# 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 three months ending on March 31, 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")[1] 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" – March 31, 2018.**

**"Report signing date" or "the date of signing the report" – May 17, 2018.**

**"The reported period" – the first quarter of 2018.**

**<u>Preamble</u>**

**<u>Below are the Company's principal results for the three months ended March 31, 2018.</u>**

1. **Profitability** – in the first quarter of 2018, the Company's net income attributed to the Company's shareholders amounted to approximately EUR 11.7 million compared to income of EUR 22.6 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 first quarter of 2018, the FFO amounted to EUR 9.4 million. The FFO in the reported quarter is grossing up an annual rate of EUR 37.6 million.

   - **Residential development activity**- In the reported period, the contribution to the profit of the Grafental project amounted to EUR 4.4 million (consolidated). As a result of the initial adoption of Accounting Standard No. 15, the Company recognized the sale of 113 residential units from stage D according to a weighted performance rate of 54.3%. It should be indicated that as part of the initial adoption of IFRS 15, the equity (consolidated) as of January 1, 2018 of the Company increased such that it reflects a gross profit (before tax) in the amount of € 3.9 million from the sale of 90 residential units in Stage D according to a completion rate of 37.2%, and

[1] Published on March 18, 2018 (reference 025570-01-2018).

gross profit (before tax) of € 2 million from the sale of 16 residential units from Stage C the sale of which was completed on December 31, 2017.

2. **Operating segments – key operational data**[2].

a. Residential development – Grafental project[3]

| Stage | Number of flats | Expected revenues (EUR in millions) | Expected income (EUR in millions) | Entrepreneurial profit (in percentage) | Sales (in percentage) | Revenue recognition until now |
|---|---|---|---|---|---|---|
| D | 119 | 67.6 | 16.4 | 32% | 98.9% | 50.2% |
| E | 89 | 49.6 | 12.6 | 34% | 39.1% | 0% |
| Total | 208 | 117.2 | 29 | 33% | 73.3% | 28.7% |
| | | | | | | |

b. Income producing real estate[4]

| Zoning | Area (square meters) | Actual Return of rental fees[5] | ERV Return[6] | Actual NOI return | NOI return according to ERV[7] | Occupancy rate |
|---|---|---|---|---|---|---|
| **Residential** | 701 | 5.9% | 7.4% | 5.2% | 6.7% | 95% |
| **Commercial** | 312 | 6.4% | 6.8% | 5.6% | 6.0% | 97% |
| **Total** | **1,013** | **6.1%** | **7.2%** | **5.3%** | **6.5%** | **95%** |

- **Residential**: in the first quarter of 2018, rental fees increased by 5.8 % from identical assets and 2.4% 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 actual rental fees.

- **Commercial**: in the first quarter of 2018, rental fees have increased by 1.3% from identical assets compared to the corresponding quarter in 2017 mainly from the betterment of assets.

[2] As of the report date after the sale of an asset in Hamburg, see material events in the reported period.

[3] Data according to 100%, the effective corporation's share in the project is 84.98%.

[4] Assets consolidated in the Company's financial statements

[5] Data of May 2018 on annual basis divided by the carrying value

[6] 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.

[7] 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 605.4 million and the NAV[8] amounted to EUR 701.2 million as of the report date.

    b. **Debt ratios**: the LTV ratio[9] is 49.6% 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 3.81 in the first quarter of 2018.

    c. **Liquidity**: cash balances and liquid balances amounted to approximately EUR 82.5 million as of the report date.

4. **Dividend policy –**the Company's Board of Directors adopted the dividend policy deriving from the Company's annual FFO, according to which each year from 2017 and in respect of 2017 and thereafter, the Company will distribute to its shareholders a dividend and/or distribute to its shareholders capital (collectively: "the Distribution") of 30% of the total FFO (from the income producing activity only, excluding profit from the Company's development activity). For the purposes of calculating the FFO for a given year, the distribution amount will be derived from the FFO, the FFO data for the fourth quarter of that year will be adjusted to the data for the entire year. For further details, see the section "Material and other events in the reported period". It should be indicated that the Company's Board of Directors resolved in its meeting from March 15, 2018 – in view of the special tender offer dated February 19, 2018 – not to discuss the proposal for dividend distribution for the financial results of the Company for the year ended December 31, 2017.

