

# Board of Directors Report: Corporation's State of Affairs



**BCP**  
BRACK CAPITAL PROPERTIES NV

# Board of Directors' Report on the Corporation's State of Affairs

Brack Capital Properties NV (hereinafter: "the Company") hereby submits the Board of Directors' report for a period of six months ending on June 30, 2018 (hereinafter: "the Reported Period" or "the Report Period).

The review is limited in scope and refers to events and changes occurring in the corporation's state of affairs during the Reported Period the influence of which is material. The report was prepared assuming that the report of the Company's Board of Directors for 2017 (which is included in the Company's periodical report for 2017) (hereinafter, respectively: "2017 Board of Directors Report" and "2017 Periodic Report")<sup>1</sup> is available to the reader.

The financial statements attached in Chapter B of this quarterly report are presented according to International Standards – the IFRS.

All the data in this report refer to the interim consolidated financial statements unless otherwise stated.

In this report:

"The report date or "the date of the report" – June 30, 2018.

"Report signing date" or "the date of signing the report" – August 16, 2018.

"The reported period" – the second quarter of 2018.

## Preamble

### Below are the Company's principal results for the six months ended June 30, 2018.

1. **Profitability** – in the second quarter of 2018, the Company's net income attributed to the Company's shareholders amounted to approximately EUR 22.6 million compared to income of EUR 44.8 million in the corresponding period last year.

The following is the contribution of the income-producing real estate and the residential development activity to the Company's results:

- **Income producing real estate** – in the second quarter of 2018, the FFO amounted to EUR 9.2 million. The FFO in the reported quarter is grossing up an annual rate of EUR 36.8 million.
- **Residential development activity**- In the reported period, the contribution to the profit of the Grafental project amounted to EUR 2.5 million (consolidated). As a result of the adoption of Accounting Standard No. 15, in the reported quarter, the Company recognized the cumulative sale of 113 residential units<sup>2</sup> from stage D according to a weighted performance rate of 71.5% compared to 113 residential units according to a weighted performance rate of 53.3% recognized until March 31, 2018, the date of initial adoption of the standard.

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<sup>1</sup> Published on March 18, 2018 (reference 025570-01-2018) which is included by way of reference.

<sup>2</sup> It should be indicated that as of the report signing date, the Company entered into sale contracts for 118 residential units and recognized the sale of only 113 residential units from which consideration was received according to the Company's policy. It should be indicated that the consideration for the sale of the apartments that were not recognized as income was received after the report date.

## 2. Operating segments – key operational data<sup>3</sup>.

### a. Residential development – Grafental project<sup>4</sup>

Stage	Number of flats	Expected revenues (EUR in millions)	Expected Gross income (EUR in millions)	Developer profit (in percentage)	Sales (in percentage)	Revenue recognition until now
D	119	67.6	16.4	32%	100%	65.8%
E	89	49.6	12.1	32%	85.1%	0%
Total	208	117.2	28.5	32%	93.7%	38%

### b. Income producing real estate<sup>5</sup>

Zoning	Area (square meters)	Actual Return of rental fees <sup>6</sup>	ERV Return <sup>7</sup>	Actual NOI return	NOI return according to ERV <sup>8</sup>	Occupancy rate
Residential	704	5.7%	7.2%	5.0%	6.5%	95%
Commercial	312	6.4%	6.8%	5.7%	6.0%	97%
Total	1,016	5.9%	7.0%	5.2%	6.3%	95%

- **Residential:** in the second quarter of 2018, rental fees increased by 6.2% from identical assets and 1.6% in rental fees per square meter in new rentals compared to the corresponding quarter of 2017. The rental fees in new rentals in the residential market are higher by 26% of the average rental fees.

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**Commercial:** in the second quarter of 2018, rental fees have increased by 0.4% from identical assets compared to the corresponding quarter in 2017.

<sup>3</sup> As of the report date after the sale of an asset in Hamburg, see material events in the reported period.

<sup>4</sup> Data according to 100%, the effective corporation's share in the project is 84.98%.

<sup>5</sup> Assets consolidated in the Company's financial statements

<sup>6</sup> Data of May 2018 on annual basis divided by the carrying value

<sup>7</sup> ERV - estimated rental value – the expected annual return provided that all of the assets are leased in full occupancy in return for the rental fees prevailing in the market.

<sup>8</sup> Actual NOI plus the difference between actual rental fees and the ERV divided by the carrying values

### 3. Balance sheet structure and financial solvency –

- a. **Equity and NAV:** The equity attributed to the Company's shareholders amounted to approximately EUR 628.1 million and the NAV<sup>9</sup> amounted to EUR 728.5 million as of the report date.
- b. **Debt ratios:** the LTV ratio<sup>10</sup> is 48.28% as of the report date. The EBITDA ratio to interest expenses (only from the income producing portfolio, excluding operating income from development activity) (excluding interest expenses in respect of development activity) is 3.74 in the second quarter of 2018.
- c. **Liquidity:** cash balances and liquid balances amounted to approximately EUR 88.8 million as of the report date.

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<sup>9</sup> EPRA NAV – for details regarding the index and the calculation manner see section 5 of part A.

<sup>10</sup> Net debt to GAV.

## Concise description of the Corporation and its business environment

### Areas of activity

The Company, its subsidiaries and associate companies (hereinafter, collectively: "**the Group**") have been operating in the field of real-estate in Germany, in four primary activity sectors: residential income producing real estate, commercial income producing real estate, entrepreneurship residential real estate in Dusseldorf and betterment of land in Dusseldorf. Below are the details on the major developments in said sectors (as occurred) in the reported period and until the signing date of the report:

- ❑ **Residential income-producing real-estate** – as of the report signing date, the Group owns 11,956 apartments, with a total leasing area of approximately 704,000 m<sup>2</sup>.
- ❑ **Commercial income-producing real-estate** – as of the report signing date, the Group owns 26 commercial income-producing properties<sup>11</sup> in the commercial segment (commerce and offices) with an overall leasing area of approximately 312,000 m<sup>2</sup>.
- ❑ **Residential Real Estate Under Development** - for details regarding the marketing, sales, handovers and performance of Stage C (109 units) and Stage D (119 units) Stage E (89 units) and Stage F (112 units) of the Grafental project in Dusseldorf as well as the Company's residential project in Aachen, see "Material events and others during the reported period".
- ❑ **Betterment of land in Dusseldorf** - the Company owns 3 land complexes in Dusseldorf, Germany, undergoing advanced procedures for changing the zoning from offices to residential. For details regarding the Company's progress in the zoning changes of the lands in Dusseldorf, see the section "Material events and others during the reported period".

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<sup>11</sup> In addition, the Company has one asset held by an associate spanning over an area of 7,000 m<sup>2</sup> in the city of Chemnitz

## Property financing

The Company consistently works for maximizing the return-risk profile for its shareholders by means, inter alia, of optimization of the capital/debt structure, both on property level and on corporation level. To that end the Company uses the following sources: bank loans, bonds raising in Israel etc.

Below are the details on updates in the aforesaid financing methods (as occurred) in the reported period and until the signing date of the report.

- ❑ **Bank loans** – the Company has bank loans amounting to EUR 777.3 million. As of the report date, the average rate of interest of these loans is approximately 1.59%. The average duration of the loans is about 3.65 years.
- ❑ **Bonds** – the Company has three series of bonds (non-convertible to shares) rated by S&P Maalot Ltd. (Maalot) with AA- rating as of the signing date of the report: Series A at a scope of approximately NIS 114.4 million par value with an interest (linked) of approximately 4.8% per year with an average duration of approximately 1.41 years, Series B at a scope of approximately NIS 200 million par value with an interest (linked) of approximately 3.29% per year with an average duration of approximately 3.86 years and Series C at a scope of NIS 150.3 million par value with an interest (linked) of approximately 3.3% per year with an average duration of approximately 6.09 years.

## Activity environment

The German economy is the fourth in the world in terms of Gross Domestic Product (GDP). It is characterized by low unemployment rate and low and steady inflation. The German government enjoys a perfect credit rating (AAA) with a stable outlook and low financing cost of government bonds.<sup>12</sup>

The real estate market in Germany is characterized with high stability and positive directions as occupancy rates improve and rental prices are increasing. In 2017, the German GDP recorded an increase of 2.5% while the other large European economies recorded lower growth rate, when the GDP of the entire Eurozone increased by 2.5%. In 2017, the German GDP has grown mainly from an increase in private consumption and increase in volumes of investments in construction. The economists of the Organization for Economic Co-operation and Development (OECD) expect a steady economic activity in Germany in 2018 and 2019, which are expected to show a growth of 2.3% and 1.7%, respectively, mainly due to an additional improvement in the private consumption, which is supported among others, by low interest, low unemployment rate and increase in salary levels.

## ❑ Material Events in the Reporting Period

- ❑ **Refinancing** - on January 31, 2018, the Company refinanced a loan in total amount of € 33 million for a period of 5 years. The new loan bears fixed annual interest at the rate of 1.34% with amortization rate of about 2% per annum of the amount of the new loan. On the final repayment date, which is June 30, 2023, the unpaid principal balance will be paid plus accrued interest. The total amount of the repaid loan amounted to € 22.4 million. This loan bears fixed annual interest at the rate of 2.67%. For further details see immediate report dated February 1, 2018 (reference 011203-01-2018) the information contained therein is brought in this report by way of reference.

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<sup>12</sup> As of the date of signing the report, the German government bonds for 10 years yield a nominal annual return of 0.31%.

On June 20, 2018, the Company refinanced a loan in a total amount of € 55 million for a period of 5 years. The new loan bears fixed annual interest at the rate of approximately 1.613% with amortization rate of 2.5% per annum of the amount of the new loan. On the final repayment date of June 20, 2023, the balance of the principal that has not yet been repaid will be paid plus accrued interest. The total amount of the repaid loan amounted to € 44 million. This loan bears fixed annual interest at the rate of 2.66%. For further details, see the immediate report dated June 21, 2018 [Ref. 054324-01-2018] which is included by way of reference.

- ❑ **Completion of the purchase of land with an area of 193 thousand square meters in the city of Dusseldorf** - On December 28, 2017, the Company entered into a notarized sale agreement with a third party unrelated to the Company and or its controlling shareholder, for the acquisition of all ownership rights in a land with an area of 193 thousand square meters in the Gerresheim neighborhood in Dusseldorf, Germany, for a total consideration of € 141.9 million (including related transaction costs). On the land, 1,300 residential units and 30,000 square meters of commercial spaces, offices and kindergartens and school are planned to be constructed. It should be indicated that the Company intends to develop the complex as a residential neighborhood. In order to finance the acquisition, the Company (through a wholly-owned sub-subsidiary) entered into an agreement with a German bank to obtain a loan in the amount of approximately € 90 million under recourse terms (to the Company)<sup>13</sup>, the final repayment date of which is 3 years from the date of receiving the loan, bearing interest at a margin of 2% per annum above Euribor's 3 month period. The purchase cost balance plus related costs were financed from the Company's own sources. On February 28, 2018 the transaction was completed - the entire consideration was paid to the seller and the full rights in the real estate were transferred to the Company. The real estate was classified and presented in the financial statements as non-current inventory of real estate. For additional details see immediate report dated March 1, 2018 in this regard (reference number 020404-01-2018) the information in which is brought in this report by way of reference.
- ❑ **Purchase of residential units in Dortmund** - On February 26, 2018, the Company (via a wholly-owned sub subsidiary) entered into a notarized sale agreement with a third party unrelated to the Company and/or its controlling shareholder for the purchase of 43 residential units in Dortmund for € 2.4 million. The transaction was completed at the end of May 2018 and was financed by a bank loan in the amount of about € 1.8 million, bearing fixed annual interest at the rate of 1.46%, and the balance by the Company own sources.
- ❑ **Successful tender offer giving Adler Control** - on April 2, 2018, ADLER Real Estate AG (ADLER) purchased from the former controlling shareholder in the Company, Redzone Holding LTD.<sup>14</sup>, 3,172,910 Company shares at a price per share of NIS 440 and in total consideration of NIS 1,396 million thereby becoming the controlling shareholder of the Company which as of such date ADLER held 5,167,188 Company shares, constituting 66.57% of the Company's share capital. Consequently, under the exercise of an option granted to Messers Gal Tenenbaum, Ofir Rahamim and Fred Ganea<sup>15</sup>(the management team), on April 12, 2018, ADLER purchased a total of 230,083 shares of the Company, at a price per share of NIS 440 and for a total consideration of NIS 101 million, so from that date and as of the report signing date, ADLER holds a total of 5,397,271 shares

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<sup>13</sup> Until the construction commencement of the project.

<sup>14</sup> a company which is fully owned by Mr. Teddy Sagi to the best knowledge of the company

<sup>15</sup> All of the three were a part of the Company's management until June 30, 2018.



of the Company, constituting approximately 69.8% of the Company's share capital. For further details on the control change as above, including the option exercise see immediate reports dated April 3, 2018 and April 12, 2018 (reference no.: 2018-01-034528 and 2018-01-037270, respectively), which are included by way of reference.

❑ **Motion for approval of a claim as a class action** - On April 8, 2018, a motion to approve a class action ("the motion") was filed against ADLER, Redzone Empire Holding (the former controlling shareholder in the Company) and the management team (as defined above) with the Tel Aviv District Court by a shareholder in the Company regarding the alleged violations of the provisions of the Companies Law-1999 (above and below – the companies' law) as well as Tender Offer Regulations with regard to the special tender offer submitted by ADLER to the shareholders of the Company on February 19, 2018 (which was amended on March 20, 2018) . For additional details regarding the motion, see the immediate report of the Company dated April 9, 2018 [Ref. 035494-01-2018], which is included by way of reference.

❑ **Changes in the composition of the Company's board of Directors –**

- On April 10, 2018, Noam Sharon and Ludmila Popova, directors of the Company, announced their immediate resignation from the Company's Board of Directors, following the change in the Company's control. For further details see the Company's immediate reports dated April 11, 2018 (ref number 036796-01-2018 and 036799-01-2018, respectively, which are included by way of reference).
- On May 7, 2018, Mr. Willem van Hassel's term as an external director of the Company has ended, without extending his term for an additional period. For further details, see the Company's immediate report dated May 7, 2018 [Ref. No.: 045022-01-2018], which is included by way of reference.
- On June 5, 2018, Mr. Van den Heuvel announced his immediate resignation from his position as an external director on the Company's Board of Directors. For additional details, see the Company's immediate report dated June 5, 2018 (Ref. No.: 047811-01-2018), which is included by way of reference).
- For further details regarding changes in the composition of the Company's Board of Directors subsequent to the report date, see section 6 of this report.

❑ **Senior officers –**

- On June 30, 2018, Gal Tenenbaum and Ofir Rahamim ceased to serve as joint CEOs of the Company. Subsequent to the date of the report, on July 8, 2018, Mr. Tomas A. de Vargas Machuca began serving as the new CEO of the company. For additional details, see the immediate reports of the Company dated June 30, 2018 and July 8, 2018 [Ref: 058020-01-2018, 090438-01-2017, 107445-01-2017, 117634-01-2017, 058023-01-2018, 090438-01-2017, 107445-01-2017, 117634-01-2017 and 06139-01-2018, respectively], which included by way of reference). It should be noted that the remuneration of the new CEO was not yet discussed or determined.
- On May 24, 2018, the Company entered into an agreement with its CFO, Mr. Guy Priel, to terminate the provision of services, effective from August 31, 2018, and in a consulting agreement on a wide range of issues related to his activities as CFO of the Company, effective from September 1, 2018. For further details, see the Company's Immediate Report of May 27, 2018 [Ref. No.: 042798-01-2018], which is included by way of reference.

❑ **Sale of hotel in Hamburg, Germany** - on February 23, 2018, a notarized sale agreement was signed ("the sale agreement") between a sub- subsidiary (100%) of the Company ("the Seller") on the one hand and a third party unrelated to the Company and/or its controlling shareholder ("the Purchaser") for the sale of all of its holdings in a hotel in Hamburg ("the Sold Property") to the Purchaser for a consideration of € 11.9 million. The Sold Property with a leasable area of 5,000



square meters is a 3-star hotel with 100 rooms in Hamburg, Germany, leased to a well-known German hotel chain under a lease agreement until 2027. The Sold Property was purchased by the Seller in 2007 for € 8.5 million. The fair value of the Sold Property in the Company's consolidated financial statements as of December 31, 2017 was € 11.6 million. The transaction, the subject of said sale agreement, was completed on April 25, 2018 upon the full payment to Seller, of which € 6.2 million was used to repay the loan that financed the Sold Property.

For additional details see immediate reports dated February 25, 2018 and April 26, 2016 (reference 018520-01-2018 and 041314-01-2018) the information contained therein is brought in this report by way of reference.

- ❑ **Ratification of credit rating by Maalot** – on March 26, 2018, the credit rating company, Maalot, ratified for the Company the rating of iIAA- (stable outlook) and for the Company's bonds Series A B and C ratified the rating of iIAA-<sup>16</sup>
- ❑ **Progress with the development of the residential project in Düsseldorf** - below are the major developments regarding the development of the residential project in Grafental in the reported period and until the date of signing the report:
  - a. **Performance and marketing of Stage C** – in April 2016, upon receiving the building permit, the Company commenced the construction of Stage C which includes 109 flats and 128 parking spaces at a total area of 16,000 m<sup>2</sup> gross. The Company commenced marketing of Stage C in May 2016 at selling prices higher by 7% compared to Stage B3. As of the report signing date, all of the apartments (signed agreements) (100% of this stage) were marketed at a total monetary consideration of EUR 56.15 million, which as of the report date was received in full.
  - b. **Delivery of apartments and recognition of profits of Stage C** - In the last quarter of 2017, the Company delivered 93 apartments, and as a result, the Company recognized a profit of EUR 10.7 million and in the first quarter of 2018, the Company delivered the remaining 16 apartments of the stage. The balance of the profit in respect of this stage in the amount of about EUR 2 million was recognized retroactively in the Company's equity as of January 1, 2018 following the initial adoption of IFRS 15. During the first quarter of 2018 the delivery of the apartments in this stage was concluded.
  - c. **Performance and marketing of Stage D** – in April 2017, upon receiving the building permit, the Company commenced the construction of Stage D which includes 109 flats and underground parking lot of 125 parking spaces with 10 townhouses (total 119 flats at a total area of 18,000 m<sup>2</sup> gross). In May 2017, the Company commenced marketing and sales of Stage D and as of the report signing date, all of the flats were marketed for a total monetary consideration of EUR 67.6 million.

