflecting 5% and 1% of the Company’s fully diluted share capital on the date of the closing of the Subsequent Investment (as such term is defined in the Series D Transaction), pursuant to a Service Agreement between the Company and Crandon Capital Partners LLC (“Crandon”), dated December 15, 2014, under which Crandon will provide the Company certain services (“Services”), including Chairman of the Board, through Dr. Maurice R. Ferré and active director services, through Mr. Ivan Delevic (the “Services Agreement”).

The exercise price per share shall be equal to the original issue price of the Series D Preferred Shares (\$1.94 which was reduced to \$1.78). Such options shall vest as follows: (i) 25% of the options shall vest on January 1, 2015; (ii) 25% shall vest on January 1, 2016; and (iii) 50% shall vest upon the achievement of certain goals and milestones (as specified in the grant letter). The options were granted under the 2006 Revised Plan, except as modified under the CEO Employment Agreement in the event of a Change in Control or termination, and in accordance with the terms of the grant letter. The value of the benefit calculated under the Black-Scholes formula, is about \$5.6 million.

On December 28, 2015, the Company granted an option to purchase 250,000 Ordinary Shares of the Company to Dr. Kobi Vortman, the Company's CEO at that time and currently an executive vice chairman of the Board. The grant date of the options shall be January 1, 2016. The exercise price per share shall be \$1.94 (which was reduced to \$1.78). The options shall vest as follows: (i) 25% of the options shall have immediate vesting upon allocation; (ii) 25% shall vest one year after the grant date; and (iii) 50% shall vest upon the achievement of certain goals and milestones (as specified in the grant letter). The options were granted under the 2006 Revised Plan and in accordance with the terms of the grant letter, which will provide a cashless exercise mechanism. The value of the benefit calculated under the Black-Scholes formula, is about \$174.

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INSIGHTEC LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 9 - STOCK OPTION PLANS (Cont.)

B. Grant of Options: (Cont.)

Furthermore, the Company granted 180,000 and 500,000 Restricted Shares Units (the “RSUs”), representing 180,000 and 500,000 Ordinary Shares of the Company, to Dr. Ferré and to Mr. Jun Tao (who serves as Senior VP of strategic Marketing & Business Development of the Company), respectively, which was granted effectively on June 15, 2016. Such RSUs shall expire on the earlier of: (i) June 30, 2019; or (ii) the effective date of the termination of services or employment, as applicable. Each RSU granted shall vest upon the achievement of certain goals and milestones (as specified in the grant letter). The grantees shall not pay any consideration for converting the granted RSUs to Shares. The RSUs granted to Dr. Ferré are subject to the terms described above, except as modified under the CEO Employment Agreement in the event of a Change in Control or termination.

Additionally, the Company granted to Dr. Ferré and to Mr. Jun Tao 7,114,096 and 1,500,000 options, respectively, each option to purchase one Ordinary Share of the Company, at an exercise price per share of \$12.57 and \$1.78, respectively, which was granted effectively on June 15, 2016 and on June 6, 2016, respectively.

Dr. Ferré’s options shall vest as follows: (i) 25% of the options were vested on January 1, 2017; (ii) 25% shall vest on January 1, 2018; (iii) 50% shall vest upon the achievement of certain goals and milestones (as specified in the grant letter). The options were granted under the 2006 Revised Plan and in accordance with the terms of the grant letter. The options granted to Dr. Ferré are subject to the terms described above, except as modified under the CEO Employment

Agreement in the event of a Change in Control or termination. The value of the benefit calculated under the Black&Scholes formula, is about \$315.

On September 12, 2016, the Company granted an option to purchase 100,000 Ordinary Shares of the Company to each of Mr. Eugene Saragnese and Mr. Tom Gentile at an exercise price per share of \$1.78. The vesting period of such options shall be one year, such that the options shall be fully vested on the first anniversary of their grant date. The options were granted under the Amended and Restated 2006 Stock Option Plan and the US Annex and in accordance

with the terms of the grant letter. The value of the benefit calculated under the Black-Scholes formula, is about \$29.