[8]EPRA NAV – for details regarding the index and the calculation manner see section 5 of part A.
[9]Net debt to total real estate assets

**Concise description of the Corporation and its business environment**

Areas of activity

The Company, its subsidiaries and associates 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 11,913 apartments, with a total leasing area of approximately 701,000 $m^2$**.**

- **Commercial income-producing real-estate** – as of the report signing date, the Group owns 26 commercial income-producing properties[10] in the commercial segment (commerce and offices) with an overall leasing area of approximately 312,000 $m^2$.

- **Entrepreneurship Residential Real estate** - for details regarding the marketing, sales 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".

[10]In addition, the Company has one asset held by an associate spanning over an area of 7,000 $m^2$ 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 777,948 thousand. As of the report date, the average rate of interest of these loans is approximately 1.65%. The average duration of the loans is about 3.5 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 171,520 thousand par value with an interest (linked) of approximately 4.8% per year with an average duration of approximately 1.17 years, Series B at a scope of approximately NIS 200,000 thousand par value with an interest (linked) of approximately 3.29% per year with an average duration of approximately 4.0 years and Series C at a scope of NIS 153,642 thousand par value with an interest (linked) of approximately 3.3% per year with an average duration of approximately 6.13 years.

Activity environment

The German economy is the fourth in the world in terms of Gross National 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.[11]

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) expects 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 . In the first quarter of 2018, the German GDP increased by 0.3%.

- **Material and other Events in the Report Period**

  - **Refinancing** - on January 31, 2018, the Company refinanced a total 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

[11]As of the date of signing the report, the German government bonds for 10 years yields a nominal annual return of 0.615%.

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.

- **<u>Completion of the purchase of land with an area of 193 thousand square meters in the city of Dusseldorf</u>** - 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)[12] , 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. 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.

- **<u>Purchase of residential units in Dortmund</u>** - 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 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  Company own sources.

- **<u>Notice of interested party to the Company pursuant to the provisions of Section 37 of the Securities Law 1968- ,</u>**on February 17, 2018, Empire Holding Limited Redzone (the then controlling shareholder in the Company)  (Redzone) and ADLER Real Estate AG ("ADLER") issued notices to the Company in accordance with the provisions of Section 37 of the Securities Law – 1968 (the securities law). As part of these notices, the Company was informed that on February 16, 2018, Redzone entered into an agreement for the purchase of shares with the purchaser pursuant to which the purchaser undertook to purchase from Redzone all of the Company's shares Redzone holds (3,172,910 ordinary shares of the Company, constituting 41.04% of the issued and paid-up share capital[13] and voting rights (the Company's capital) at a price per share of NIS) 440 i.e ,.for a total consideration of NIS 1,396 million . The completion of the agreement is subject to several suspending conditions ,the principal of which are (1) :approval by the German Federal Cartel Office (German Anti Trust Authority) of the transaction that is the subject of the agreement which was obtained on February 23, 2018;[14]  (2) completion of the tender offer in such a manner that the purchaser will purchase ordinary shares of the Company constituting at least %5 of the Company's capital ,as well as other customary terms .. For additional details see immediate report dated February 18, 2018 (reference 016024-01-2018) which is brought in this report by way of reference. As detailed below – the sale agreement was completed after that the suspending conditions have been met.