As of the report date and the report signing date, advances of EUR 42.4 million and EUR 50.3 million, respectively, were received from apartment purchasers.
  - d. **Sale of apartments and recognition of profits of Stage D** – following the initial adoption of IFRS 15, the Company recognized the sale of 119 apartments of Stage D according to an average performance rate of 71.5% and comprehensive income of EUR 10.8 million. Profit of EUR 3.9 million from the sale of 90 apartments according to an average performance rate of 37.23% of this stage was recognized as part of amending the opening balance of the Company's equity as of January 1, 2018 and the retained earnings of EUR 6.9 million was recognized as part of the report of the reported quarter.

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<sup>16</sup> For additional information see Maalot rating activity report that was attached to the Company's immediate report of dated March 26, 2018 (reference number (029542-01-2018 which is brought by way of reference.

**The selling prices in Stage D gross up an increase of 8.7% compared to the selling prices of Stage C and an increase of approximately 2% between stage D and Stage E. As a result, the entrepreneurial profitability is expected to increase from 28% in Stage C to 32% in Stage D and E<sup>17</sup> (for additional information see the table in page 11-12 below).**

- e. **Performance and marketing of Stage E** – in April 2018, upon receipt of the building permit, the Company commenced the construction of Stage E that includes 84 flats in condominium complex construction and 5 townhouses with 86 underground parking spaces at a total area of 13,450 m<sup>2</sup>. In May 2018, the Company commenced the marketing and sale of Stage E and as of report signing date 75 flats (signed agreements and reservations) were marketed (85.1% of this stage) for a total monetary consideration of EUR 42.2 million. Advances from apartment purchasers are expected from the end of August 2018.
- f. **Performance of Stage F, the first stage to be built as part of the Grafental Mitte**<sup>18</sup>– in April 2018 upon receipt of the building permit, the construction of Stage F has commenced, which includes 112 residential units for rental (of which 70 apartments in subsidized rents and 42 apartments as affordable housing – in rent control<sup>19</sup> ) with 57 underground parking spaces with a gross area of approximately 12,000 square meters.
- g. **Planning and performance of Stage G, the second stage to be built as part of Grafental Mitte** - a building permit for additional 89 residential units designated for free sale in the market (condo apartments) along with 106 underground parking spaces with a gross area of 12,000 sq.m. was submitted in September 2017 and the Company expects that it will commence construction of said stage and its marketing in the second half of 2018, upon receiving the building permit for such Stage G.

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<sup>17</sup>The entrepreneurial profit rate in Stage E is expected to be identical to Stage D in view of different allocation of cost structure.

<sup>18</sup> The urban planning scheme applies to the complex, for addition details see section 1.8.1.5 in Chapter A "Description of the Company's Business" which is attached to this report.

<sup>19</sup> For additional information see section 1.8.1.5 in Chapter A "Description of the Company's business" which is attached to the periodic report for 2017.

For additional information on the performance and marketing status of the stages under construction of the project, see the tables below.

Project marketing						
Year	2018		2018			2017
Data according to 100% The effective corporation's share in the project – 83%)	As of the date of signing the report <sup>20</sup>	Q2	As of the date of signing the report	Q2	Q1	
	Stage E		Stage D			
Flats (#)	60	35	119	118	113	92
Flats – total monetary consideration (including for parking, EUR in thousands)	34,591	21,371	67,614	66,853	63,866	51,507
Flats (square meters)	6,109	4,359	14,080	13,931	13,344	10,829
Average price per sq.m (EUR) (including consideration for parking)	4,719	4,902	4,802	4,799	4,786	4,756
<b>Reservations as of the report signing date</b>						
Flats (#)	15		-			
Flats – total monetary consideration (including for parking, EUR in thousands)	7,628		-			
Flats (square meters)	1,534		-			
Average price per sq.m (EUR)	4,971		-			
<b>Signed agreements and cumulative reservations up to the report signing date:</b>						
Flats (#)	75		119			
Flats – total monetary consideration (including for parking, EUR in thousands)	42,220		67,614			
Flats (square meters)	8,664		14,080			
Average price per sq.m (EUR)	4,763		4,802			

<sup>20</sup> the project marketing commenced on May 1, 2018

Marketing rate of the project %						
	2018		2018		2017	
	Stage E		Stage D			
	As of the report signing date	Q2	As of the report signing date	Q2	Q1	
Marketing rate on the last date of the period - signed agreements	69.8%	43.1%	100%	99.5%	94.4%	76.2%
Marketing rate on the last date of the period - signed agreements	85.1%		100%			
Advances from tenants (EUR in thousands)	-	-	50,299	42,413	23,483	14,691
Rate of Advances from tenants (%)	-	-	74.4%	62.7%	34.7%	21.7%
Flats (#)	14		-			
Flats – total expected monetary consideration (including for parking, EUR in thousands)	7,367		-			
Flats (square meters)	1,462		-			
Average price per sqm (EUR)	5,039		-			
<b>Total cumulative cost attributed to spaces in respect of which binding agreements were not yet signed in the statement of financial position (consolidated) (EUR in thousands)</b>	10,834		-			

\* Reservation is a process where a potential purchaser signs a document that includes a description of the apartment and its registered number, number of purchased parking spaces and their registered numbers, amendments to specifications, if any, including the total price (apartment, parking spaces, amendments to specifications) and payment terms. The purchaser deposits EUR 2,000 for the reservation. The reservation is not legally binding and the purchaser may cancel such reservation without a penalty.

**Forecast of revenues, costs and entrepreneurial profits of the stages in progress and stages under the approved urban planning scheme the performance of which has not yet commenced in Grafental residential project (EUR in thousands)**

	Stage D <sup>21</sup>	Stage E <sup>22</sup>	Stage F <sup>23</sup>
Total expected revenues	67,614	49,654	28,925 <sup>24</sup>
Advances from apartment purchasers as of the report date	42,413	-	NA
Advances from apartment purchasers as of the date of signing the report	50,299		NA
Total cumulative costs invested	39,923	11,993	4,023
Total costs remaining for investment	11,294	25,476	21,408
Total expected cost (including land (EUR in thousands))	51,217	37,469	25,431
Completion rate (engineering/monetary) (excluding land) (%) <sup>25</sup>	71.5%	8.4%	10.2%
Total expected entrepreneurial profit	16,397	12,095	3,494
Total entrepreneurial profit recognized in the Company's financial statements (consolidated) cumulatively as of the report date	10,806	-	-
Rate of expected entrepreneurial profit (%)	32.0%	32.3%	13.7%
Expected completion date*	Q4 2018	Q1 2020	Q1 2020

\* In accordance with the provisions of IFRS 15, the Company recognizes revenues, costs and gross profit deriving from the stages in performance in each reported quarter according to the product of the project's performance rate of the specific stage by the rate of sales of the flats of that stage. It should be stressed that the expected entrepreneurial profitability in respect of Stage F is the expected profitability assuming that the asset (subsidized rental apartments and affordable housing under

<sup>21</sup> Performance and marketing of Stage D commenced in April and May 2017 (respectively) upon receiving the building permit

<sup>22</sup> Performance and marketing of Stage E commenced in April 2018 and May 2018 (respectively) upon receiving the building permit.

<sup>23</sup> Performance of Stage F commenced in April 2018 upon receiving the building permit.

<sup>24</sup> Represents the expected value of the stage, which is designated for rental, as an income producing asset after its completion.

<sup>25</sup> It should be emphasized that the engineering completion rate is not identical to the rate of delivery of the apartments and the rate of recognition of the profit from the delivery of the apartments on the date of delivery of the apartments to customers. See Note 2ff and Note 2 (C1) to the financial statements of the Company's consolidated financial statements.

controlled rental) will be sold as an income producing property upon the completion of its construction and therefore cannot be compared to entrepreneurial profitability in stages in which Condo apartments are being built for free sale in the market.

**The following is a tabular summary of expected revenue, cash flow and entrepreneurial profit, not yet recognized in the financial statements of the company, from stages in progress and from stages under the approved urban scheme, in Grafental project:**

From sold apartments (EUR in thousands)

<b>Data according to 100%. The corporation's effective portion in the project – 83%</b>	Revenue not yet recognized	Cash flow not yet recognized	Development profit not yet recognized
Stages in progress (stage D)	21,278	9,110	5,432

From apartments not yet sold (EUR in thousands)

<b>Data according to 100%. The corporation's effective portion in the project – 83%</b>	Revenue not yet recognized	Cash flow not yet recognized	Development profit not yet recognized
Stages in progress (stage D)	815	328	196
Stages in progress – Stage E	49,564	19,682	12,095
<b>Total</b>	<b>50,379</b>	<b>20,010</b>	<b>12,291</b>

**Additional information regarding the betterment of the land in Dusseldorf and rezoning to residence** – the following are the main developments regarding the betterment of lands in Dusseldorf in the reported period and until the date of signing the report:

- with respect to the remaining land that includes construction rights of 124.5 thousand m<sup>2</sup> for offices (the parcel of land): In the reported period, the Company with Dusseldorf municipality continued to advance a new urban scheme for changing the zoning of the parcel of land from offices to residence such that it will be feasible to build, with the formal approval of the new urban scheme an additional 850 flats to the 825 flats which are included in the valid urban scheme (a total of 1,675 flats). The urban scheme for 450 residential units (Grafental Mitte (out of 850 units under rezoning the plan was approved to be published to public by the City Council of Dusseldorf on September 29, 2017 (the final stage prior to its final and binding approval) such that the land will be available to commence construction of the first stage under Section 33 of the German Planning and Building Law in Grafental Mitte and was approved by the city council and come into force in July 2018.

The urban scheme for the remaining 400 residential units under rezoning (Grafental Ost) is in the process of planning and the Company estimates that the urban scheme will be approved and will be available for construction during 2019.<sup>26</sup>

- Purchase of several office and residential buildings in Grafenberg neighborhood for betterment - in August 2014, the Company consummated the purchase of land spanning over 20,000 m<sup>2</sup> erected thereon residential and office buildings (generating annual income

<sup>26</sup> For additional information see section 1.8.1.5 in Chapter A "Description of the Corporation's businesses" attached to the periodic report for 2017.

of EUR 220 thousand) in Grafenberg – one of the luxurious neighborhoods of Dusseldorf – and adjacent to the Grafental project which is constructed by the Company in Dusseldorf<sup>27</sup>

In the reported period, the Company continued to advance with the Dusseldorf municipality a new urban scheme for changing the zoning of such land to residence. Under the Company's plan, if rezoning is completed, it will be feasible to construct a residential project on the land that will include 84 flats (a constructed area of 20,000 m<sup>2</sup>, gross) (instead of the existing buildings). The Company estimates that the urban scheme will be published for comments by the public (the last stage prior to the final and binding approval) such that the urban scheme will be available to commence construction of the first stage under section 33 of the German and planning and construction law until the end of 2018 and the land will be available for construction (with the necessary approvals) at the beginning of 2019.

- Purchase of parcel of land in Gerresheim neighborhood – on February 28, 2018, the Company completed the purchase of parcel of land with an area of 193 thousand square meters (in the Gerresheim neighborhood in Dusseldorf, Germany, for a total consideration of € 141.9 million (including related transaction costs) <sup>28</sup>. The land is located in the Gerresheim neighborhood (with a population of 30,000 people) east of the city center of Dusseldorf adjacent and south of the luxurious neighborhood Granfenberg and close to Granfenberg forest. On the vacant land of 193 thousand square meters, 1,300 residential units and 30,000 square meters of commercial spaces, offices and kindergartens and school are planned to be constructed.

The parcel land is the last large vacant plot of land in the city of Düsseldorf for the construction of a residential neighborhood (over 200 residential units). The urban scheme (for rezoning the real estate from its current zoning to residence) and the infrastructure agreement are in advanced stages of approval in Düsseldorf municipality. The Company anticipates that the urban scheme will be published to the public by the end of 2018, thereby allowing the Company to receive building permits and commence development of the project during 2019.

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<sup>27</sup> For additional information regarding the above transaction see immediate report dated August 31, 2014 (reference number 146337-01-2014) the information contained therein is brought in this report by way of reference.

<sup>28</sup> For additional information regarding such transaction see immediate reports dated December 10, 2017 (reference 110137-01-2017), December 19, 2017 (reference (113707-01-2017) and from March 1, 2018 (reference 020404-01-2018) the information contained therein is brought in this report by way of reference.



**The following is a tabular summary of expected revenue, cash flow and entrepreneurial profit expected from the betterment of the land in Dusseldorf <sup>29</sup>real estate inventory in Dusseldorf and inventory of buildings under construction that is not under an approved urban scheme <sup>30</sup>without the parcel of land in Gerresheim neighbourhood and without the project in Aachen:**

<b>Data according to 100% (EUR in thousands)</b>	<b>Revenue not yet recognized</b>	<b>Cash flow not yet recognized</b>	<b>Entrepreneurial profit not yet recognized</b>
Apartments for rental under rent control in performance (Stage F) and in planning under urban schemes of Grafental Mitte / Ost	124,913	35,890	15,425
Condo apartments for free sale in planning stages under the urban schemes Grafental Mitte/Ost and Grafenberg	374,682	161,579	82,804
Total	499,595	197,469	98,228

The information described above in connection with (1) stages D, E and F in progress; (2) in connection with the betterment of the lands in Dusseldorf, inventory of buildings under construction under the urban schemes Grafental Mitte/Grafental Ost Grafenberg and the change of their zoning (including the expected dates of completion) regarding the total expected sales, the expected entrepreneurial profit and expected cash flows before taxes, is a forward looking information which is not under the full control of the Company and the actual materialization of such change of zoning, in whole or in part, is uncertain. The information is based on information possessed by the Company as of the report date, regarding: 1) demand for residential spaces in Dusseldorf; 2) market prices of residential spaces in Dusseldorf generally and in the area of the projects (including competing projects comparable with the Company's projects); 3) accumulated know how and experience of the Company's management and project managers in the segment; 4) the Company's forecasts and estimates regarding the costs of construction, development, marketing of projects based on the costs of the stages that as of the report date are in progress; and other estimates of the Company. It is uncertain whether the change of zoning will take place and/or consummated, if any, since its consummation is subject to the planning and construction procedures required under German law, the consummation of which is not controlled by the Company.

In addition, even if the approvals are received and the Company will resolve to establish the projects independently and the performance of the projects will be executed, change in circumstances (including without derogating from the generality of the foregoing – decrease in demand for flats in Dusseldorf and/or decrease in market prices of flats in Dusseldorf) or increase in construction costs (and other costs) and/or the formation of special conditions that may

<sup>29</sup> It should be noted that the Company has not yet decided how to use the land under the change of zoning from offices to residence in Grafenberg, including the development of the land complex. The decision to develop the above land complex is subject to consummating the relevant approval procedures of urban scheme, the market conditions that shall prevail upon completing the urban scheme, the ability to obtain financing for developing the project, the availability of equity resources required to realize said development plans, meeting financial ratios and more. The data shown in the table below were calculated under the assumption that the Company shall elect to develop the parcel of land and the land complex in Grafenberg and the rates of entrepreneurial profit and cash flow in future stages shall be similar to the rates of the Grafental project that are in progress as of the report date (entrepreneurial profit of 32% - 34% and cash flows of 35% - 40% of the scope of sales).

<sup>30</sup> Stage F

significantly change the Company's estimates detailed above and have a material impact on the expected revenues from the projects, including their overall profitability.

It should be stressed that the expected entrepreneurial profitability in respect of rent control apartments is the expected profitability assuming that the asset (subsidized rental apartments and affordable housing under rent control) will be sold as an income producing property upon completion of construction, ranging between 14% - 16% and is not comparable to entrepreneurial profitability in stages in which the Condo apartments are being built for free sale in the market.