The value of the benefit calculated under the Black-Scholes formula, is about \$29.

On March 2017, the Company approved to each of the following directors: Jeremy Blank, Morry Blumenfeld, Ron Hadasi, Boaz Lifschitz and Howard Chu a grant of 30,000 options (“**Directors Options**”), each option to purchase one Ordinary Share of the Company, at an exercise price per share of \$1.30. 50% of the Options shall become vested 2 years after the Grant Date and additional 25% each year thereafter (i.e. on the 3rd and 4th anniversary of the Grant Date (as defined below), such that the Directors Options shall be fully vested on the fourth anniversary of the Grant Date). The Directors Options shall be granted under 2006 Revised Plan and the US Annex. The grant of the options to each director is subject to the approval of each shareholder that appointed the director. The Grant Date of the Directors Options (“Grant Date”) shall be the later of: (i) the date of the approval of the Company’s shareholders meeting, and: (ii) the date of the approval of the shareholder who appointed the director. The Company received the approval of the shareholders appointed Morry Blumenfeld and Howard Chu.

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On December 27, 2017, as part of finder's fee consideration in connection with the Series E Transaction, the Company issued such finder a warrant to purchase 1,995,240 Ordinary Shares of the Company (the "Warrant"). The Warrant shall be exercisable, in whole or in part, at any time during the period commencing December 27, 2017 and ending on the earliest of: (i) December 31, 2024; (ii) immediately prior to consummation of an Exit Event; and (iii) immediately prior to consummation of an IPO, as such terms defined in the Warrant. The exercise price per share shall be \$2.68 and the Warrant also includes a cashless exercise mechanism.

In addition, during 2015, 2016 and 2017 additional options were granted to new and current employees, officers and others.

C. Fair value:

The weighted average fair value (in dollars) of the options granted during 2015, 2016 and 2017 according to Black-Scholes option-pricing model, amounted to \$0.7, \$0.15 and \$0.04 per option, respectively. Fair value was determined on the basis of private placements of the Company's equity securities and on the basis of other available evidence and management's estimates.

- D.** A summary of the status of the Company's share option plans as of December 31, 2014, 2015 and 2016, as well as changes during each of the years and period then ended, is presented below:

2 0 1 7	Weighted	2 0 1 6	Weighted	2 0 1 5	Weighted
Share	average	Share	average	Share	average
options	exercise	options	exercise	options	exercise
	price		price		price

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		(US dollars)		(US dollars)		(US dollars)
Outstanding - beginning of year	30,699,015	4.06	23,803,919	1.50	23,533,919	1.49
Granted	3,986,240	1.99	9,194,096	10.13	500,000	1.94
Cancelled	(182,250)	0.92	(2,179,000)	1.84	(230,000)	1.87
Exercised	(64,250)	0.92	(120,000)	1.12	-	
Outstanding - year end	34,438,755	3.84	30,699,015	4.06	23,803,919	1.50
Options exercisable year end	22,322,450	1.88	15,432,993	1.40	10,905,764	1.56

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E. The following table summarizes information about share options outstanding as of December 31, 2017 and 2016:

Outstanding as of December 31, 2017			Exercisable as of December 31, 2017		
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
(US dollars)		(in years)	(US dollars)		(US dollars)
0.92	12,391,485	5.4	0.92	11,893,735	0.92
1.30	12,934,934	7.6	1.30	6,651,951	1.30
2.68	1,995,240	7	2.68	1,995,240	2.68
6-12.57	7,117,096	8.5	12.56	1,781,524	12.56
	34,438,755			22,322,450	
Outstanding as of December 31, 2016			Exercisable as of December 31, 2016		
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
(US dollars)		(in years)	(US dollars)		(US dollars)
0.0025	25,000	0.3	0.0025	25,000	0.0025
1.12	12,480,985	3.4	1.12	9,000,543	1.12
1.78	10,205,934	5.2	1.78	6,094,450	1.78
1.94	870,000	5.4	1.94	310,000	1.94
6-12.57	7,117,096	6.5	12.56	3,000	6
	30,699,015			15,432,993	1.4