[12]Until the construction commencement of the project.
[13]Net of 31,688 "dormant shares" held by the Company itself.
[14]see also in this regard immediate report dated February 25, 2018 (reference 018379-01-2018)

- **Special tender offer** - further to what is stated above in the notice of the interested party, on February 19, 2018, according to the provisions of the Companie Securities Regulations (Tender Offer) -2000 (Tender Offer Regulations) ,Adler published specifications of the special tender (and on March 20, 2018 amended specifications were published) (below and respectively: the specifications and the tender offer) offer for the purchase of up to 1,994,278 ordinary shares of the Company ,constituting ,as of the date of the report ,about %25.8 of the Company's issued and paid up share capital and voting rights on fully diluted basis) excluding 31,688 dormant shares held by the Company. In the Specifications ,ADLER indicated that it received commitments from Gal Tenenbaum ,[15]Ophir Rahamim and Fred Ganea [16] (the management team) to respond to the tender offer in relation to all of their holdings in the Company's shares (434,559 ordinary shares of the Company , constituting approximately %5.62 of the Company's capital). The purchaser has granted the management team an option ,which will come into effect subject to the completion of the tender offer , to sell to it (at a price per share equal to the price offered in the tender offer) the balance of their holdings in the Company's shares that will not be sold to the purchaser as part of the tender offer .For further details ,see the specification attached to the Company's immediate report of February 19, 2018 (Ref. 016600-01-2018) and in the amended specifications that was attached to the Company's immediate report dated March 20, 2018 (reference 026818-01-2018).

  On March 12, 2018, the Company's Board of Directors announced, in accordance with the provisions of Section 329 of the Companies Law and the provisions of Regulation 21 of the Regulations (Tender Offer, following a number of discussions in which it examined the tender offer that it decided to refrain from expressing an opinion on its profitability. For details as to the reasons for this decision, as well as the details to which the Company's Board of Directors has drawn the attention of the Offerees, see the immediate report of that date [Reference No. 023644-01-2018] which is brought in this report by way of reference.

- **Results of the special tender offer** - On March 24, 2018, the Company received notice from ADLER regarding the results of the tender offer, whereby the Offer Coordinator received acceptance notices for 3,983,326 ordinary shares of the Company, constituting 51.3% of the Company's issued and paid up share capital and voting rights. Further to the above, it should be noted that on March 26, 2018, the Company was notified by the Offeror that pursuant to the late response period, as defined in the tender offer, additional acceptance notices were received for 254,958 ordinary shares of the Company. Therefore, the total amount of shares for which acceptance notices for a tender offer were given is 4,238,284 shares, representing approximately 54.82% of the Company's issued and paid up share capital and voting rights. In accordance with the terms of the tender offer, the Offeror will purchase 1,994,278 ordinary shares of the Company (i.e., the purchase percentage from each offeree who accepted the offer will amount to approximately 47.05%), constituting approximately 25.8% of the Company's issued and paid up share capital and voting rights therein. For further details, see previous immediate reports dated March 25, 2018 and March 27, 2018 [reference no. 028618 -01-2018 and 030148-01-2018]. On April 2, 2018 ADLER completed the tender offer and purchased a total of 1,994,278 Company shares from the offerees who accepted the tender offer at a price per share of NIS 440 and for a total consideration of NIS 877 million.

- **Change in the control of the Company** - on April 2, 2018 ADLER completed the acquisition of 3,172,910 Company shares from the previous controlling shareholder in the Company at a price per share of NIS 440 and in total consideration of NIS 1,396 million. Following the completion of said transaction, ADLER

[15]joint CEO in the Company

[16]manager of the Company's economic department

became the controlling shareholder of the Company on the same date in place of Mr. Teddy Sagi, the Company's previous controlling shareholder. As of April 2, 2018, the Company's controlling shareholder, ADLER, held 5,167,188 Company shares, constituting 66.57% of the Company's share capital.

- **Exercise of the option and acquisition of the balance of the holdings of the management team by ADLER** - On April 12, 2018, the option granted to the management team was exercised as stated above, in such manner that ADLER acquired from the management team a total of 230,083 of the Company's shares at a price per share of NIS 440 and for a total consideration of approximately NIS 101 million. As of April 12, 2018 and as of the report signing date, ADLER holds 5,397,271 of the Company's shares, constituting 69.8% of the Company's capital.