**Part A – Board of Directors Explanations in regard to the State of the Corporations' Businesses, the Results of its Activities, its Equity and Cash Flow;**

**(1) Financial Position**

Assets	June 30, 2018	June 30, 2017	December 31, 2017	Explanation for the change
<b>EUR in thousands</b>				
<b>Current assets</b>				
Cash and cash equivalents	88,815	109,275	113,129	See details in the statement of cash flows
Balances receivable from banks	407	1,653	932	
Restricted deposits, financial assets and other receivables	15,151	12,443	10,727	
Income receivable from the sale of apartments	5,689	-	-	The increase in the report period derives from initial adoption of IFRS 15.
Tenants and trade receivables, net	3,183	7,008	3,735	
Inventory of buildings under constructions	24,531	53,411	48,756	Continued development on one hand and recognition of inventory cost of sale on the other hand
<b>Total current assets</b>	<b>137,776</b>	<b>183,790</b>	<b>177,279</b>	
<b>Assets held for sale</b>	-	-	11,622	
<b>Non-current assets:</b>				
Investments measured at equity	6,313	8,318	8,318	
Inventory of real estate	215,536	14,110	72,659	The increase in the reported period mainly derives from the completion of the transaction for purchasing the land in Gerresheim
Investment property – real estate rights	65,336	127,694	67,094	
Investment property – income producing assets	1,333,267	1,202,697	1,283,549	The increase in the reported period derived from capex investments in existing assets and revaluation profits
Restricted deposits for investments in assets	6,773	2,635	7,297	
Other accounts receivable, fixed assets and other financial assets	361	394	18,023	The decrease in the reported period derives from the realization of advances for the purchase of assets.
Deferred taxes	1,246	724	1,438	
<b>Total non-current assets</b>	<b>1,628,832</b>	<b>1,356,572</b>	<b>1,458,378</b>	
<b>Total assets</b>	<b>1,766,608</b>	<b>1,540,362</b>	<b>1,647,279</b>	

Liabilities	June 30, 2018	June 30, 2017	December 31, 2017	Explanation for the change
	EUR in thousands			
<b>Current liabilities:</b>				
Current maturities of loans from banks	89,943	68,372	161,731	Mainly classification of loans according to their original maturity date
Current maturities of debentures	17,159	18,199	17,399	
Loans for financing inventory of buildings under construction	-	4,500	4,000	As of the reporting date, the balance of the loan is zero.
Current maturities of other financial liabilities	1,530	446	941	
Accounts payable	24,648	24,359	25,424	
Advances from apartment purchasers	1,858	34,024	23,119	The decrease in the reporting period derives from the adoption of IFRS 15.
<b>Total current liabilities</b>	<b>135,138</b>	<b>149,900</b>	<b>232,614</b>	
<b>Liabilities held for sale</b>	-	-	6,710	
<b>Non-current liabilities:</b>				
Loans from banks and others	687,381	523,299	495,006	
Debentures	108,021	133,284	110,072	The increase in the reported period mainly derives from a loan taken to finance the purchase of the land in Gerresheim.
Other liabilities	3,095	3,133	3,095	The decrease in the reported period mainly derives from exchange rate differences.
Other financial liabilities	1,058	1,393	3,779	
Deferred taxes	104,544	84,814	97,373	
	<b>904,099</b>	<b>745,923</b>	<b>709,385</b>	
<b>Total liabilities</b>	<b>1,039,237</b>	<b>895,823</b>	<b>948,709</b>	
<b>Equity</b>				
Equity attributable to equity holders of the company	628,070	535,595	591,168	The increase in the reported period is mainly due to profit in the period and initial adoption of IFRS 15.
Non-controlling interests	99,301	108,944	107,402	The decrease in the reported period mainly derives from payments to non-controlling interests
<b>Total equity</b>	<b>727,371</b>	<b>644,539</b>	<b>698,570</b>	
<b>Total liabilities and equity</b>	<b>1,766,608</b>	<b>1,540,362</b>	<b>1,647,279</b>	

## (2) Activity Results

	Six months ended June 30		Three months ended June 30		Year ended December 31,	Explanation for the change
	2018	2017	2018	2017	2017	
<b>EUR in thousands</b>						
Revenues from rental of properties	39,430	36,362	19,668	18,233	74,124	Purchase of new assets and increase in rental fees in identical assets
Revenues from property management and others	13,443	14,166	6,869	7,013	27,022	
Property management expenses	(13,361)	(13,633)	(6,803)	(6,883)	(26,513)	
Cost of maintenance of rental properties	(5,676)	(4,799)	(2,797)	(2,510)	(9,689)	
<b>Rental and management revenues, net</b>	<b>33,836</b>	<b>32,096</b>	<b>16,937</b>	<b>15,853</b>	<b>64,944</b>	
Revenues from sale of apartments	29,413	9,228	10,838	857	58,958	Sale of apartments in Stage D of the residential project
Cost of sale of apartments	(22,491)	(9,306)	(8,316)	(2,679)	(47,203)	
<b>Income (loss) from the sale of apartments</b>	<b>6,922</b>	<b>(78)</b>	<b>2,522</b>	<b>(1,822)</b>	<b>11,755</b>	
Other income	-	2,008	-	2,008	2,008	
General and administrative expenses	(6,841)	(5,248)	(2,759)	(2,893)	(11,499)	
General and administrative expenses attributed to inventory of apartments under construction and inventory of real estate	(1,247)	(1,184)	(440)	(460)	(2,141)	
selling and marketing expenses	(226)	(297)	(132)	(125)	(389)	
Cost of share-based payment	-	(871)	-	(653)	(871)	
Increase (decrease) in the value of investment property, net	33,300	92,997	27,775	71,790	108,736	
<b>Operating profit</b>	<b>65,744</b>	<b>119,423</b>	<b>43,903</b>	<b>83,698</b>	<b>172,543</b>	
Financing income	-	39	-	13	39	
Financing expenses excluding the effect of exchange rate differences, CPI and hedging transactions, net	(9,828)	(9,900)	(5,213)	(4,976)	(19,529)	Mainly due to taking new loans to finance new acquisitions
Effect of exchange rate differences, CPI and currency hedging transactions, net	4,187	(5,520)	1,367	(771)	(3,005)	
Change in the value of loans and interest rate swap transactions, net	(494)	146	(244)	(142)	(685)	Changes in interest curve in Europe and hedging transactions
Equity in earnings (losses) of companies accounted at equity method of accounting	(2,205)	-	(2,205)	-	-	
<b>Income before taxes on income</b>	<b>57,404</b>	<b>104,188</b>	<b>37,608</b>	<b>77,822</b>	<b>150,733</b>	
Taxes on income	(13,265)	(20,369)	(6,391)	(18,165)	(31,689)	
<b>Reported net income</b>	<b>44,139</b>	<b>83,819</b>	<b>31,217</b>	<b>59,657</b>	<b>119,044</b>	
<b>Net income attributed to:</b>						
Company shareholders	34,345	67,421	22,646	44,839	101,124	
Non-controlling interests	9,794	16,398	8,571	14,818	17,920	

### 3) Cash flows and financing sources

	Six months ended June 30		Three months ended June 30		Year ended December 31	Explanation for the change
	2018	2017	2018	2017	2017	
<b>EUR in thousands</b>						
Cash flows provided by operating activities (Cash flows used in operating activities)	(100,381)	29,226	18,417	12,865	74,076	Onetime adjustment of EUR 128,560 for the completion of the purchase of the land in Dusseldorf, see in material events in the reported period, that was classified as a long term inventory in the Company's financial statements and on the other hand, expansion of the Company's activity and the timing of receipts from the residential development project
Cash flows provided by investing activities (Cash flows used in investing activities)	(5,453)	(47,032)	(1,287)	(39,025)	(114,264)	capex investments in existing assets
Cash flows provided by financing activities (Cash flows used in financing activities)	81,520	37,803	(10,825)	11,889	64,039	

- Access to financing sources – the Company evaluates its accessibility to financing sources as very high in light of its financial strength, the stability of core activity, and the good relationships it has created with the banks financing real-estate projects in Germany as well as high accessibility to the capital market in Israel and the Company's high debt rating.
- Examining the existence of warning signs -

In view of the financial structure of the Group and the financial data specified in the Company's consolidated financial statements as reviewed by the Company's management, while taking into account the fact that if the Company needed cash flows, the Company could have withdrawn management fees or dividends from its subsidiaries, the Company's Board of Directors determined that there is nothing in the fact that the Company's solo reports indicate a continuing negative cash flow from current operations so as to indicate a liquidity problem, and therefore, as of the report date, there are no warning signs in the corporation in this regard<sup>31</sup>.

The main considerations underlying the decision of the Board of Directors were, among other things: cash, cash equivalents and liquid balances in the Company, together with unlimited unrestricted liquidity balances that can be distributed immediately from subsidiaries and unutilized credit lines. the Company's Board of Directors estimates, to the extent required that the Company has high access to additional sources of financing, including the ability to expand credit lines, raise capital as well as refinancing options on favorable terms, sale of assets and more.

<sup>31</sup> It should be noted that in the reported period in the consolidated financial statements, a negative cash flow from operating activities due to a one-time classification of acquisition payments of € 128.6 million of the land in Dusseldorf, which was classified as long-term inventory of land that does not represent the Company's cash flows (consolidated) which are consistently positive.

In this regard, the Company's Board of Directors believes that the current cash flow deficiency only in the solo reports does not indicate a liquidity problem in the Company, both in light of the reasons detailed above and because it derives from the fact that in view of the high liquid balances held by the Company ("Solo"), the Company elected not to receive management fees or withdraw dividends and therefore no current revenues were recorded from the wholly-owned subsidiary (Brack German Properties BV) at the separate level of activity of the Company ("solo"), in a manner that will result in negative cash flows from the Company's activity ("solo") in 2017 and in the reported period.

### **FFO (Funds from Operations)**

**Calculating FFO** – the FFO index is calculated as the net profit (loss) attributed to Company's shareholders **from the income generating activity only excluding the income from sale apartments in Grafental project** with certain adjustments for non-operating items, which are affected from the revaluation of the fair value of assets and liabilities. It deals mainly with adjustments of the fair value of investment property, miscellaneous capital profits and losses, miscellaneous amortizations, adjustment of expenses for management and marketing of the residential project in Düsseldorf (since the revenues in respect of this project are not taken into account in the FFO), changes in fair value recognized for financial instruments, deferred taxes and non-controlling interests for the above items.

The Company believes that this index reflects more correctly the Company's operating results, without the entrepreneurial project and its publication will provide a more correct basis for comparing the Company's operating results in a certain period with prior periods and will enable the comparison of the operating results with other real-estate companies in Israel and in Europe.

The Company clarifies that the FFO index does not represent cash flows from operating activity according to generally accepted accounting principles, nor does it reflect cash held by the Company and its ability to distribute it and does not replace the reported net profit (loss). In addition, it is clarified that these indices do not constitute data audited by the Company's auditors. Below is the calculation of the Company's FFO for the said periods:

	Three months ended June 30, 2018	Three months ended June 30, 2017	Year ended December 31, 2017
<b>Net profit attributed to the Company's shareholders</b>	22,646	44,839	101,124
<b>Adjustments for net profit:</b>			
<b>A. Adjustments for revaluations</b>			
Increase in the value of investment property and adjustments of liability value relating to investment property	(19,637)	(56,854)	(101,649)
Equity in earnings (losses) of companies accounted at equity method of accounting	2,205	-	-
Transaction costs as part of purchasing new assets that were recognized in profit or loss	-	-	5,423
Revaluation of loans and interest swap transactions at fair value	260	(119)	(313)
<b>B. Adjustments for non-cash items</b>			
Cost of share-based payment and changes in capital reserves	-	815	1,303
Amortization of financing costs, indexing and non-cash exchange rate differences and hedging transactions	(831)	1,351	5,699
Interest component in hedging transactions	294	274	1,091
Deferred tax expenses and taxes for prior years	4,497	14,873	27,133
<b>B. Unique items / new activities / ceased activities / other</b>			
Depreciation and contributions, professional services and onetime expenses	395	491	534
Adjustments related to associates and non-controlling interests	310	-	-
Expenses relating to project management and marketing in connection with the establishment of residential project in Düsseldorf and adjustments in respect of current leasing activity in the project	1,242	1,100	3,908
Income from the sale of apartments	(2,144)	(1,511)	(9,756)
Total of adjustments to net profit	(13,409)	(36,558)	(66,627)
<b>F.F.O.</b>	<b>9,237</b>	<b>8,281</b>	<b>34,497</b>

As aforesaid, the FFO in the three months ended June 30, 2018 amounted to approximately EUR 9.2 million, grossing up an annual FFO rate of EUR 36.8 million.



### EPRA NAV Index – Net Asset Value (EUR in millions)

The EPRA NAV is an index purported to show the net asset value of the real estate company according to the status paper of EPRA - European Public Real Estate Association. The EPRA NAV reflects the net asset value of the Company assuming that assets are held for a long term and therefore certain adjustments are required such as neutralizing deferred taxes deriving from revaluation of investment property and neutralizing the fair value of derivative financial instruments. Furthermore, the adjustments made by the Company under this index include the addition of profits that were not yet recognized in the statements in respect of apartments under construction that were sold in the Grafental project (stages B and C).

The Company believes that this index reflects more correctly the net asset value of the Company and its publication will enable the comparison to other real estate companies in Israel and Europe.

The Company clarifies that the EPRA NAV index data do not represent a valuation nor they represent a substitute to the data contained in the financial statements. It is further clarified that these data are not audited by the Company's auditors.

The following is the calculation of the EPRA NAV index and the adjusted EPRA NAV index of the Company:

	As of June 30, 2018 EUR in millions	As of December 31, 2017 EUR in millions <sup>32</sup>
Equity attributed to the Company's shareholders	628.1	591.2
Plus, deferred taxes for EPRA adjustments (net of non-controlling interest)	94	89.7
Net of fair value of derivative financial instruments, net (net of non-controlling interest)	0.2	0.2
Plus, profits that were not yet recognized in respect of apartments that were sold and are under construction in stage D of the residential project	6.2	8.2
<b>EPRA NAV –Net Asset Value</b>	<b>728.5</b>	<b>689.3</b>

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<sup>32</sup>Before initial adoption of IFRS 15.

## Material events after the report date

- ❑ On July 2, 2018, the general meeting approved the appointment of Van Ommen Nicolaas, Dorenbos Jeron, Burke Patrick and Moser Daniel to the Company's Board of Directors. For further details, see the immediate reports of the Company dated May 24, 2018 and July 2, 2018 (Reference no.: 042231-01-2018 and 063220-01-2018, respectively), which are included by way of reference.
- ❑ On July 23, 2018, the Company acquired shares in a public company incorporated in Germany, whose shares are traded on the unofficial supervised Frankfurt Stock Exchange and which is one of the leaders in the German residential real estate development market, which is unrelated to the Company or its controlling shareholder, representing 4.1% of the issued and outstanding share capital of the target company, for a total consideration of € 35 million.
- ❑ On August 16, 2018, the general meeting approved the appointment of Mr. Friedrich Munsberg as an external director of the Company, the reappointment of Ms. Noa Shaham as an independent director of the Company and the appointment of Mr. Claus Jorgensen as a director of the Company. In addition, the general meeting approved the amendment of the Company's articles of association and classification of the Company's directors as Executive Director and Non-Executive Director. For additional details, see the Company's immediate reports dated July 12, 2018 and August 16, 2018 (Ref. No.: 06690-01-2018, 2018-01-066904, 2018-01-076639 and 2018-01-076645), which are included by way of reference.

The Company is a Dutch company and the provisions of the Companies Law do not apply thereto, with the exception of such sections of the Companies Law which apply to a foreign company offering shares to the public in Israel, by virtue of Section 39A of the Securities Law, 5728-1968 (below and respectively: "**the Securities Law**" and Section 39A).

(2) Directors with accounting and financial expertise and independent directors

The Company considers the following directors, Meir Jacobson (external director), Friedrich Munsberg (external director), Burke Patrick, Dorenbos Jeroen, Van Ommen Nicolaas, and Noah Shaham as directors possessing accounting and financial expertise in the Company due to their skills, education and experience. For further details, see regulation 26 in chapter D to the periodic report for 2017 and the Company's immediate reports dated May 24, 2018, and July 12, 2018 (Ref. 025570-01-2018 and 042231-01-2018, respectively) which are included by way of reference.

The independent directors of the Company as of the report publication date are Moser Daniel, Dorenbos Jeroen, and Noah Shaham according to their classification as such by the Company's Board of Directors on July 10, 2018. I believe that in the process of preparing the minutes the part in which the Board of Directors determines their eligibility to serve as independent directors was omitted. For details regarding their skills, education and experience of the independent directors, see the Company's immediate reports dated July 12 and 29, 2018 and August 16, 2018 (reference no.: 071248-01-2018, 071245-01-2018 and 2018-01-076639 respectively), which are included by way of reference.

□ Critical Accounting Estimates

Regarding critical accounting estimates see note 2 to the annual audited consolidated financial statements for 2017 which are attached in Chapter C to the periodic report for 2017.

PART C Disclosure on material and very material valuations - Valuation of a very material investment property (a residential portfolio in Leipzig) is attached to this periodic report as a very material valuation. Valuations of a "material" real estate asset<sup>33</sup> (commercial property in Rostock and land I in Düsseldorf) for material investment<sup>34</sup> are not included in the quarterly report since they are "material" valuations but not "very material".<sup>35</sup> The summary of the data regarding this valuation is attached below.

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<sup>33</sup> As defined in the Reports Regulations.

<sup>34</sup> As defined in the Securities Regulations (Periodic and Immediate Reports), -1970 (: the "Reports Regulations").

<sup>35</sup> As defined in the Reports Regulations.