Total estimated share-based compensation expense, related to all of the Company's share-based awards, recognized in the year ended December 31, 2017 and 2016 was comprised as follows:

	Year ended December 31,	
	2017	2016
Cost of revenues	\$48	\$72
Research and development	396	672
Sales and marketing	228	257
General and administrative	1,088	1,212
Total share-based compensation expense	\$1,760	\$2,213

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 10 - INCOME TAXES

A. Law for the Encouragement of Capital Investments-1959:

The tax rates applicable to Approved Industrial Enterprise would be 6% and 12% for those located in Preferred Area A or elsewhere, respectively, with effectiveness for the taxable year of 2015 and onwards.

B. Law for the Encouragement of Industry (Taxation), 1969:

The Company is an “Industrial Company” under the Law for the Encouragement of Industry (Taxation), 1969 and, therefore, is entitled to certain tax benefits, mainly accelerated rates of depreciation and the right to deduct public issuance expenses for tax purposes.

C. Deferred Taxes:

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Company has accumulated losses for Israeli tax purposes as of December 31, 2017 in the amount of approximately \$300,000.

The Israeli tax loss carry forwards have no expiration date. The Company expects that during the period these losses are utilized, its undistributed earnings will be tax exempt. Since the Company has no intention to distribute such earnings, there will be no tax benefit available from such tax losses and no deferred taxes have been included in these financial statements for these losses.

D. Tax rates applicable to the Company:

The corporate tax rate in Israel is 25% and 24% in 2016 and 2017.

On August 5, 2013 the Israeli parliament (the Knesset) passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) - 2013, by which, inter alia, the corporate tax rate would be raised by 1.5% to a rate of 26.5% as from 2014. On January 4, 2016, the Knesset plenum approved a bill to amend the Income Tax Ordinance, including a reduction in corporate tax by 1.5% from 26.5% to 25%, as from January 1, 2016.

Under an amendment enacted in December 2016 to the Israel Income Tax Ordinance of 5721-1961, or the Tax Ordinance, the corporate tax rate will decrease to 24% for 2017 and 23% for 2018 and thereafter.

E. Tax Assessments:

The Company and InSightec Inc. have not received final tax assessments since inception. The Company and InSightec Inc. have tax assessments considered final through the year 2012 and 2013, respectively. InSightec Japan Y.K. had final tax assessment through the year 2012.

In light of losses for both financial reporting and tax purposes for all years presented, a reconciliation of the effective income tax rate has not been presented.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

NOTE 11 - GEOGRAPHIC INFORMATION AND MAJOR CUSTOMERS

A. Geographic information:

	Year ended		
	December 31,		
	20	20	20
	17	16	15
	%	%	%
Revenues:			
America	43	43	23
Europe	23	13	38
ROW	34	44	39

B. Revenues by major customers:

	Year ended		
	December 31,		
	20	20	20
	17	16	15
	%	%	%
Customer A	14	10	34
Customer B	8	9	12

C. Fixed assets: Substantially all fixed assets are located in Israel.

NOTE 12 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

A. Transactions:

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	Year ended		
	December 31,		
	2	2	
	0	0	2 0 1 5
	1	1	
	7	6	
Revenues	\$-	\$-	\$4,811
Cost of revenues	\$-	\$-	\$254
Research and development costs (14.C)	\$-	\$-	\$-
Sales and marketing	\$-	\$-	\$-

B. Balances:

	December	
	31,	
	2 0	2 0
	1 7	1 6
Trade accounts receivables	\$ -	\$ -
Trade accounts payables	\$ -	\$ -

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SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to hereby sign this annual report on its behalf.

Elbit Imaging Ltd.

Date: April 26, 2018 By: /s/ Ron Haddasi
Name: Ron Haddasi
Title: CEO&Chairman of the Board