- **Motion for approval of a class action** - On April 8, 2018, a motion to approve a class action ( "the motion") was filed against ADLER, Redzone and the management team (as defined above) with the Tel Aviv District Court by a shareholder in the Company (who holds 2 shares) regarding the alleged violation of the provisions of the Companies Law as well as the alleged violations of the Tender Offer Regulations with regard to the special tender offer offered by ADLER to the shareholders of the Company. For additional details regarding the motion, see the immediate report dated April 9, 2018 [Ref. 035494-01-2018], which is included in this report by way of reference.

- **Changes in the composition of the 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. On May 7, 2018, Mr. Willem van Hassel's three-year term as an external director of the Company has ended, without extending his term for an additional period.

- **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).

  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 ilAA- (stable outlook) and for the Company's bonds Series A B and C ratified the rating of ilAA- [17]

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

- **<u>Progress with the development of the residential project in Düsseldorf</u>** - 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. **<u>Performance and marketing of Stage C</u>** – 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 $m^2$ 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) (about 100 % of this stage) were marketed at a total monetary consideration of EUR 56.15 million. As of the report date and the report signing date, advance payments of EUR 55.9 million and EUR 56.1 million, respectively, were received from apartment purchasers.

  b. **<u>Delivery of apartments and recognition of profits of Stage C</u>** - 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. 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. **<u>Performance and marketing of Stage D</u> –** 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 $^{m2}$ gross). In May 2017, the Company commenced marketing and sales of Stage D and as of the report signing date, 118 flats (signed agreements and reservations) were marketed (about 98.9% of this stage) for a total consideration of EUR 66.9 million.

     As of the report date and the report signing date, advances of EUR 23.5 million and EUR 34.9 million, respectively, were received from apartment purchasers.

  d. **<u>Sale of apartments and recognition of profits of Stage D</u>** – following the initial adoption of IFRS 15, the Company recognized the sale of 111 apartments of Stage D according to an average performance rate of 54.3% and comprehensive income of EUR 8.3 million. Profit of EUR 3.9 million from the sake 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 4.4 million was recognized as part of the report of the reported quarter.

     **<u>The selling prices</u> in Stage D gross up an increase of 8.7% compared to the selling prices of Stage C and consequently the entrepreneurial profitability is expected to increase from 28% in Stage C to 32% in Stage D** (for additional information see the table in page 7 below).

  e. **<u>Performance and marketing of Stage E</u>** – 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 $m^2$. In May 2018, the Company commenced the marketing and sale of Stage E and as of the report signing date 28 flats (signed agreements and reservations) were marketed (36.4% of this stage) for a total monetary consideration of EUR 18 million.

f. **<u>Performance of Stage F, the first stage to be built as part of the Grafental Mitte</u>** [18]– in April 2018 upon receipt of the building permit, the commenced the construction of Stage F, which includes 112 residential units for rental (of which 70 apartments affordable housing – in rent control[19] ) with 57 underground parking spaces with a gross area of approximately 12,000 square meters.

g. **<u>Planning and performance of Stage G, the second stage to be built as part of Grafental Mitte</u>** - 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.

[18]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.

[19]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.**

| Data according to 100% The effective corporation's share in the project – 83%) | 2018 | 2018 | | 2017 |
|---|---|---|---|---|
| | As of the date of signing the report[20] | As of the date of signing the report | Q1 | |
| | Stage E | Stage D | | |
| Flats (#) | 0 | 118 | 113 | 92 |
| Flats – total monetary consideration (including for parking, EUR in thousands) | 0 | 66,869 | 63,866 | 51,507 |
| Flats (square meters) | 0 | 13,918 | 13,344 | 10,829 |
| Average price per sq.m (EUR) (including consideration for parking) | 0 | 4,804 | 4,786 | 4,756 |
| **Reservations as of the report signing date** | | | | |
| Flats (#) | 31 | 0 | | |
| Flats – total monetary consideration (including for parking, EUR in thousands) | 19,380 | 0 | | |
| Flats (square meters) | 3,975 | 0 | | |
| Average price per sq.m (EUR) | 4,875 | 0 | | |
| **Signed agreements and cumulative reservations up to the report signing date:** | | | | |
| Flats (#) | 31 | 118 | | |
| Flats – total monetary consideration (including for parking, EUR in thousands) | 19,380 | 66,869 | | |
| Flats (square meters) | 3,975 | 13,918 | | |
| Average price per sq.m (EUR) | 4,875 | 4,804 | | |