Identification of the valuation subject	Valuation timing (validation date)	The value of the valuation subject before the valuation date (assuming the accepted accounting principles, including depreciation and amortizations would not have required the change of its value according to the valuation) (EUR in thousands)	Value of the valuation subject as determined according to its value (Euro in thousands)	Identification of the appraiser and its characteristics including education, experience in performing valuations for accounting purposes in reporting corporations in scopes similar to the reported valuation or exceeding these scopes and the dependency upon the party who ordered the valuation including reference to indemnification agreements with the appraiser	The valuation model used by the appraiser	The assumptions under which the appraiser performed the valuation according to the valuation model				
						Capitalization rate	Growth rate	Terminal rate	Prices used as a basis for comparison	Number of comparison bases.
Residential portfolio in Leipzig <sup>36</sup>	Signing date – August 16, 2018  Validation date – June 30, 2018	170,900	205,557	Mr. Roman Heidrich (MRICS)  Mr. Stephan Weiser (IREBS)  Independent appraisers with experience in appraising assets with a similar scope. No indemnification agreement.	DCF	5.40%	2.5%	257,328	Rental fees in assets with similar characteristics  Comparable transactions to assets with similar characteristics	Various databases mainly:  Immodaten.net  Immobilienscout24
Commercial asset	Signing date – August 16, 2018  Validation date – June 30, 2018	109,539	110,580	DIWG -Mr. Andreas Borota (MRICS, MA in real estate).  Mr. Oliver Krizer (BA in real estate studies).  Independent appraisers with experience in appraising assets with a similar scope. No indemnification agreement.	DCF	5.10%	NA	120,984	Rental fees (price range per square meter per month: € 7.00- € 11.50) and purchase prices (price range per square meter: € €1,459 – € 1,856) in assets with similar characteristics	6 similar transactions in the market

<sup>36</sup> It should be noted that the Company's share in the property is 68%, prior to Promote mechanism adjustment

**Part E – Specific Disclosure for Bond Holders**

- 1) Following are details regarding the liability certifications issued by the Company which are at the possession of the public as at the date of the report according to the eighth addendum of the securities regulations (periodic and immediate reports) – 1970 (the reports' regulations):

	<b>Bonds (Series A)</b>	<b>Bonds (Series B)</b>	<b>Bonds (Series C)</b>
Is the series material (as this term is defined in Regulation 10(B)(13)(a) of the Reports' Regulations?	Yes	Yes	Yes
Date of issue	March 1, 2011	May 21, 2013	July 22, 2014
Date of expanding series	June 19, 2012, November 6, 2012	February 4, 2014	April 4, 2016
Par value on the date of issue (thousands NIS)	200,000	175,000	102,165
Par value on the date of expanding series (thousands NIS)	240,000; 400,000	240,000	160,180
Par value as at 30.6.2018 (thousands NIS)	171,520	200,000	153,642
Linked par value as at 30.6.2018 (thousands NIS)	180,595	202,394	153,642
Sum of cumulative interest plus linkage differentials (thousands NIS) as at 30.6.2018	3,999	-	2,255
Value in financial statements as at 30.6.2018 including interest payable (thousands NIS)	183,370	200,701	154,833

Value at the stock exchange as at 30.6.2018 (thousands NIS)	193,560	222,860	172,555
Type and rate of interest	4.8% (annual, linked, fixed rate), subject to adjustments in cases of changes in the rating of the bonds (Series A) and/or non-compliance with the financial covenants specified in Sections 2.7.12.8 and 2.7.12.9 of the shelf prospectus dated May 24, 2012 as amended on May 9, 2013 and as amended on July 14, 2014 (the shelf prospectus)	3.29% (annual, linked, fixed rate), subject to adjustments in cases of changes in the rating of the bonds (Series B) and/or non-compliance with the financial covenants specified in Sections 2.8.4.12 and 2.8.4.13 of the shelf prospectus	3.30% (annual, linked, fixed rate), subject to adjustments in cases of changes in the rating of the bonds (Series C) and/or non-compliance with the financial covenants specified in Sections 2.8.4.12 and 2.8.4.13 of the shelf prospectus
Dates of paying principal	Payable in 7 annual instalments on July 14 of each of the years 2014 to 2020 (inclusive) such that each of the first six instalments will constitute 14.28% of the principal of the total par value of the bonds (Series A), and the last instalment will constitute 14.32% of the total par value of bonds (Series A).	Payable in 12 unequal annual instalments on December 31 of each of the years 2013 to 2024 (inclusive) such that each of the first seven instalments will constitute 4% of the principal of the total par value of the bonds (Series B), and each of the last five instalments will constitute 14.4% of the principal of the total par value of bonds (Series B); the first principal payment will be on December 31, 2013.	Payable in 12 unequal annual instalments on July 20 of each of the years 2015 to 2026 (inclusive) such that each of the first nine instalments will constitute 2% of the principal of the total par value of the bonds (Series C), the tenth payment will constitute 17% of the principal of the total par value of bonds (Series C); and each of the last two instalments will constitute 32.5% of the principal of the total par value of bonds (Series C); the first principal payment will be on July 20, 2015.
Dates of paying interest	Payable on July 14 and January 14 of each of the years 2011 to 2020 (inclusive).	Payable on December 31 and June 30 of each of the years 2013 to 2024 (inclusive) effective December 31, 2013. The last interest instalment will be paid on December 31, 2024.	Payable on January 20 and July 20 of each of the years 2015 to 2026 (inclusive) effective January 20, 2015. The last interest instalment will be paid on July 20, 2026.



Linkage base (principal and interest)	Linked (principal and interest) to the consumers' price index published on February 15, 2011 in respect of January 2011.	Linked (principal and interest) to the consumers' price index published on May 15, 2013 in respect of April 2013.	Linked (principal and interest) to the consumers' price index published on July 15, 2014 in respect of June 2014.
Are they convertible?	No	No	No
Company's right to perform early redemption or forced conversion	The Company may (but is not obligated to), at any time and at its sole discretion, make an early redemption of some or all of the bonds (Series A), as it chooses, until the date of the final repayment of the bonds (Series A), everything according to the decisions of the Company's Board of Directors. For further details, please see Section 2.7.3 of the shelf prospectus.	The Company may (but is not obligated to), at any time and at its sole discretion, make an early redemption of some or all of the bonds (Series B), as it chooses, until the date of the final repayment of the bonds (Series B), everything according to the decisions of the Company's Board of Directors. For further details, please see Section 2.8.15 of the shelf prospectus.	The Company may (but is not obligated to), at any time and at its sole discretion, make an early redemption of some or all of the bonds (Series C), as it chooses, until the date of the final repayment of the bonds (Series C), everything according to the decisions of the Company's Board of Directors. For further details, please see Section 2.8.15 of the shelf prospectus.
Was a guarantee provided for the payment of the Company's liabilities under the deed of trust?	No	No	No

## 2) Details on the trustee

### **Bonds (Series A)**

- (A) Name of trust company: Reznik Paz Nevo Trust Ltd.  
(B) Name of person responsible for the series of bond certificates in the trust company: Yosi Reznik, CPA

Tel: 03-6399200  
Fax: 03-6389222  
Email: [trust@rpn.co.il](mailto:trust@rpn.co.il)

- (C) Contact details:  
Mailing address for documents: 14 Yad Harutzim Street, Tel-Aviv

### **Bonds (Series B)**

- (A) Name of trust company: Reznik Paz Nevo Trust Ltd.  
(B) Name of person responsible for the series of bond certificates in the trust company: Yosi Reznik, CPA

Tel: 03-6399200  
Fax: 03-6389222  
Email: [trust@rpn.co.il](mailto:trust@rpn.co.il)

- (C) Contact details:  
Mailing address for documents: 14 Yad Harutzim Street, Tel-Aviv

### **Bonds (Series C)**

- (A) Name of trust company: Reznik Paz Nevo Trust Ltd.  
(B) Name of person responsible for the series of bond certificates in the trust company: Yosi Reznik, CPA

Tel: 03-6399200  
Fax: 03-6389222  
Email: [trust@rpn.co.il](mailto:trust@rpn.co.il)

- (C) Contact details:  
Mailing address for documents: 14 Yad Harutzim Street, Tel-Aviv

### 3) Rating

<b>Bond series</b>	<b>A</b>	
Name of rating company	Maalot	
	<b>Bonds' rating</b>	<b>Issuer's rating</b>
Rating of the issuer and bonds on the date of initial issue (March 2011)	A3 (Midroog) <sup>38</sup>	
Rating of the issuer and bonds – April 2012	ilA	ilA, stable
Rating of the issuer and bonds on the date of expanding the series – June 2012	ilA	ilA, stable
Rating of the issuer and bonds on the date of expanding the series – November 2012	ilA	ilA, stable
Rating of the issuer and bonds – April 2013	ilA+	ilA+, stable
Rating of the issuer and bonds – June 2014	ilA+	ilA+, stable
July 2015	ilA+	ilA+, stable
March 2016	ilAA-	ilAA-, stable
March 2017	ilAA-	ilAA-, stable
Rating of the issuer and bonds as of the date of the report	ilAA-	ilAA-, stable

<sup>38</sup> On May 7, 2012, the Company notified Midroog on the discontinuance of the agreement between the Company and Midroog for rating the bonds (series A) of the Company and on May 13, 2012, Midroog announced the discontinuance of the rating activity of the Company's bond (series A).

<b>Bond series</b>	<b>B</b>	
Name of rating company	<b>Maalot</b>	
	<b>Bonds' rating</b>	<b>Issuer's rating</b>
Rating of the issuer and bonds on the date of initial issue (May 2013)	ilA+	ilA+, stable
Rating of the issuer and bonds on the date of expanding the series – February 2014	ilA+	ilA+, stable
Rating of the issuer and bonds – June 2014	ilA+	ilA+, stable
July 2015	ilA+	ilA+, stable
March 2016	ilAA-	ilAA-, stable
March 2017	ilAA-	ilAA-, stable
Rating of the issuer and bonds as of the date of the report	ilAA-	ilAA-, stable

<b>Bond series</b>	<b>C</b>	
Name of rating company	<b>Maalot</b>	
	<b>Bonds' rating</b>	<b>Issuer's rating</b>
Rating of the issuer and bonds on the date of initial issue (July 2014)	ilA+	ilA+, stable
July 2015	ilA+	ilA+, stable
March 2016	ilAA-	ilAA-, stable
March 2017	ilAA-	ilAA-, stable
Rating of the issuer and bonds as of the date of the report	ilAA-	ilAA-, stable

#### 4) Compliance with terms and liabilities according to the deed of trust

To the Company's best knowledge, as of the report date and over the reported year, the Company has complied with all the terms and liabilities according to the deeds of trust, including as at the end of the Report Period the Company complied with all the financial covenants prescribed in the deed of trust of February 24, 2011 (as amended on October 30, 2012 and January 29, 2017) between the Company and Reznik Paz Nevo Trust Ltd, the trustee for the bond holders (series A) and in the deed of trust dated May 9, 2013 (as amended on January 29, 2017 and July 3, 2017) between the Company and Reznik Paz Nevo Trust Ltd, the trustee for the bond holders (series B) and in the deed of trust for bond holders dated July 14, 2014 (as amended on January 29, 2017 and July 3, 2017) between the Company and Reznik Paz Nevo Trust Ltd, the trustee for the bond holders (Series C) (the trustee and the deeds of trust, respectively) including the following financial covenants:

**A. The ratio of the Company's equity at the end of each quarter to its financial debt, net, according to solo reports for that date, will not be under 187.5%<sup>39</sup>:**

The Company's equity, which is attributed to the majority shareholders as at the Report Period, namely, as of June 30, 2018, is EUR 628.1 million.

The financial debt, net, according to solo reports of the Company as of the same date is EUR 68.7million.

Therefore, the ratio of the Company's equity to the financial debt, net, according to solo reports as of the end of the Report Period, namely, as of June 30, 2018, is approximately 914%.

**B. The ratio of the charged share value to net debt will not be less than the basic ratio (as defined hereunder).**

**With respect to the bond holders (Series A):**

"**The Basic Ratio**": the ratio of the charged share value to a net debt of 175%.

"**Net debt**": the balance of the bonds' principal (series A) (plus accumulated linkage differentials and interest that were not yet paid).

The number of charged shares of Brack Capital German Properties B.V., a subsidiary (100%) of the Company (hereinafter: "**BGP**") as of June 30, 2018– 943,804.

The total issued share capital of BGP as of June 30, 2018 and as of the signing date of the report – 1,978,261.

The rate of charged shares out of the issued capital share of BGP as of June 30, 2018– 47.7%.

BGP's equity which is attributed to its shareholders, as appears in the Company's financial statements as of June 30, 2018– EUR 689.9 million.

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<sup>39</sup> The requirement to meet this ratio is relevant only to the bondholders of series A and B

The EUR/NIS representative exchange rate known, as of the signing date of the report as published by the Bank of Israel - NIS 4.1918

The value of the charged shares – NIS 1,379.8 million.

Net debt – NIS 184.6 million

Accordingly, the ratio between the charged share value to net debt, as of the end of the Report Period, is approximately 747% and therefore, the Company meets this ratio as well.

**With respect to the bond holders (Series B):**

"**The Basic Ratio**": the ratio of the charged share value to a net debt of 175%.

"**Net debt**": the ratio of the bonds' principal (series B) (plus accumulated linkage differentials and interest that were not yet paid).

The number of charged shares of BGP as of June 30, 2018 – 640,027.

The total issued share capital of BGP as of June 30, 2018 and the signing date of the report – 1,978,261.

The rate of charged shares out of the issued capital share of BGP as of June 30, 2018 - 32.4%.

BGP's equity which is attributed to its shareholders, as appears in the Company's financial statements as of June 30, 2018 – EUR 689.9 million.

The EUR/NIS representative exchange rate known, as of the signing date of the report, as published by the Bank of Israel – NIS 4.1918

The value of the charged shares – NIS 935.7 million.

Net debt – NIS 202.3million.

Accordingly, the ratio between the charged share value to net debt, as of the end of the Report Period, is approximately 462% and therefore, the Company meets this ratio as well.

**With respect to the bond holders (Series C):**

"**The Basic Ratio**": the ratio of the charged share value to a net debt of 175%.

"**Net debt**": the ratio of the bonds' principal (series C) (plus accumulated linkage differentials and interest that were not yet paid).

The number of charged shares of BGP as of June 30, 2018 – 394,430.

The total issued share capital of BGP as of June 30, 2018 and the signing date of the report – 1,978,261.

The rate of charged shares out of the issued capital share of BGP as of June 30, 2018 - 19.9%.

BGP's equity which is attributed to its shareholders, as appears in the Company's financial statements as of June 30, 2018– EUR 689.9 million.

The EUR/NIS representative exchange rate known, as of the signing date of the report, as published by the Bank of Israel - NIS 4.1918

The value of the charged shares – NIS 576.6 million.

Net debt – NIS 155.9 million

Accordingly, the ratio between the charged share value to net debt, as at the end of the Report Period, is approximately 370% and therefore, the Company meets this ratio as well.

In addition, the Company committed under the financial covenants set forth in the deeds of trust that:

- a. **Minimum equity** - pursuant to the series A deed of trust -the equity attributed to the majority shareholders shall not fall below EUR 80 million and pursuant to the series B and C deeds of trust- equity shall not fall below EUR 150 million and EUR 190 million, respectively, whereas as of the report date, the equity attributed to the majority shareholders is EUR 628.1 million.
- b. **Restrictions on dividend distribution** - under series A deed of trust- not to distribute dividends and/or distribute equity to its shareholders and/or repurchase its treasury shares or of its convertible securities if it will result in equity attributed to the majority shareholders that is lower than EUR 80 million, pursuant to the series A deed of trust. As of the report date, the equity attributed to the majority shareholders is EUR 628.1 million.

Under series B and C deeds of trust - not to distribute dividends and/or distribute equity to its shareholders and/or repurchase its treasury shares or its convertible securities if it will result in equity attributed to the majority shareholders that is lower than EUR 160 million and EUR 200 million, respectively, and/or the debt ratio to CAP (as defined below) that will exceed 70%. As of the report date, the equity attributed to the majority shareholders is EUR 628.1 million and the debt ratio to CAP is 52.46% (as detailed below).

- c. **Maximum CAP ratio** - the ratio between the net financial liabilities and its equity in addition to non-controlling interests and other financial liabilities (CAP) shall not exceed 90% pursuant to series A deed of trust and shall not exceed 75% pursuant to Series B and C deeds of trust and is calculated in the following manner (it is indicated that the value of items B (deferred loans) and C (negative equity) defining CAP as specified in the bond deed is Zero):



	EUR in Thousands
Financial liabilities according to solo reports	125,180
Financial liabilities of the subsidiaries	777,324
Net of cash, cash equivalents and deposits	(99,827)
Net of debt in respect of inventory of apartments under construction	-
Net financial debt – consolidated	802,677
CAP <sup>40</sup>	
Equity including non-controlling interests	727,371
Net financial debt consolidated	802,677
CAP	1,530,048

Therefore, **this ratio is 52.46%** whereas according to the deeds of trust such ratio should be lower than 90% for Series A and lower than 75% for Series B and C.

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<sup>40</sup> Total equity and debt (CAP) – "the net consolidated financial debt" in addition to all the items below: a) the Company's equity (including minority interests) as stated in the audited or reviewed consolidated statements of the Company; b) the Company's deferred loan balance (as defined below); and – c) impairments recorded in the consolidated financial statements (as far as recorded) in respect of the charged assets to secure the loans in the amount of the difference between the recourse and the loan carrying value in the Company's consolidated financial statements. "Deferred loans" – any loan the Company received from any party, which under its terms is subordinate in the repayment level to bonds (series A), bonds (series B), bonds of series C - F, or convertible bonds series G – K to be issued, as far as it will issue, according to the shelf prospectus and which cannot be repaid (principal and/or interest) throughout the term of the aforementioned bonds.

## Description of the charged properties for securing the Corporation's undertakings according to the liability certificates

The following are details regarding the charges for securing the Company's undertakings pursuant to the terms of the Company's bonds (Series A, Series B and Series C) which are in force pursuant to any law and the Company's incorporation instruments, as at the date of issuing the report:

### Bonds (Series A)

#### a) Charging BGP shares

To secure the liabilities of the Company toward the bond holders (Series A) and the trustee (including the repayment of principal, interest and linkage differences) the Company charged, by first degree charge, in favor of the trustee 943,804 ordinary shares par value of EUR 0.01 of BGP (representing 47.7% of BGP's issued and outstanding share capital).

For details on the value of the charged shares in the financial statements of the Company, see the above small section 3(b).

#### b) Negative pledge

As long as the bonds (Series A) are within the cycle (namely, as long as the bonds (Series A) have not been fully repaid or settled in any way, including by way of self-acquisition and/or early redemption), the Company undertakes that it shall not charge, mortgage, assign by way of charging, or provide as another security of any kind or as another security (hereinafter together in this sub-section only: "**the Security**") to any of its charges or to the charges of others, in favour of any third party, BGP shares, if after creating the Security, the Company is left with a number of BGP shares which are free and clean, in an amount constituting 10% or less than the total number of the charged shares (for securing the bonds (Series A), as shall be from time to time. Whenever the Company provides a security as stated in this Section above, the Company will forward a confirmation to the trustee to the effect that it meets said condition, prior to providing the security<sup>41</sup>.

For details regarding the conditions set forth in the deed of trust for changing, releasing, replacing or cancelling said liens, see Sections 2.7.12.10 – 2.7.12.12 of the shelf prospectus.

For details regarding the limitations on issuing additional liability certificates, see Section 2.7.12.33 of the shelf prospectus.

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<sup>41</sup> It is indicated that as of March 31, 2018, all BGP shares are charged in favor of the trustee for the bond holders (Series A – C) and therefore **such condition does not appear to have been met**. Nevertheless, it is clarified and stressed that the number of BGP charged shares in favor of the trustee for the bond holders (Series A) is greater by 327% than the minimum number of BGP shares the Company is required to charge to the trustee according to the basic ratio and the ratio of the charged shares to the net debt exceeds 293% the ratio required to release the collaterals (as defined in the Series A deed of trust) and therefore **the non-fulfillment of the above condition will not harm the holders**

As to the bonds (Series A), the Company warrants and represents, *inter alia*, that as long as there is a surplus of bonds (Series A) in cycle, the Company will not take credit which shall be secured by charging the shares of any of the companies held by BGP or the assets held by such companies. Without derogating from the foregoing, the creation of the charge on the charged shares will not limit any action of BGP or corporations it holds, including a limitation on charging shares which are held by BGP in other corporations for securing non-recourse credit to BGP and/or put a limitation on charging assets by corporations held by BGP for securing non-recourse credit to BGP (Non-Recourse).

For further details regarding the Company's liabilities towards the holders of bonds (Series A), see, *inter alia*, Section 2.7.12.12(D) of the shelf prospectus.

### Bonds (Series B)

#### a) Charging BGP shares

To secure the liabilities of the Company toward the bond holders (Series B) and the trustee (including the repayment of principal, interest and linkage differences) the Company charged, by first degree charge, in favor of the trustee 640,027 ordinary shares par value of EUR 0.01 of BGP (representing 32.4% of BGP's issued and outstanding share capital).

For details on the value of the charged shares in the financial statements of the Company, see the above small section 3(b). For additional information regarding said charge see section 5.6 of the modification and addendum number 1 dated May 9, 2013 of the deed of trust dated May 23, 2012, which was attached as an appendix to the shelf prospectus report of the Company dated May 19, 2013 (**Series B deed of trust**).

#### b) Negative pledge

As long as the bonds (Series B) are within the cycle (namely, as long as the bonds (Series B) have not been fully repaid or settled in any way, including by way of self-acquisition and/or early redemption), the Company undertakes that it shall not charge, mortgage, assign by way of charging, or provide as another security of any kind or as another security (hereinafter together in this sub-section only: "**the Security**") to any of its charges or to the charges of others, in favour of any third party, BGP shares, if after creating the Security, the Company is left with a number of BGP shares which are free and clean from any claim/demand and/or a right of any third party, in an amount constituting 10% or less than the total number of the charged shares to the trustee (for securing the bonds (Series B) and BGP shares charged to the trustee for bonds (Series A) to secure the bonds (Series A) , as shall be from time to time.

**It is stressed that this small section will not apply as long as the ratio of charged shares to the net debt will be equal to the ratio required for releasing collaterals (as defined in the Series B deed of trust).**

For details regarding the conditions set forth in the deed of trust for changing, releasing, replacing or cancelling said liens, see Section 5.5 of the Series B deed of trust.

For details regarding the limitations on issuing additional liability certificates, see Section 4 of the Series B deed of trust.

As to the bonds (Series B), the Company warrants and represents, *inter alia*, that as long as there is a surplus of bonds (Series B) in cycle, the Company will not take credit which shall be secured by charging the shares of any of the companies held by BGP or the assets held by such companies. It was clarified that the creation of the charge on the charged shares will not limit any action of BGP or corporations it holds, including a limitation on charging shares which are held by BGP in other corporations for securing non-recourse credit to BGP and/or put a limitation on charging assets by corporations held by BGP for securing non-recourse credit to BGP.

For further details regarding the Company's liabilities towards the holders of bonds (Series B), see, *inter alia*, Section 8 of the Series B deed of trust.

## Bonds (Series C)

### a) Charging BGP shares

To secure the liabilities of the Company toward the bond holders and the trustee (including the repayment of principal, interest and linkage differences) the Company charged, by first degree charge, in favor of the trustee 394,430 ordinary shares par value of EUR 0.01 of BGP (representing 19.9% of BGP's issued and outstanding share capital).

For details on the value of the charged shares in the financial statements of the Company, see the above small section 3(b). For additional information regarding said charge see section 5.6 of the modification and addendum number 2 dated July 14, 2014 of the deed of trust dated May 23, 2012, which was attached as an appendix to the shelf prospectus report of the Company dated July 20, 2014 (**Series C deed of trust**).

### b) Negative pledge

As long as the bonds (Series C) are within the cycle (namely, as long as the bonds (Series C) have not been fully repaid or settled in any way, including by way of self-acquisition and/or early redemption), the Company undertakes that it shall not charge, mortgage, assign by way of charging, or provide as another security of any kind or as another security (hereinafter together in this sub-section only: "**the Security**") to any of its charges or to the charges of others, in favor of any third party, BGP shares, if after creating the Security, the Company is left with a number of BGP shares which are free and clean from any claim/demand and/or a right of any third party, in an amount constituting 10% or less than the total number of the charged shares to the trustee for securing the bonds (Series C) BGP shares charged to the trustee for securing the bonds (Series B) and BGP shares for securing the bonds (Series A), as shall be from time to time.

It is stressed that this small section will not apply as long as the ratio of charged shares to the net debt will be equal to the ratio required for releasing collaterals.

For details regarding the conditions set forth in the deed of trust for changing, releasing, replacing or cancelling said liens, see Section 5.5 of the Series C deed of trust.

For details regarding limitations on issuing additional liability certificates, see Section 4 of the Series C deed of trust.

As to the bonds (Series C), the Company warrants and represents, *inter alia*, that as long as there is a surplus of bonds (Series C) in cycle, the Company will not take credit which shall be secured by charging the shares of any of the companies held by BGP or the assets held by such companies.

It was clarified that the creation of the charge on the charged shares will not limit any action of BGP or corporations it holds, including a limitation on charging shares which are held by BGP in other corporations for securing non-recourse credit to BGP and/or put a limitation on charging assets by corporations held by BGP for securing non-recourse credit to BGP.

For further details regarding the Company's liabilities towards the holders of bonds (Series C), see, *inter alia*, Section 8 of the Series C deed of trust.

5) Attaching the financial statements of BGP

According to legal position No 103-29 of the Securities Authority" ("due diligence findings with respect to disclosure regarding securities and/or liens granted by reporting corporations to secure the repayment of liability certificates) in the case of pledging the investee's shares, the corporation is required to attach audited/reviewed financial statements, as the case may be, of the investee on a quarterly basis, until the date of full repayment of the liability certificates.

However, as of the date of the Periodic Report, the only differences between the financial statements of the Company and the financial statements of BGP, the 100% investee company whose shares are pledged to the bondholders (as described in section 5 above, the "**pledged investee company** ") is the amount of cash held by the Company itself on the part of the assets and the bonds issued by the Company on the liabilities' part (as reflected in the Company's solo reports), and as a result, the consolidated financial statements of the Company are virtually identical to those of the pledged investee company (excluding cash held by the Company and the bonds it issued), and therefore the Company does not attach separate financial statements of the pledged investee company.

The following are data as of June 30, 2018 and December 31, 2017 with respect to the assets and liabilities of the Group which are not included in the consolidated statements of the pledged investee company compared to the assets and liabilities of the pledged investee and the total consolidated balance sheet:

<b>Data as of June 30, 2018 (EUR in thousands)</b>	<b>The Company Consolidated</b>	<b>Assets/liabilities In the pledged investee company</b>	<b>Assets/liabilities In unpledged companies</b>
<b>Total assets</b>	1,766,608	1,699,646	66,962
Current assets and held for sale	137,776	70,814	*66,962
Noncurrent assets	1,628,832	1,628,832	-
<b>Total liabilities</b>	1,039,237	910,395	128,842
Current liabilities and held for sale	135,138	115,392	**19,746
Noncurrent liabilities	904,099	795,003	***109,096
<b>Non- controlling interests</b>	99,301	99,301	0
<b>Total equity</b>	628,070	689,950	(61,880)
<b>Rate of assets out of the total assets in the balance sheet</b>	100%	96%	4%
<b>Rate of liabilities out of the total liabilities in the balance sheet</b>	100%	88%	12%
<b>Rate of equity out of the total equity in the balance sheet</b>	100%	110%	(10%)

\*) Mainly cash and liquid balances held by the Company (solo)

\*\*\*) Mainly current maturity of principal of bonds (Series A – C) issued by the Company and interest payable for said bonds;

\*\*\*\*) mainly balance of bonds principal (Series A – C) issued by the Company

<b>Data as of December 31, 2017 (EUR in thousands)</b>	<b>The Company Consolidated</b>	<b>Assets/liabilities In the pledged company</b>	<b>Assets/liabilities In unpledged companies</b>
<b>Total assets</b>	1,647,279	1,580,322	66,957
Current assets	188,901	121,944	66,957 *
Noncurrent assets	1,458,378	1,458,378	-
<b>Total liabilities</b>	948,709	815,312	133,397
Current liabilities	239,324	219,778	19,546 **
Noncurrent liabilities	709,385	595,534	113,851 ****
<b>Non- controlling interests</b>	107,402	107,402	-
<b>Total equity</b>	591,168	657,608	(66,440)
<b>Rate of assets out of the total assets in the balance sheet</b>	100%	96%	4%
<b>Rate of liabilities out of the total liabilities in the balance sheet</b>	100%	86%	14%
<b>Rate of equity out of the total equity in the balance sheet</b>	100%	111%	(11%)

\*) Mainly cash and liquid balances held by the Company (solo)

\*\*) Mainly current maturity of principal of bonds (Series A – C) issued by the Company and interest payable for said bonds;

\*\*\*\*) balance of bonds principal (Series A – C) issued by the Company

(7) Holding meetings of the bondholders after the date of financial position

On April 25, 2018, The meeting of the bondholders (Series A and B) decided to **approve** by a required majority not to put the bonds for immediate repayment in respect of the cause contained in the trust deed that was established for the bond holders in respect of the transfer of control and in connection with the trust deed of Series B, the amendment of the trust deed contained in the above cause;

(C) The meeting of the bondholders (Series C) resolved **not to approve the following**: (i) not to put the bonds for immediate repayment in respect of the cause contained in the trust deed that was established for the bondholders in respect of the transfer of control; And (ii) to amend the trust deed (Series C) in the matter of such cause as aforesaid;

For additional details see immediate reports of the trustee dated April 8, 11 and 25 (references numbers: 029091-01-2018, 029103-01-2018, 029112-01-2018, 030111-01-2018, 030114-01-2018, 030117-10-2018, 033129-10-2018, 033138-10-2018 and 033141-01-2018 respectively), which are included by way of reference.

Further to the above, it should be noted that on May 21, 2018, the meeting of the bondholders (Series C) resolved to grant a waiver

in connection with the cause for immediate repayment in respect of the transfer of control in the Company and amendment of the trust deed;

For further details, see the Immediate Report of the Trustee dated May 13, 2018 and May 22, 2018 [Ref. 047578-10-2018 and 050419-10-2018, respectively], which are included by way of reference.

Names of signatories	Position	Signature
Patrick Burke	Chairman of the Board of Directors	_____
Tomas de Vargas Machuca	CEO	_____

August 16, 2018



## Appendix A – Disclosure according to Reportable Credit Directive

### Table of Compliance with Financial Covenants and Liabilities

Following the contents of the table (Loan Table) in section 1.12.9 in Chapter A: "Description of the Corporation's State of Affairs" in the periodic report of the Company for 2017; the following are data on the Company's compliance with the financial covenants as determined in its loans<sup>42</sup>. The calculation of financial covenants: DSCR, ICR and LTV is carried out according to the definitions in the relevant loan agreements and does not necessarily comply with generally accepted accounting principles<sup>43</sup>

Serial number out of loan table	Date of extending the loan	The original loan amount EURO in thousands	Principal balance as of June 30, 2018 EURO in thousands	Financial liabilities/other liabilities	Financial covenants - actual ICR/DSCR, as of June 30, 2018 and as of the report signing date	Financial covenants – actual LTV, as of June 30, 2018 and as of the report signing date
4	August 31, 2015	49,480	44,294	LTV smaller than 75%  DSCR greater than 130%	<b>As of June 30, 2018</b>  DSCR = 198%	<b>As of June 30, 2018</b>  LTV – 59%
					<b>As of the report signing date</b>  DSCR = 198%	<b>As of the report signing date</b>  LTV – 59%

<sup>42</sup> As to financial covenants in connection with debentures (Series A, B and C) of the Company see section e above, "designated disclosure for bondholders".

<sup>43</sup> The financial covenants are defined in the loan agreements as follows: LTV is the ratio between the debt to the bank and the fair value of the carrying amount of the property net of transaction costs and various taxes; ICR is the ratio between the cash flows for debt service and the interest payment expected in the coming year and DSCR is the ratio between the cash flows for debt service and the principal and interest payment expected in the coming year, whereas the cash flows for debt service is the income deriving from the property that is financed for 12 months ahead according to signed agreements (not agreements that are about to end in the course of the year) net of operating costs according to the bank's formula. It is indicated that the calculation of financial covenants is not necessarily as of the report date or the signing date of the report (as the case may be) but on the closest day in which the Company is required to present this calculation to the financing entity.

Serial number out of loan table	Date of extending the loan	The original loan amount EURO in thousands	Principal balance as of June 30, 2018 EURO in thousands	Financial liabilities/other liabilities	Financial covenants - actual ICR/DSCR, as of June 30, 2018 and as of the report signing date	Financial covenants – actual LTV, as of June 30, 2018 and as of the report signing date
5	August 31, 2015	13,031	11,382	LTV smaller than 70% DSCR greater than 130%	<b>As of June 30, 2018</b> DSCR = 185%	<b>As of June 30, 2018</b> LTV= 52%
					<b>As of the report signing date</b>	<b>As of the report signing date</b>
					DSCR = 185%	LTV = 52%
6	September 30, 2016	110,000	106,201	LTV smaller than 75% DSCR greater than 135%	<b>As of June 30, 2018</b> DSCR = 275%	<b>As of June 30, 2018</b> LTV= 53%
					<b>As of the report signing date</b>	<b>As of the report signing date</b>
					DSCR = 275%	LTV = 53%

Serial number out of loan table	Date of extending the loan	The original loan amount EURO in thousands	Principal balance as of June 30, 2018 EURO in thousands	Financial liabilities/other liabilities	Financial covenants - actual ICR/DSCR, as of June 30, 2018 and as of the report signing date	
					As of June 30, 2018	As of the report signing date
8	June 20, 2018 refinancing <sup>44</sup>	55,000	54,890	LTV smaller than 75% DSCR greater than 175%	As of June 30, 2018	
					DSCR = 252%	
					As of the report signing date	
					DSCR = 253%	
11	February 28, 2014	125,000	56,595	LTV smaller than 77% DSCR greater than 130%	As of June 30, 2018	
					DSCR = 155%	
					As of the report signing date	
					DSCR = 155%	
12	August 30, 2017- refinance	32,583	49,337	LTV smaller than 65% DSCR greater than 160%	As of June 30, 2018	
					DSCR = 248%	

<sup>44</sup> For further details regarding refinancing see material events in the report period.

Serial number out of loan table	Date of extending the loan	The original loan amount EURO in thousands	Principal balance as of June 30, 2018 EURO in thousands	Financial liabilities/other liabilities	Financial covenants - actual ICR/DSCR, as of June 30, 2018 and as of the report signing date		Financial covenants – actual LTV, as of June 30, 2018 and as of the report signing date	
					As of the report signing date	As of the report signing date	As of the report signing date	As of the report signing date
						DSCR = 248%	LTV = 53%	
16,22	December 31, 2014	10,000	14,562	LTV smaller than 80% DSCR greater than 145%	As of June 30, 2018	DSCR = 232%	As of June 30, 2018	LTV= 45%
					As of the report signing date		As of the report signing date	
					As of the report signing date	DSCR = 232%	As of the report signing date	LTV = 45%
					As of June 30, 2018	DSCR = 194%	As of June 30, 2018	LTV= 64%
20	May 30, 2016	25,000	23,958	LTV smaller than 76% DSCR greater than 130%	As of the report signing date	DSCR = 194%	As of the report signing date	LTV= 64%
					As of the report signing date	DSCR = 194%	As of the report signing date	LTV= 64%

Serial number out of loan table	Date of extending the loan	The original loan amount EURO in thousands	Principal balance as of June 30, 2018 EURO in thousands	Financial liabilities/other liabilities	Financial covenants - actual ICR/DSCR, as of June 30, 2018 and as of the report signing date	Financial covenants – actual LTV, as of June 30, 2018 and as of the report signing date
26	December 31, 2016	55,800	53, 289	LTV smaller than 75% DSCR greater than 160%	<b>As of June 30, 2018</b>	<b>As of June, 30 2018</b>
					DSCR = 198%	LTV= 59%
					<b>As of the report signing date</b>	<b>As of the report signing date</b>
					DSCR = 198%	LTV = 59%

Serial number out of loan table	Date of extending the loan	The original loan amount EURO in thousands	Principal balance as of June 30, 2018 EURO in thousands	Financial liabilities/other liabilities	Financial covenants - actual ICR/DSCR, as of June 30, 2018 and as of the report signing date	Financial covenants – actual LTV, as of June 30, 2018 and as of the report signing date
29	November 23, 2017	46,500	45,948	LTV smaller than 79% DSCR greater than 110%	<b>As of June 30, 2018</b>	<b>As of June 30, 2018</b>
					DSCR = 123%	LTV= 72%
					<b>As of the report signing date</b>	<b>As of the report signing date</b>
					DSCR = 123%	LTV= 72%

It should be indicated that in addition, the Company has loans from banks (against real estate collaterals) without financial covenants in a total amount of EUR 321 million and average LTV of 36.4%.