[20] the project marketing commenced on May 1, 2018

| Marketing rate of the project % | | | | |
|---|---|---|---|---|
| | **As of the report signing date** | **As of the report signing date** | **31.3.18** | **31.12.17** |
| Marketing rate on the last date of the period -signed agreements | 0% | 98.9% | 94.4% | 76.2% |
| Marketing rate on the last date of the period -signed agreements and reservations | 39.1% | 98.9% | | |
| **Advances from tenants** | | | | |
| Advances from tenants (EUR in thousands) | 0 | 34,891 | 23,483 | 14,691 |
| Rate of Advances from tenants (%) | 0.0% | 51.6% | 34.7% | 21.7% |
| **spaces for which agreements and reservations have not yet been signed as of the signing date of the : report** | | | | |
| Flats (#) | 58 | 1 | | |
| Flats – total expected monetary consideration (including for parking, EUR in thousands) | 30,184 | 764 | | |
| Flats (square meters) | 6,043 | 155 | | |
| Average price per sqm (EUR) | 4,995 | 4,929 | | |
| **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)** | 6,351 | 365 | | |
| | | | | |
| | | | | |

* 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 [21] the performance of which has not yet commenced in Grafental residential project (EUR in thousands)**

| | Stage D [22] | Stage E [23] | Stage F[24] |
|---|---|---|---|
| Total expected revenues | 67,633 | 49,654 | 28,925[25] |
| Advances from apartment purchasers as of the report date | 23,483 | - | - |
| Advances from apartment purchasers as of the date of signing the report | 34,891 | - | - |
| Total cumulative costs invested | 33,119 | 10,592 | 2,568 |
| Total costs remaining for investment | 18,064 | 26,465 | 22,390 |
| Total expected cost (including land (EUR in thousands) | 51,183 | 36,994 | 24,959 |
| Completion rate (engineering/monetary)(excluding land)(%) [26] | 54.3% | 3.2% | 4.1% |
| Total expected entrepreneurial profit | 16,449 | 12,569 | 3,966 |
| Total entrepreneurial profit recognized in the Company's financial statements (consolidated) cumulatively as of the report date | 8,259 | - | - |
| Rate of expected entrepreneurial profit (%) | 32.1% | 34% | 15.9% |
| Expected completion date* | Fourth quarter of 2018 | First quarter of 2020 | First quarter of 2020 |

*starting from this quarterly report, in which the Company first adopted 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.

[21]It should be noted that the urban planning scheme of Grafental Mitte applies to stage F and is advanced stages of approval, see below.
[22]Performance and marketing of Stage D commenced in April and May 2017 (respectively) upon receiving the building permit
[23]Performance and marketing of Stage E commenced in April 2018 and May 2018 (respectively) upon receiving the building permit.
[24]Performance of Stage F commenced in April 2018 upon receiving the building permit.
[25]Represents the expected value of the stage, which is designated for rental, as an income producing asset after its completion.
[26]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.

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 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)

| **Data according to 100%. The corporation's effective portion in the project – 83%** | Revenue not yet recognized | Cash flow not yet recognized | Entrepreneurial profit not yet recognized |
|---|---|---|---|
| Stages in progress (stage D) | 29,131 | 12,204 | 7,300 |

From apartments not yet sold (EUR in thousands)

| **Data according to 100%. The corporation's effective portion in the project – 83%** | Revenue not yet recognized | Cash flow not yet recognized | Entrepreneurial profit not yet recognized |
|---|---|---|---|
| Stages in progress (stage D) | 3,281 | 1,550 | 927 |
| Stages in progress – Stage E | 49,564 | 19,682 | 12,536 |
| Total | **53,385** | **21,232** | **13,463** |

- **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$^2$ for offices (the parcel of land): in the reported period, the Company with Dusseldorf municipality, advanced 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 is expected to be approved by the city council and come into force in June 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.[27]

[27]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.

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 $m^2$ erected thereon residential and office buildings (generating annual income 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[28]

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 $m^2$, 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 for 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)[29] . 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.

[28]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.

[29]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 [30]real estate inventory in Dusseldorf and inventory of buildings under construction that is not under an approved urban scheme [31]without the parcel of land in Gerresheim neighborhood and without the project in Aachen:**

| **Data according to 100% (EUR in thousands)** | Revenue not yet recognized | Cash flow not yet recognized | Entrepreneurial profit not yet recognized |
|---|---|---|---|
| Apartments for rental under rent control in performance (Stage F) and in planning under urban schemes of Grafental Mitte / Ost | 124,913 | 35,890 | 15,897 |
| 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 | 98,701 |

**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)**

[30]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).

[31]Stage F

**and/or the formation of special conditions that may 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 | March 31, 2018 | March 31, 2017 | December 31, 2017 | Explanation for the change |
|---|---|---|---|---|
| | EUR in thousands | | | |
| | | | | |
| Cash and cash equivalents | 82,510 | 123,546 | 113,129 | See details in the statement of cash flows |
| Balances receivable from banks | 723 | 2,195 | 932 | |
| Restricted deposits, financial assets and other receivables | 8,047 | 13,157 | 10,727 | |
| Income receivable from the sale of apartments | 13,051 | - | - | The increase in the report period derives from initial adoption of IFRS 15. |
| Tenants and trade receivables, net | 3,249 | 4,121 | 3,735 | |
| Inventory of buildings under construction | 21,518 | 44,451 | 48,756 | Decrease in inventory from recognizing inventory cost of sale |
| **Total current assets** | **129,098** | **187,470** | **177,279** | |
| **Assets held for sale** | 11,900 | - | 11,622 | See material events after the report date |
| **Non-current assets:** | | | | |
| Investments measured at equity | 8,518 | 8,318 | 8,318 | |
| Inventory of real estate | 214,584 | 14,092 | 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 | 67,094 | 101,984 | 67,094 | |
| Investment property – income producing assets | 1,296,841 | 1,116,174 | 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 | 7,408 | 2,324 | 7,297 | |
| Other accounts | 374 | 1,669 | 18,023 | The increase in the reported period is |

| | | | | |
|---|---|---|---|---|
| receivable, fixed assets and other financial assets | | | | mainly due to an advance payment of € 13.3 million paid as part of the agreement to acquire the parcel of land in the Gerresheim neighborhood. |
| Deferred taxes | 526 | 6,367 | 1,438 | |
| **Total non-current assets** | **1,595,345** | **1,250,928** | **1,458,378** | |
| **Total assets** | **1,736,343** | **1,438,398** | **1,647,279** | |
| | | | | |

| Liabilities | March 31, 2018 | March 31, 2017 | December 31, 2017 | Explanation for the change |
|---|---|---|---|---|
| | EUR in thousands | | | |
| **Current liabilities:** | | | | |
| Current maturities of loans from banks | 139,768 | 24,164 | 161,731 | |
| Current maturities of debentures | 16,654 | 18,489 | 17,399 | |
| Loans for financing inventory of buildings under construction | 2,500 | 3,000 | 4,000 | As of the report date, the balance of the loan is 0 |
| Current maturities of other financial liabilities | 745 | 450 | 941 | |
| Accounts payable | 20,033 | 22,447 | 25,424 | |
| Advances from apartment purchasers | 1,069 | 19,901 | 23,119 | The decrease in the reported period derives from the adoption of IFRS 15 |
| Liability component in respect of issuing stock options | - | 542 | - | |
| Total current liabilities | **180,769** | **88,993** | **232,614** | |
| **Liabilities held for sale** | 6,997 | | 6,710 | |
| | | | | |
| **Non-current liabilities:** | | | | |
| Loans from banks and others | 629,300 | 554,454 | 495,006 | The increase in the reported period mainly derives from a loan taken to finance the purchase of the land in Gerresheim . |
| Debentures | 105,263 | 135,586 | 110,072 | The decrease in the reported period mainly derives from exchange rate differences. |
| Other liabilities | 3,095 | 3,133 | 3,095 | |
| Other financial liabilities | 5,352 | 296 | 3,779 | |
| Deferred taxes | 104,045 | 72,888 | 97,373 | |
| | **847,055** | **766,357** | **709,385** | |