**BRACK CAPITAL PROPERTIES NV**  
**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF JUNE 30, 2018**

**UNAUDITED**

**Table of Contents**

**IN THOUSANDS OF EUROS**

	<u>Page</u>
Auditors Review Report	2-3
Interim Condensed Consolidated Statements of Financial Position	4-5
Interim Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income	6
Interim Condensed Consolidated Statements of Changes in Equity	7-11
Interim Condensed Consolidated Statements of Cash Flows	12-14
Notes to the Interim Consolidated Financial Statements	15-30

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**Auditor Review Report to the Shareholders of Brack Capital Properties NV****Introduction**

We have reviewed the accompanying financial information of Brack Capital Properties NV and its subsidiaries (hereinafter – the Group), which includes the interim condensed consolidated statements of financial position as of June 30, 2018 and the interim condensed statements of profit or loss and other comprehensive income, changes of equity and cash flows for the six- and three-month periods then ended. The Board of Directors and Management are responsible for preparing and presenting financial information for these interim periods in accordance with IAS 34, Interim Financial Reporting, and are responsible for preparing financial information for these interim periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express our conclusions with regard to the financial information for these interim periods, based on our review.

**Scope of the Review**

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of financial information for interim periods consists of inquiries, mainly from people responsible for finances and accounting, and of the application of analytical and other reviewing procedures. A review is significantly limited in scope relative to an audit conducted according to generally accepted Israeli auditing standards, and therefore does not allow us to achieve assurance that we have been made aware of all material issues that might have been identified in an audit. Accordingly, we are not expressing an audit opinion.

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Amit, Halfon is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.



## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the above financial information has not been prepared, in all material aspects, in accordance with IAS 34.

In addition to the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the above financial information does not comply, in all material respects, with disclosure provisions according to Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

August 16, 2018

Amit, Halfon, CPAs

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Amit, Halfon is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<b>June 30,</b>		<b>December 31,</b>
	<b>2018</b>	<b>2017</b>	<b>2017</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>€ in thousands</b>		
<b><u>Current Assets</u></b>			
Cash and cash equivalents	88,815	109,275	113,129
Balances receivable from banks	407	1,653	932
Restricted deposits, financial assets and other receivables	15,151	12,443	10,727
Income receivable from the sale of apartments (*)	5,689	-	-
Tenants and trade receivables, net	3,183	7,008	3,735
Inventory of buildings under construction	24,531	53,411	48,756
	<u>137,776</u>	<u>183,790</u>	<u>177,279</u>
<b><u>Asset held for sale</u></b>	<u>-</u>	<u>-</u>	<u>11,622</u>
<b><u>Non-Current Assets</u></b>			
Investments in companies measured at equity	6,313	8,318	8,318
Inventory of real estate	215,536	14,110	72,659
Investment property - rights to land	65,336	127,694	67,094
Investment property – income generating assets	1,333,267	1,202,697	1,283,549
Restricted deposits for investments in properties	6,773	2,635	7,297
Other accounts receivable, fixed assets and other financial assets	361	394	18,023
Deferred taxes	1,246	724	1,438
	<u>1,628,832</u>	<u>1,356,572</u>	<u>1,458,378</u>
	<u><u>1,766,608</u></u>	<u><u>1,540,362</u></u>	<u><u>1,647,279</u></u>

\* See Note 2c regarding initial adoption of IFRS 15, revenues from contracts with customers.

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

**BRACK CAPITAL PROPERTIES NV**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<u>June 30,</u>		<u>December 31,</u>
	<u>2018</u>	<u>2017</u>	<u>2017</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>€ in thousands</u>		
<u>Current Liabilities</u>			
Current maturities of loans from banks	89,943	68,372	161,731
Current maturities of debentures	17,159	18,199	17,399
Loans for financing inventory of buildings under construction	-	4,500	4,000
Current maturities of other financial liabilities	1,530	446	941
Accounts payable	24,648	24,359	25,424
Advances from apartment purchasers	1,858	34,024	23,119
	<u>135,138</u>	<u>149,900</u>	<u>232,614</u>
<u>Liabilities held for sale</u>	-	-	6,710
<u>Non-Current Liabilities</u>			
Loans from banks and others	687,381	523,299	495,066
Debentures	108,021	133,284	110,072
Other liabilities	3,095	3,133	3,095
Other financial liabilities	1,058	1,393	3,779
Deferred taxes	104,544	84,814	97,373
	<u>904,099</u>	<u>745,923</u>	<u>709,385</u>
<u>Equity Attributable to Company Shareholders</u>			
Share capital	77	73	77
Premium on shares	144,237	117,007	144,237
Treasury shares	(746)	(883)	(746)
Other capital reserves	1,512	7,823	2,322
Statutory capital reserve	335,468	297,978	319,337
Retained earnings	147,522	113,597	125,941
Total equity attributable to Company shareholders	<u>628,070</u>	<u>535,595</u>	<u>591,168</u>
<u>Non-controlling interests</u>	<u>99,301</u>	<u>108,944</u>	<u>107,402</u>
<u>Total equity</u>	<u>727,371</u>	<u>644,539</u>	<u>698,570</u>
	<u>1,766,608</u>	<u>1,540,362</u>	<u>1,647,279</u>

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

<u>August 16, 2018</u>			
Date of approval of the financial statements	Patrick Burke Chairman of the Board of Directors	Tomas de Vargas Machuca CEO	Guy Priel CFO

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Six months ended		Three months ended		Year ended
	June 30,		June 30		December 31
	2018 *	2017	2018	2017	2017
	Unaudited				Audited
	€ in thousands (except for net earnings per share data)				
Revenues from rental of properties	39,430	36,362	19,668	18,233	74,124
Revenues from property management and others	13,443	14,166	6,869	7,013	27,022
Property management expenses	(13,361)	(13,633)	(6,803)	(6,883)	(26,513)
Cost of maintenance of rental properties	(5,676)	(4,799)	(2,797)	(2,510)	(9,689)
Rental and management revenues, net	33,836	32,096	16,937	15,853	64,944
Revenues from sale of apartments	29,413	9,228	10,838	857	58,958
Cost of sale of apartments	(22,491)	(9,306)	(8,316)	(2,679)	(47,203)
Income (loss) from sale of apartments	6,922	(78)	2,522	(1,822)	11,755
Other income	-	2,008	-	2,008	2,008
Administrative and general expenses	(6,841)	(5,248)	(2,759)	(2,893)	(11,499)
Administrative and general expenses attributed to inventory of apartments under construction and real estate inventory	(1,247)	(1,184)	(440)	(460)	(2,141)
Selling and marketing expenses	(226)	(297)	(132)	(125)	(389)
Cost of share based payment (administrative and general expenses)	-	(871)	-	(653)	(871)
Operating profit before change in value of investment property	32,444	26,426	16,128	11,908	63,807
Increase in value of investment property, net	33,300	92,997	27,775	71,790	108,736
Operating income	65,744	119,423	43,903	83,698	172,543
Financial income	-	39	-	13	39
Financial expenses excluding the effect of exchange differences index and currency hedging transactions	(9,828)	(9,900)	(5,213)	(4,976)	(19,529)
Effect of exchange differences, index and currency hedging transactions, net	4,187	(5,520)	1,367	(771)	(3,005)
Change in value of loans interest rate swap transactions and refinance costs, net	(494)	146	(244)	(142)	685
Equity in losses of companies accounted at equity method of accounting	(2,205)	-	(2,205)	-	-
Income before taxes on income	57,404	104,188	37,608	77,822	150,733
Tax expenses	(13,265)	(20,369)	(6,391)	(18,165)	(31,689)
Net income	44,139	83,819	31,217	59,657	119,044
Other comprehensive income	-	-	-	-	-
Total comprehensive income	44,139	83,819	31,217	59,657	119,044
Net income and comprehensive income attributable to:					
Company shareholders	34,345	67,421	22,646	44,839	101,124
Non-controlling interests	9,794	16,398	8,571	14,818	17,920
	44,139	83,819	31,217	59,657	119,044
Net earnings per share attributable to the Company's shareholders (in Euro)					
Basic net income	4.44	9.48	2.93	6.21	13.70
Diluted net income	4.44	9.19	2.93	6.02	13.70

\* See Note 2c regarding initial adoption of IFRS 15, revenues from contracts with customers.

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

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Company Shareholders						Total	Non-Controlling Interests	Total Equity
	Share Capital	Premium on Shares	Treasury Shares	Other capital reserves	Statutory Capital Reserve	Retained Earnings			
	Unaudited								
€ in thousands									
<u>Balance as of January 1, 2018 (audited)</u>	77	144,237	(746)	2,322	319,337	125,941	591,168	107,402	698,570
Effect of initial adoption of IFRS 15 (*)	-	-	-	-	-	3,367	3,367	690	4,057
Balance as of January 1, 2018	77	144,237	(746)	2,322	319,337	129,308	594,535	108,092	702,627
Net income and comprehensive income	-	-	-	-	-	34,345	34,345	9,794	44,139
Total comprehensive income	-	-	-	-	-	34,345	34,345	9,794	44,139
Classification as per provisions of Dutch law	-	-	-	-	16,131	(16,131)	-	-	-
Purchase of rights from non-controlling interests	-	-	-	(810)	-	-	(810)	(2,160)	(2,970)
Distribution and payment to non controlling interests	-	-	-	-	-	-	-	(16,425)	(16,425)
<u>Balance as of June 30, 2018 (Unaudited)</u>	<u>77</u>	<u>144,237</u>	<u>(746)</u>	<u>1,512</u>	<u>335,468</u>	<u>147,522</u>	<u>628,070</u>	<u>99,301</u>	<u>727,371</u>

\* See Note 2c regarding initial adoption of IFRS 15, revenues from contracts with customers.

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

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Company Shareholders						Non-Controlling Interests	Total Equity	
	Share Capital	Premium on Shares	Treasury Shares	Other capital reserves	Statutory Capital Reserve	Retained Earnings			Total
	Unaudited								
€ in thousands									
Balance as of January 1, 2017 (audited)	67	69,221	(883)	6,614	233,463	110,691	419,173	100,890	520,063
Net income and comprehensive income	-	-	-	-	-	67,421	67,421	16,398	83,819
Total comprehensive income	-	-	-	-	-	67,421	67,421	16,398	83,819
Classification as per provisions of Dutch law	-	-	-	-	64,515	(64,515)	-	-	-
Cost of share-based payment	-	-	-	871	-	-	871	-	871
Capital reserve adjustment in respect of transactions with controlling shareholder	-	-	-	338	-	-	338	-	338
Issuance of capital, net	5	46,369	-	-	-	-	46,374	-	46,374
Exercise of options into shares	1	1,417	-	-	-	-	1,418	-	1,418
Distribution and payment to non-controlling interests	-	-	-	-	-	-	-	(8,344)	(8,344)
Balance as of June 30, 2017 (unaudited)	<u>73</u>	<u>117,007</u>	<u>(883)</u>	<u>7,823</u>	<u>297,978</u>	<u>113,597</u>	<u>535,595</u>	<u>108,944</u>	<u>644,539</u>

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

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Company Shareholders						Non-Controlling Interests	Total Equity	
	Share Capital	Premium on Shares	Treasury Shares	Other capital reserves	Statutory Capital Reserve	Retained Earnings			Total
	Unaudited								
	€ in thousands								
<u>Balance as of April 1, 2018</u> (Unaudited)	77	144,237	(746)	1,512	326,111	134,233	605,424	96,098	701,522
Net income and comprehensive income	-	-	-	-	-	22,646	22,646	8,571	31,217
Total comprehensive income	-	-	-	-	-	22,646	22,646	8,571	31,217
Classification as per provisions of Dutch law	-	-	-	-	9,357	(9,357)	-	-	-
Distribution and payment to non-controlling interests	-	-	-	-	-	-	-	(5,368)	(5,368)
<u>Balance as of June 30, 2018 (unaudited)</u>	<u>77</u>	<u>144,237</u>	<u>(746)</u>	<u>1,512</u>	<u>335,468</u>	<u>147,522</u>	<u>628,070</u>	<u>99,301</u>	<u>727,371</u>

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

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Company Shareholders						Total	Non-Controlling Interests	Total Equity
	Share Capital	Premium on Shares	Treasury Shares	Other capital reserves	Statutory Capital Reserve	Retained Earnings			
	Unaudited								
€ in thousands									
<u>Balance as of April 1, 2017</u> (Unaudited)	72	115,590	(883)	6,988	253,971	112,765	488,503	94,545	583,048
Net income and comprehensive income	-	-	-	-	-	44,839	44,839	14,818	59,657
Total comprehensive income	-	-	-	-	-	44,839	44,839	14,818	59,657
Classification as per provisions of Dutch law	-	-	-	-	44,007	(44,007)	-	-	-
Cost of share-based payment	-	-	-	653	-	-	653	-	653
Capital reserve adjustment in respect of transactions with controlling shareholder	-	-	-	182	-	-	182	-	182
Exercise of options into shares	1	1,417	-	-	-	-	1,418	-	1,418
Distribution to non-controlling interests	-	-	-	-	-	-	-	(419)	(419)
<u>Balance as of June 30, 2017 (unaudited)</u>	<u>73</u>	<u>117,007</u>	<u>(883)</u>	<u>7,823</u>	<u>297,978</u>	<u>113,597</u>	<u>535,595</u>	<u>108,944</u>	<u>644,539</u>

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



## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Company Shareholders						Total	Non-Controlling Interests	Total Equity
	Share Capital	Premium on Shares	Treasury Shares	Other capital reserves	Statutory Capital Reserve	Retained Earnings			
	Unaudited								
€ in thousands									
<u>Balance as of January 1, 2017 (audited)</u>	67	69,221	(883)	6,614	233,463	110,691	419,173	100,890	520,063
Net income and comprehensive income	-	-	-	-	-	101,124	101,124	17,920	119,044
Total comprehensive income	-	-	-	-	-	101,124	101,124	17,920	119,044
Classification as per provisions of Dutch law, net	-	-	-	-	85,874	(85,874)	-	-	-
Cost of share-based payment	-	-	-	871	-	-	871	-	871
Capital reserve adjustment in respect of transactions with controlling shareholder	-	-	-	432	-	-	432	-	432
Increase of capital, net	5	46,369	-	-	-	-	46,374	-	46,374
Exercise of options and stock options into shares	5	28,647	137	(5,595)	-	-	23,194	-	23,194
Distribution and payment to non-controlling interests	-	-	-	-	-	-	-	(11,408)	(11,408)
<u>Balance as of December 31, 2017 (audited)</u>	<u>77</u>	<u>144,237</u>	<u>(746)</u>	<u>2,322</u>	<u>319,337</u>	<u>125,941</u>	<u>591,168</u>	<u>107,402</u>	<u>698,570</u>

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

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	€ in thousands				
<u>Cash flows from operating activities</u>					
Net income	44,139	83,819	31,217	59,657	119,044
Adjustments to reconcile net income to net cash provided by operating activities:					
Adjustments to profit and loss:					
Depreciation	42	146	12	72	289
Financial expenses, net	5,401	15,154	4,662	4,350	20,817
Increase in value of investment property, net	(33,300)	(92,997)	(27,775)	(71,790)	(106,505)
Deferred taxes, net (*)	5,487	19,621	273	17,420	24,413
Cost of share-based payment		871	-	653	871
Equity in losses (earnings) of companies accounted at equity	2,205	-	2,205		
Capital reserve adjustment in respect of transactions with controlling shareholders	-	338	-	182	432
	(20,165)	(56,867)	(21,209)	(49,113)	(59,683)
Cash flows from operating activities before changes in asset and liability items	23,974	26,952	10,008	10,544	59,361
Changes in asset and liability items:					
Decrease (increase) in tenants, restricted deposits and other receivables and related parties (*)	(3,963)	(3,648)	(354)	417	(1,266)
Increase (decrease) in accounts payable	2,807	(2,197)	4,808	(786)	369
	(1,156)	(5,845)	4,454	(369)	(897)
Net cash deriving from operating activities before decrease (increase) in inventory of real estate, inventory of buildings under construction and advances from apartment purchasers	22,818	21,107	14,462	10,175	58,464
Change in advances from apartment purchasers (*)	3,652	17,951	8,172	11,936	7,045
Decrease (increase) in inventory of buildings under construction and real estate inventory (*)	1,709	(9,832)	(4,217)	(9,246)	8,567
Net cash provided by operating activity before the purchase of long term inventory	28,179	29,226	18,417	12,865	74,076
Purchase of long term inventory of lands (**)	(128,560)	-	-	-	-
Net cash provided by operating activities	(100,381)	29,226	18,417	12,865	74,076

(\*) see Note 2c regarding initial adoption of IFRS 15, revenues from contracts with customers.

(\*\*) see Note 5 regarding the purchase of land in Dusseldorf.

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

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	€ in thousands				
<u>Cash Flows from investing activities</u>					
Investment in investment property	(10,698)	(59,593)	(6,871)	(54,298)	(91,948)
Investment in companies measured at equity	(200)	-	-	-	-
Proceeds from sale of investment property	11,900	14,272	11,900	14,272	14,272
Proceeds from sale of subsidiaries, net (a)	-	-	-	-	(17,279)
Withdrawal (depositing) of restricted deposits, prepaid transaction costs and withdrawal (depositing) of long-term bank deposits, net	(6,692)	(2,147)	(6,791)	591	(20,392)
Interest received and realization of derivatives	237	436	475	410	1,083
Net cash used in investing activities	<u>(5,453)</u>	<u>(47,032)</u>	<u>(1,287)</u>	<u>(39,025)</u>	<u>(114,264)</u>
<u>Cash flows from financing activities</u>					
Interest paid	(8,678)	(8,274)	(4,375)	(2,999)	(16,708)
Exercise of stock options	-	965	-	965	22,645
Distribution and payment to non-controlling interests	(16,425)	(6,564)	(5,368)	(419)	(11,408)
Receipt of long-term loans, net	195,485	25,646	56,502	25,646	108,052
Issuance of debentures, net	-	-	-	-	(18,101)
Repayment of debentures	-	-	-	-	(67,357)
Repayment of long-term loans	(85,892)	(20,886)	(57,584)	(11,304)	46,916
Issuance of shares and stock options, net	-	46,916	-	-	-
Purchase of rights from non controlling interests	(2,970)	-	-	-	-
Net cash provided by (used in) financing activities	<u>81,520</u>	<u>37,803</u>	<u>(10,825)</u>	<u>11,889</u>	<u>64,039</u>
Change in cash and cash equivalents	(24,314)	19,997	16,305	(14,271)	23,851
Balance of cash and cash equivalents at the beginning of the period	<u>113,129</u>	<u>89,278</u>	<u>82,510</u>	<u>123,546</u>	<u>89,278</u>
Balance of cash and cash equivalents at the end of the period	<u>88,815</u>	<u>109,275</u>	<u>88,815</u>	<u>109,275</u>	<u>113,129</u>

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

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30,		Three months ended June 30,		Year ended December 31,
	2018	2017	2018	2017	2017
	Unaudited				Audited
	€ in thousands				
(a) <u>Proceeds from sale of previously consolidated subsidiaries :</u>					
Assets and liabilities of consolidated subsidiaries as of date of sale:					
Investment property	-	-	-	-	(46,950)
Working capital (excluding cash and cash equivalents)	-	-	-	-	(1,905)
Loans from banks, net	-	-	-	-	34,250
Loss in respect of transaction costs	-	-	-	-	(2,674)
	-	-	-	-	(17,279)
Additional information					
Taxes paid	2,625	680	545	39	2,407

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 1: - General**

These Financial Statements have been prepared in a condensed format as of June 30, 2018 and for the six and three month periods then ended that date (hereinafter – the Consolidated Interim Financial Statements). These Statements should be read in accordance with the annual financial statements for 2017 and for the year then ended and the accompanying notes (the consolidated annual financial statements).

**Note 2: - Significant accounting policies****a. Preparation format of the Interim Consolidated Financial Statements**

The Consolidated Interim Financial Statements are prepared in accordance with acceptable accounting principles for preparing financial statements for interim periods as stated in International Accounting Standard 34 Interim Financial Reporting and in accordance with the provisions of disclosure pursuant to Chapter D of the Securities (Immediate and Periodic Reports) Regulations, 1970.

b. The significant accounting policies and calculation methods implemented in preparing the Interim Consolidated Financial Statements are consistent with those implemented in preparing the consolidated annual Financial Statements other than section c below.

c. New standards adopted in the reported period.

**1. IFRS 9 – Financial Instruments:**

As explained in Note 2 (AE) of the Company's annual financial statements, effective from January 1, 2018, the Company adopts IFRS 9, Financial Instruments. The adoption of the standard had no material effect of the company's financial statements.

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

Commencing from January 1, 2018, the Group adopts for the first time the International Financial Reporting Standard 15, which prescribes guidelines regarding revenue recognition.

The Company chose to apply the Standard in the cumulative effect approach while adjusting the retained earnings as at January 1, 2018 "and without restating the comparative figures.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 2: - Significant accounting policies (Cont.)**  
IFRS 15 - Revenue from Contracts with Customers (Cont.)

The changes and effects of the initial adoption on the Company's financial statements are as follows mainly in revenue recognition from the sale of residential units as below:

Income from sale of residential units

The Company operates in the real estate sector in the construction and sale of residential apartments in Germany. Until December 31, 2017, the Company recognized income from the sale of residential apartments upon delivery of the apartment to the purchaser. According to the new standard, upon entering into agreement with the customer, the Company identifies the residential apartment as a performance obligation. Regarding this activity, based on the examination of the Company's contracts with its customers and on the basis of the relevant provisions of the law and regulations, the Company estimates that under the contracts with its customers, no asset with alternative use has been created for the Company and it has an enforceable right to pay for the performance completed up to that date, accordingly, under the new standard, the Company recognized revenue from these contracts over time, according to the contract performance rate.

In addition, the Company implemented the following regarding revenue from the sale of residential apartments:

1. Measurement unit - the Company determined that the measurement unit for revenue recognition is the residential apartment that is the subject of the sales contract with the customer.
2. Determining the transaction price – the company determined the transaction price separately for each contract with a customer.
3. Measurement of performance progress - in order to measure the progress of performance, the Company implemented the input method without taking into account costs that do not reflect the progress of performance, such as land, levies and credit costs. Typically, it is not possible to deliver a specific residential apartment before the construction of the entire building has been completed. Therefore, the Company has determined the performance progress rate, according to which revenue is recognized for each specific sales contract, in accordance with the progress rate of the entire project. In order to implement the input method, the Company estimated the costs required to complete the project in order to determine the amount of revenue to be recognized. These estimates include the direct costs relating to the contract performance and are allocated on the basis of a reasonable burden key.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**


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**Note 2: - Significant accounting policies (Cont.)**
**IFRS 15 - Revenue from Contracts with Customers (Cont.)**

4. The existence of a significant financing component in the contract - for the purpose of examining the existence of a significant financing component in the contract, the Company chose the practical relief in the new standard according to which the amount of the consideration in respect of the financing component cannot be adjusted where upon entering into agreement it is expected that the period between receiving the consideration and the revenue recognition time shall not exceed one year.

d. Estimates and assumptions

The estimates and assumptions used in the interim consolidated financial statements are identical to those used in the Company's consolidated financial statements.

- a. The table below presents the cumulative effect from the initial adoption of the items effected in the statement of financial position as of January 1, 2018

	According to previous policy	Effect of change	According to IFRS 15
As of January 1, 2018 (EUR in thousands)			
Inventory	48,756	(19,015)	29,741
Income receivable from the sale of apartments	-	8,672	8,672
Advances from apartment purchasers	(23,119)	16,242	(6,877)
Accounts payable	(25,424)	(1,842)	(27,266)
Non controlling interests	(107,402)	(690)	(108,092)
Equity attributed to the Company	(591,168)	(3,367)	(594,535)

- b. The table below summarizes the effects on the statement of financial position as of June 30, 2018 assuming that the previous revenue recognition policy would have continued during this period:

	According to previous policy	Effect of change	According to IFRS 15
As of June 30, 2018 (EUR in thousands)			
Inventory	54,042	(29,511)	24,531
income receivable from the sale of apartments	-	5,689	5,689
Advances from apartment purchasers	(34,114)	32,256	(1,858)
Accounts payable	(22,014)	(2,634)	(24,648)
Non controlling interests	(98,430)	(871)	(99,301)
Equity attributed to the Company	(623,140)	(4,930)	(628,070)

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Note 2: - Significant accounting policies (Cont.)**

The table below summarizes the effects on the comprehensive income or loss for the 6 months period ended on June 30, 2018, assuming that the previous revenue recognition policy would have continued during this period:

	According to previous policy	Effect of change	According to IFRS 15
Revenues from rental of properties	39,430	-	39,430
Revenues from property management and others	13,443	-	13,443
Property management expenses	(13,361)	-	(13,361)
Cost of maintenance of rental properties	(5,567)	-	(5,567)
Rental and management revenues, net	33,945	-	33,945
Revenues from sale of apartments	13,883	15,530	29,413
Cost of sale of apartments	(9,473)	(13,018)	(22,491)
Income from sale of apartments	4,410	2,512	6,922
Administrative and general expenses	(6,841)	-	(6,841)
Administrative and general expenses attributed to the inventory of apartments under construction and inventory of real estate	(1,247)	-	(1,247)
Selling and marketing expenses	(226)	-	(226)
Operating income before change in investment property value	30,041	2,512	32,553
Increase in value of investment property, net	33,300	-	33,300
Operating income	63,341	2,512	65,853
Finance income	-	-	-
Finance expenses excluding the effect of exchange rate differences, CPI and currency hedging transactions	(9,828)	-	(9,828)
Effect of exchange rate differences, CPI and currency hedging transactions, net	4,187	-	4,187
Change in value of loans, interest-swap transactions and refinance costs, net	(603)	-	(603)
Equity in earnings (losses) of companies accounted at equity method of accounting	(2,205)	-	(2,205)
Income before taxes on income	54,892	2,512	57,404
Taxes on income	(12,481)	(784)	(13,265)
Net income	42,411	1,728	44,139
Other comprehensive income	-	-	-
Total other comprehensive income	42,411	1,728	44,139
Total comprehensive income attributable to:			
Company shareholders	32,877	1,468	34,345
Non-controlling interests	9,534	260	9,794
	42,411	1,728	44,139
Net earnings per share attributable to the Company's shareholders (in Euro)			
Basic net income	4.25	0.19	4.44
Diluted net income	4.25	0.19	4.44



## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Note 2: - Significant accounting policies (Cont.)**

The table below summarizes the effects on the comprehensive income or loss for the 3 months period ended on June 30, 2018, assuming that the previous revenue recognition policy would have continued during this period:

	According to previous policy	Effect of change	According to IFRS 15
Revenues from rental of properties	19,668	-	19,668
Revenues from property management and others	6,869	-	6,869
Property management expenses	(6,803)	-	(6,803)
Cost of maintenance of rental properties	(2,688)	-	(2,688)
Rental and management revenues, net	17,046	-	17,046
Revenues from sale of apartments	7,628	3,210	10,838
Cost of sale of apartments	(5,258)	(3,058)	(8,316)
Income from sale of apartments	2,370	152	2,522
Administrative and general expenses	(2,759)	-	(2,759)
Administrative and general expenses attributed to the inventory of apartments under construction and inventory of real estate	(440)	-	(440)
Selling and marketing expenses	(132)	-	(132)
Operating income before change in investment property value	16,085	152	16,237
Increase in value of investment property, net	27,775	-	27,775
Operating income	43,860	152	44,012
Finance income	-	-	-
Finance expenses excluding the effect of exchange rate differences, CPI and currency hedging transactions	(5,213)	-	(5,213)
Effect of exchange rate differences, CPI and currency hedging transactions, net	1,367	-	1,367
Change in value of loans, interest-swap transactions and refinance costs, net	(353)	-	(353)
Equity in earnings (losses) of companies accounted at equity method of accounting	(2,205)	-	(2,205)
Income before taxes on income	37,456	152	37,608
Taxes on income	(6,344)	(47)	(6,391)
Net income	31,112	105	31,217
Other comprehensive income	-	-	-
Total other comprehensive income	31,112	105	31,217
Total comprehensive income attributable to:			
Company shareholders	22,638	8	22,646
Non-controlling interests	8,474	97	8,571
	31,112	105	31,217
Net earnings per share attributable to the Company's shareholders (in Euro)			
Basic net income	2.93	-	2.93
Diluted net income	2.93	-	2.93

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Note 3: - Financial instruments**

## a. Financial instruments not measured at fair value

The following are the carrying balances and the fair value of the financial instruments groups shown in the financial statements not at their fair value:

<u>June 30, 2018</u>		<u>June 30, 2017</u>		<u>December 31, 2017</u>	
<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
<u>Unaudited</u>				<u>Audited</u>	
<u>€ in thousands</u>					

Financial liabilities:

Debentures and interest payable in respect of debentures	<u>126,650</u>	<u>138,416</u>	<u>153,392</u>	<u>165,248</u>	<u>129,003</u>	<u>142,868</u>
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Management estimates that the balance of cash, short term deposits, trade receivables, trade payables, overdrafts and other current liabilities and bank loans presented at amortized cost approximates their fair value due to the short repayment dates of these instruments.

## b. Financial instruments measured at fair value

Classification of the financial instruments according to fair value hierarchy

The table below presents the financial assets and the financial liabilities of the group according to fair value:

	<u>June 30, 2018</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>Unaudited</u>		
	<u>€ in thousands</u>		
Financial assets:			
Financial assets in respect of cash flow hedge transactions	<u>-</u>	<u>-</u>	<u>-</u>
Foreign exchange forward contracts – dollar	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities:			
Foreign exchange forward contracts – dollar	<u>(2,076)</u>	<u>-</u>	<u>-</u>
Interest swap agreements	<u>-</u>	<u>(513)</u>	<u>-</u>

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 3: - Financial instruments (Cont.)

	June 30, 2017		
	Level 1	Level 2	Level 3
	Unaudited		
	€ in thousands		
Financial assets:			
Financial assets in respect of cash flow hedge transactions	-	-	-
Foreign exchange forward contracts – dollar	103	-	-
Financial liabilities:			
Foreign exchange forward contracts – dollar	(1,193)	-	-
Interest swap agreements	-	(629)	-
Loans	-	-	(67,873)

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**


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**Note 3: - Financial instruments (Cont.)**

## b. Financial instruments measured at fair value (Cont.)

Classification of the financial instruments according to fair value hierarchy

The table below presents the financial assets and the financial liabilities of the group according to fair value:

	<b>December 31, 2017</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>€ in thousands</b>		
Liabilities:			
Foreign currency forward contracts – dollar	<u>(4,271)</u>	<u>-</u>	<u>-</u>
Interest swap agreements	<u>-</u>	<u>(449)</u>	<u>-</u>

## c. Reconciliation of fair value measurements that are categorized within Level 3 of the fair value hierarchy in financial instruments:

In the reported period there were no reconciliations for Level 3.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**


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**Note 3: - Financial instruments (Cont.)**

## d. Valuation techniques

The following methods and assumptions were used to estimate the fair values:

The fair value of financial instruments not traded in active market is determined using a valuation technique. Valuation techniques specific to financial instruments include:

- The fair value of interest swap contracts and CAP agreements is based on calculating the present value of the estimated future cash flows using observable return curves.
- The fair value of short term bank credit is based on calculating the discounted cash flows using the credit actually observed of the Euribor rate plus a margin.

## e. The following describes unobservable material data used in valuation:

	<b>Valuation technique</b>	<b>unobservable material data</b>	<b>Range (weighted average)</b>	<b>Sensitivity of fair value to change in data</b> 2%
Interest swap transactions	DCF	Payment curve	Euribor curve for the transaction period	increase/decrease in Euribor curve will result in increase/decrease of up to € 4.5 million in fair value

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 4: - Operating Segments

	<b>Income- Generating Commercial Real Estate</b>	<b>Income- Generating Residential Real Estate</b>	<b>Land for Betterment</b>	<b>Residential development (*)</b>	<b>Total</b>
	<b>€ in thousands</b>				
<u>For the Six-Month Period Ended</u>					
<u>June 30, 2018 (Unaudited)</u>					
Revenues from sale of apartments	-	-	-	29,413	29,413
Cost of sale of apartments	-	-	-	(22,491)	(22,491)
Loss from sale of apartments	-	-	-	6,922	6,922
Revenues from property rental	15,094	24,248	88	-	39,430
Revenues from property management and others	2,633	10,733	77	-	13,443
Property management expenses	2,633	10,733	(71)	-	(13,361)
Rental property maintenance expenses	(1,793)	(3,680)	(94)	-	(5,567)
Total rental and management revenues, net	13,303	20,642	-	-	33,945
Administrative and general expenses					(6,841)
Selling and marketing expenses and administrative and general expenses attributed to inventory of buildings under construction and inventory of real estate	-	-	-	(1,473)	(1,473)
Increase in value of investment property, net	1,622	37,293	(5,615)	-	33,300
Financial expenses, net					(6,244)
Equity in earnings (losses) of companies accounted at equity method of accounting	(2,205)	-	-	-	(2,205)
Income before taxes on income					57,404

(\*)See Note 2c regarding initial adoption of IFRS 15, revenues from contracts with customers.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 4: - Operating Segments (cont.)

	<u>Income- Generating Commercial Real Estate</u>	<u>Income- Generating Residential Real Estate</u>	<u>Land for Betterment</u>	<u>Residential development</u>	<u>Total</u>
	€ in thousands				
<u>For the Six-Month Period Ended</u>					
<u>June 30, 2017</u> (Unaudited)					
Revenues from sale of apartments	-	-	-	9,228	9,228
Cost of sale of apartments	-	-	-	(9,306)	(9,306)
Loss from sale of apartments	-	-	-	(78)	(78)
Revenues from property rental	15,695	20,524	143	-	36,362
Revenues from property management and others	3,738	10,398	30	-	14,166
Property management expenses	(3,708)	(9,895)	(30)	-	(13,633)
Rental property maintenance expenses	(1,492)	(2,995)	(312)	-	(4,799)
Total rental and management revenues, net	<u>14,233</u>	<u>18,032</u>	<u>(169)</u>	<u>-</u>	<u>32,096</u>
Other income	2,008	-	-	-	2,008
Administrative and general expenses					(5,248)
Selling and marketing expenses and administrative and general expenses attributed to inventory of buildings under construction and inventory of real estate	- -	-		(1,481)	(1,481)
Cost of share based payment					(871)
Increase in value of investment property, net	11,502	56,454	25,041		92,997
Financial expenses, net					<u>(15,235)</u>
Income before taxes on income					<u>104,188</u>

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 4: - Operating Segments (cont.)

	<b>Income- Generating Commercial Real Estate</b>	<b>Income- Generating Residential Real Estate</b>	<b>Land for Betterment</b>	<b>Residential development</b>	<b>Total</b>
	<b>€ in thousands</b>				
<u>For the Three-Month Period</u>					
<u>Ended June 30, 2018</u>					
(Unaudited)					
Revenues from sale of apartments	-	-	-	10,838	10,838
Cost of sale of apartments	-	-	-	(8,316)	(8,316)
Loss from sale of apartments	-	-	-	2,522	2,522
Revenues from property rental	7,478	12,151	39	-	19,668
Revenues from property management and others	1,231	5,614	24	-	6,869
Property management expenses	(1,228)	(5,557)	(18)	-	(6,803)
Rental property maintenance expenses	(952)	(1,714)	(22)	-	(2,688)
Total rental and management revenues, net	6,529	10,494	23	-	17,046
Administrative and general expenses					(2,759)
Selling and marketing expenses and administrative and general expenses attributed to inventory of buildings under construction and inventory of real estate	-	-	-	(572)	(572)
Increase (decrease) in value of investment property, net	976	32,414	(5,615)	-	27,775
Financial expenses, net					(4,199)
Equity in earnings (losses) of companies accounted at equity method of accounting	(2,205)	-	-	-	(2,205)
Income before taxes on income					37,608



## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 4: - Operating Segments (cont.)

	<u>Income- Generating Commercial Real Estate</u>	<u>Income- Generating Residential Real Estate</u>	<u>Land for Betterment</u>	<u>Residential development</u>	<u>Total</u>
	€ in thousands				
<u>For the Three-Month Period</u>					
<u>Ended June 30, 2017</u>					
(Unaudited)					
Revenues from sale of apartments	-	-	-	857	857
Cost of sale of apartments	-	-	-	(2,679)	(2,679)
Loss from sale of apartments	-	-	-	(1,822)	(1,822)
Revenues from property rental	7,812	10,325	96	-	18,233
Revenues from property management and others	1,687	5,311	15	-	7,013
Property management expenses	(1,662)	(5,206)	(15)	-	(6,883)
Rental property maintenance expenses	(834)	(1,522)	(154)	-	(2,510)
Total rental and management revenues, net	<u>7,003</u>	<u>8,908</u>	<u>(58)</u>	<u>-</u>	<u>15,853</u>
Other income	2,008	-	-	-	2,008
Administrative and general expenses					(2,893)
Selling and marketing expenses and administrative and general expenses attributed to inventory of buildings under construction and inventory of real estate	-	-	-	(585)	(585)
Cost of share based payment					(653)
Increase (decrease) in value of investment property, net	11,619	34,916	25,255	-	71,790
Financial expenses, net					<u>(5,876)</u>
Income before taxes on income					<u>77,822</u>

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 4: - Operating Segments (cont.)

	<b>Income- Generating Commercial Real Estate</b>	<b>Income- Generating Residential Real Estate</b>	<b>Land for Betterment</b>	<b>Residential development</b>	<b>Total</b>
	<b>€ in thousands</b>				
<u>For the year ended December 31,</u>					
<u>2017 (Unaudited)</u>					
Revenues from sale of apartments	-	-	-	58,958	58,958
Cost of sale of apartments	-	-	-	(47,203)	(47,203)
Loss from sale of apartments	-	-	-	11,755	11,755
Revenues from property rental	30,821	43,105	198	-	74,124
Revenues from property management and others	6,045	20,879	98	-	27,022
Property management expenses	(6,031)	(20,386)	(96)	-	(26,513)
Rental property maintenance expenses	(3,326)	(5,823)	(540)	-	(9,689)
Total rental and management revenues, net	27,509	37,775	(340)	-	64,944
Other income	2,008	-	-	-	2,008
Administrative and general expenses					(11,499)
Selling and marketing expenses and administrative and general expenses attributed to inventory of buildings under construction and inventory of real estate	-	-	-	(2,530)	(2,530)
Cost of share based payment					(871)
Increase (decrease) in value of investment property, net	3,486	76,748	28,502	-	108,736
Financial expenses, net					(21,810)
Income before taxes on income					150,733

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**Note 5: - Material Events during the Reported Period**

1. Refinancing - On January 31, 2018, the Company refinanced a loan in a total amount of € 33 million for a period of 5 years. The new loan bears fixed annual interest at the rate of 1.34% with repayment of an annual principal paid quarterly, at the rate of about 2% per annum of the amount of the new loan. On the final repayment date, which is June 30, 2023, the unpaid principal balance will be paid plus accrued interest. The total amount of the repaid loan amounted to € 22.4 million. This loan bears fixed annual interest at the rate of 2.67%.

On June 20, 2018, the Company refinanced a loan (which its maturity date is due) in a total amount of € 55 million for a period of 5 years. The new loan bears fixed annual interest at the rate of approximately 1.613% with amortization rate of 2.5% per annum of the amount of the new loan. On the final repayment date of June 20, 2023, the balance of the principal that has not yet been repaid will be paid plus accrued interest. The total amount of the repaid loan amounted to € 44 million. This loan bears fixed annual interest at the rate of 2.66%.

2. Completion of the purchase of land with an area of 193 thousand square meters in the city of Dusseldorf - On December 28, 2017, the Company entered into a notarized sale agreement with a third party unrelated to the Company and or its controlling shareholder, for the acquisition of all ownership rights in a land with an area of 193 thousand square meters in the Gerresheim neighborhood in Dusseldorf, Germany, for a total consideration of € 141.9 million (including related transaction costs). On the land, 1,300 residential units and 30,000 square meters of commercial spaces, offices and kindergartens and school designated for sale are planned to be constructed. It should be indicated that the Company intends to develop the complex. In order to finance the acquisition, the Company (through a wholly-owned sub-subsidiary) entered into an agreement with a German bank to obtain a loan in the amount of approximately € 90 million under recourse terms (to the Company), the final repayment date of which is 3 years from the date of receiving the loan, bearing interest at a margin of 2% per annum above Euribor's 3 month period. The purchase cost balance plus related costs were financed from the Company's own sources. On February 28, 2018 the transaction was completed - the entire consideration was paid to the seller and the full rights in the real estate were transferred to the Company. The real estate was classified and presented in the financial statements as non-current real estate inventory.
3. Purchase of residential units in Dortmund On February 26, 2018, the Company (via a wholly-owned subsidiary) entered into a notarized sale agreement with a third party unrelated to the Company and/or its controlling shareholder for the purchase of 43 residential units for rental in Dortmund for € 2.4 million. The completion of the transaction is expected to take place at the end of May 2018 and will be financed by a bank loan in the amount of about € 1.8 million, bearing fixed annual interest at the rate of 1.46%, and the balance by the shareholders' equity of the Company.
4. Sale of hotel in Hamburg, Germany – On February 23, 2018, a notarized sale agreement was signed ("the sale agreement") between a sub- subsidiary (100%) of the Company ("the Seller") on the one hand and a third party unrelated to the Company and/or its controlling shareholder ("the Purchaser") for the sale of all of its holdings in a hotel in Hamburg ("the Sold Property") to the Purchaser for a consideration of € 11.9 million (plus adjustments to working capital).

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 5: - Material Events during the Reported Period (Cont.)**

The Sold Property with a leasable area of 5,000 square meters is a 3-star hotel with 100 rooms in Hamburg, Germany, leased to a well-known German hotel chain under a lease agreement until 2027. The Sold Property was purchased by the Seller in 2007 for € 8.5 million. The fair value of the Sold Property in the Company's consolidated financial statements as of December 31, 2017 was € 11.6 million. The transaction, the subject of said sale agreement, was completed on April 25, 2018 upon the full payment to Seller, of which € 6.2 million was used to repay the loan that financed the Sold Property.

5. Motion to approve a class action - on April 8, 2018, On April 8, 2018, a motion to approve a class action was filed against ADLER, Redzone Empire Holding (the former controlling shareholder in the Company) and the management team (as defined above) with the Tel Aviv District Court (the motion) by a shareholder in the Company regarding the alleged violations of the provisions of the Companies Law-1999 (above and below – the companies' law) as well as Tender Offer Regulations with regard to the special tender offer submitted by ADLER to the shareholders of the Company on February 19, 2018 (which was amended on March 20, 2018).
6. On April 25, 2018, the meetings of the bondholders (Series A and B) determined to approve by a required majority not to put the bonds for immediate repayment in respect of the cause contained in the trust deed that was established for the bond holders in respect of the transfer of control; and in connection with the trust deed of Series B the amended trust deed on the above cause of action. The meeting of the bondholders (Series C) decided not to approve the following issues: (i) not to put the bonds for immediate repayment in respect of the cause contained in the trust deed that was established for the bondholders in respect of the transfer of control and (ii) amend the trust deed (Series C) in the matter of such cause as aforesaid. Further to the above, it should be noted that on May 21, 2018, the bondholders (Series C) resolved to grant a waiver in connection with the cause for immediate repayment in respect of the transfer of control of the Company and amending the trust deed.

**Note 6: - Material Events after the date of the statement of financial position**

On July 23, 2018, the Company acquired shares in a public company incorporated in Germany, whose shares are traded on the unofficial supervised Frankfurt Stock Exchange and which is one of the leaders in the residential real estate development market in Germany, which is not related to the Company or its controlling shareholder representing 4.1% of issued and outstanding equity of the target company, for a total consideration of € 35 million.

**BRACK CAPITAL PROPERTIES NV**

**PRESENTATION OF FINANCIAL DATA  
FROM THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
ATTRIBUTED TO THE COMPANY ITSELF**

**AS OF JUNE 30, 2018**

**UNAUDITED**

**IN THOUSANDS OF EUROS**

**To the Shareholders of Brack Capital Properties NV**

Re: special report for review of the separate interim financial information in accordance with Regulation 38d of the Securities Regulations (Periodic and Immediate Reports), 1970.

**Introduction**

We have reviewed the separate interim financial information according to regulation 38d of the Securities regulations (Periodic and Immediate Reports), 1970 of Brack Capital Properties NV (hereinafter – the Company), as of June 30, 2018 and for the six-month and three-month periods ending that date. The Board of Directors and Management are responsible for the separate interim financial information. Our responsibility is to express our conclusions with regard to the separate interim financial information for this interim period, based on our review.

**Scope of the Review**

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of financial information for interim periods consists of inquiries, mainly from people responsible for finances and accounting, and of the application of analytical and other reviewing procedures. A review is significantly limited in scope relative to an audit conducted according to generally accepted Israeli auditing standards, and therefore does not allow us to achieve assurance that we have been made aware of all material issues that might have been identified in an audit. Accordingly, we are not expressing an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the above separate interim financial information has not been prepared, in all material aspects, in accordance with Regulation 38d of the Securities regulations (Periodic and Immediate Reports), 1970.

August 16, 2018

Amit, Halfon, CPAs

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Amit, Halfon is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

**AMOUNTS OF ASSETS AND LIABILITIES INCLUDED IN THE INTERIM CONSOLIDATED STATEMENTS ATTRIBUTED TO THE COMPANY**

	<u>June 30,</u>		<u>December 31,</u>
	<u>2018</u>	<u>2017</u>	<u>2017</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>€ in thousands</u>		
<u>Current Assets</u>			
Cash and cash equivalents	26,203	34,876	41,382
Cash and cash equivalents in trust	30,277	29,921	24,554
Balances receivable from banks	407	1,653	932
Restricted deposits and other receivables	10,075	136	89
Other financial assets	-	104	-
	<u>66,962</u>	<u>66,690</u>	<u>66,957</u>
<u>Non-Current Assets</u>			
Investment in investee	689,950	623,692	657,608
	<u>689,950</u>	<u>623,692</u>	<u>657,608</u>
	<u>756,912</u>	<u>690,382</u>	<u>724,565</u>
<u>Current Liabilities</u>			
Other accounts payable	1,586	2,111	1,655
Current maturity of debentures	17,159	18,199	17,399
Other financial liabilities	1,001	-	492
	<u>19,746</u>	<u>20,310</u>	<u>19,546</u>
<u>Non-Current Liabilities</u>			
Debentures	108,021	133,284	110,072
Other financial liabilities	1,075	1,193	3,779
	<u>109,096</u>	<u>134,477</u>	<u>113,851</u>
<u>Equity</u>			
Share Capital	77	73	77
Premium on Shares	144,237	117,007	144,237
Treasury Shares	(746)	(883)	(746)
Other capital reserves	1,512	7,823	2,322
Statutory capital reserve	335,468	297,978	319,337
Retained earnings	147,522	113,597	125,941
	<u>628,070</u>	<u>535,595</u>	<u>591,168</u>
<u>Total equity</u>	<u>756,912</u>	<u>690,382</u>	<u>724,565</u>

\*) See Note 2c regarding initial adoption of IFRS 15, revenues from contracts with customers.

August 16, 2018			
Date of approval of the financial statements	Patrick Burke Chairman of the Board of Directors	Tomas de Vargas Machuca CEO	Guy Priel CFO

The accompanying additional information is an integral part of the financial data and the separate financial information

**AMOUNTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME INCLUDED IN THE INTERIM CONSOLIDATED STATEMENTS ATTRIBUTED TO THE COMPANY**

	<b>Six months ended June 30,</b>		<b>Three months ended June 30</b>		<b>Year ended December 31</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2017</b>
	<b>Unaudited</b>				<b>Audited</b>
	<b>€ in thousands</b>				
Administrative and general expenses	(1,026)	(2,289)	(489)	(1,279)	(3,542)
Financial income (expenses), net	1,125	(8,989)	(34)	(2,472)	(9,395)
Equity in earnings of investess	34,246	78,699	23,169	48,590	114,061
Net income	34,345	67,421	22,646	44,839	101,124
Other comprehensive income:	-	-	-	-	-
Total other comprehensive income	34,345	67,421	22,646	44,839	101,124

The accompanying additional information is an integral part of the financial data and the separate financial information



**AMOUNTS OF CASH FLOWS INCLUDED IN THE INTERIM CONSOLIDATED STATEMENTS  
ATTRIBUTED TO THE COMPANY**

	Six months ended June 30,		Three months ended June 30		Year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
<u>Cash flows from operating activities:</u>					
Net income attributed to the Company's shareholders	34,345	67,421	22,646	44,839	101,124
Adjustments required to present net cash provided by operating activities:					
Adjustments to the profit or loss items:					
Financial expenses, net	(2,765)	9,920	(513)	1,831	9,799
Cost of share-based payment	-	871	-	653	871
Capital reserve adjustment in respect of transactions with controlling shareholder	-	338	-	182	432
Equity in earnings of investees	(34,246)	(78,699)	(23,169)	(48,590)	(114,061)
	(37,011)	(67,570)	(23,682)	(45,924)	(102,959)
Changes in assets and liabilities items:					
Decrease (increase) in other receivables and related parties	(10)	(39)	(13)	(10)	8
Increase (decrease) in accounts payable and related parties	(7)	(46)	33	(210)	11
	(17)	(85)	20	(220)	19
Net cash used in operating activities of the Company	(2,683)	(234)	(1,016)	(1,305)	(1,816)
<u>Cash Flows from investing activities</u>					
Change in investment in investee, net	(297)	(14,913)	-	(5,378)	(8,146)
Decrease (increase) in restricted deposits	(9,976)	-	(9,976)	-	-
Interest received and exercise of derivatives	237	436	475	436	1,083
Net cash used in investing activities of the Company	(10,036)	(14,477)	(9,501)	(4,942)	(7,063)

The accompanying additional information is an integral part of the financial data and the separate financial information

**AMOUNTS OF CASH FLOWS INCLUDED IN THE INTERIM CONSOLIDATED STATEMENTS  
ATTRIBUTED TO THE COMPANY**

	Six months ended June 30,		Three months ended June 30		Year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
<u>Cash flows from financing activities</u>					
Interest paid	(2,460)	(2,948)	(800)	(891)	(5,853)
Issuance of debentures, net	-	-	-	-	46,916
Issuance of shares and stock options, net	-	46,916	-	-	-
Repayment of debentures	-	-	-	-	(18,101)
Exercise of stock options	-	965	-	965	22,645
Net cash provided by (used in) financing activities of the Company	(2,460)	44,933	(800)	74	45,607
Change in cash and cash equivalents	(15,179)	30,222	(11,317)	(6,173)	36,728
Balance of cash and cash equivalents at the beginning of the period	41,382	4,654	37,520	41,049	4,654
Balance of cash and cash equivalents at the end of the period	26,203	34,876	26,203	34,876	41,382

The accompanying additional information is an integral part of the financial data and the separate financial information

**ADDITIONAL INFORMATION**

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**1: - General**

- a. This separate financial information has been prepared in a condensed format as of June 30, 2018 and for the six month and three month periods then ended in accordance with Regulation 38d of the Securities Regulations (Periodic and Immediate Reports), 1970. This separate financial information should be read in conjunction with the annual financial statements as of December 31, 2017 and for the year then ended and the additional information.
- b. Subsidiaries as defined in note 1b of the annual financial statements of the Company as of December 31, 2017.
- c. The accounting policies applied in the preparation of this separate financial information is consistent with the policies applied in the preparation of the separate financial information as of December 31, 2017.

**2: - Material events in the reported period**

- a. Motion to approve a class action - on April 8, 2018, On April 8, 2018, a motion to approve a class action was filed against ADLER, Redzone Empire Holding (the former controlling shareholder in the Company) and the management team (as defined above) with the Tel Aviv District Court (the motion) by a shareholder in the Company regarding the alleged violations of the provisions of the Companies Law-1999 (above and below – the companies' law) as well as Tender Offer Regulations with regard to the special tender offer submitted by ADLER to the shareholders of the Company on February 19, 2018 (which was amended on March 20, 2018).
- b. On April 25, 2018, the meetings of the bondholders (Series A and B) determined to approve by a required majority not to put the bonds for immediate repayment in respect of the cause contained in the trust deed that was established for the bond holders in respect of the transfer of control and in connection with the trust deed of Series B the amended trust deed on the above cause of action. The meeting of the bondholders (Series C) decided not to approve the following issues (i) not to put the bonds for immediate repayment in respect of the cause contained in the trust deed that was established for the bondholders in respect of the transfer of control and (ii) amend the trust deed (Series C) in the matter of such cause as aforesaid;

Further to the above, it should be noted that on May 21, 2018, the bondholders (Series C) resolved to grant a waiver in connection with the cause for immediate repayment in respect of the transfer of control of the Company and amending the trust deed.

- c. On July 23, 2018, the Company acquired shares in a public company incorporated in Germany, whose shares are traded on the unofficial supervised Frankfurt Stock Exchange and which is one of the leaders in the residential real estate development market in Germany, which is not related to the Company or its controlling shareholder representing 4.1% of issued and outstanding equity of the target company, for a total consideration of € 35 million.