| | | | | |
|---|---|---|---|---|
| **Total liabilities** | **1,034,821** | **855,350** | **948,709** | |
| **Equity** | | | | |
| Equity attributable to equity holders of the company | 605,424 | 488,503 | 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 | 96,098 | 94,545 | 107,402 | The decrease in the reported period mainly derives from payments to non controlling interests |
| **Total equity** | **701,522** | **583,048** | **698,570** | |
| **Total liabilities and equity** | **1,736,343** | **1,438,398** | **1,647,279** | |
| | | | | |
| | | | | |

## (2) Activity Results

| | Three months ended March 31 | | Year ended December 31, | Explanation for the change |
|---|---|---|---|---|
| | **2018** | **2017** | **2017** | |
| | **EUR in thousands** | | | |
| Revenues from rental of properties | 19,762 | 18,129 | 74,124 | Purchase of new assets and increase in rental fees in identical assets |
| Revenues from property management and others | 6,574 | 7,153 | 27,022 | |
| Property management expenses | (6,558) | (6,750) | (26,513) | |
| Cost of maintenance of rental properties | (2,879) | (2,289) | (9,689) | |
| **Rental and management revenues, net** | **16,899** | **16,243** | **64,944** | |
| Revenues from sale of apartments | 18,575 | 8,371 | 58,958 | Sale of apartments in Stage D of the residential project |
| Cost of sale of apartments | (14,175) | (6,627) | (47,203) | |
| **Income from the sale of apartments** | **4,400** | **1,744** | **11,755** | |
| other income | - | - | 2,008 | |
| General and administrative expenses | (4,082) | (2,355) | (11,499) | In the first quarter of 2017, the Company recognized onetime amendment carried to this item |
| General and administrative expenses attributed to inventory of apartments under construction and inventory of real estate | (807) | (724) | (2,141) | |
| selling and marketing expenses | (94) | (172) | (389) | |
| Cost of share based payment | - | (218) | (871) | |
| Increase in the value of investment property, net | 5,525 | 21,207 | 108,736 | Updating the value of the Company's assets |
| **Operating profit** | **21,841** | **5,725** | **172,543** | |

| | | | | |
|---|---|---|---|---|
| Financing income | - | **3** | 39 | |
| Financing expenses excluding the effect of exchange rate differences, CPI and hedging transactions, net | (4,615) | 26 | (19,529) | Current payments of bank loans and bonds and decrease in interest rate on refinanced loans offset by an increase in bank loans for financing the purchase of new assets |
| | | (4,924) | | |
| Effect of exchange rate differences, CPI and currency hedging transactions, net | 2,820 | (4,749) | (3,005) | |
| Change in the value of loans and interest rate swap transactions, net | (250) | 288 | (685) | Changes in the interest curve in Europe, hedging transactions and refinancing transaction costs. |
| **Income before taxes on income** | 19,796 | 26,366 | **150,733** | |
| Taxes on income | (6,874) | (2,204) | (31,689) | |
| **Reported net income** | **12,922** | **24,162** | **119,044** | |
| **Net income attributed to:** | | | | |
| Company shareholders | 11,699 | 22,582 | **101,124** | |
| Non-controlling interests | 1,223 | 1,580 | 17,920 | |
| | | | | |

## 3) Cash flows

| | Three months ended March 31 | | Year ended December 31, | Explanation for the change |
|---|---|---|---|---|
| | **2018** | **2017** | **2017** | |
| | | **EUR in thousands** | | |
| **Cash flows provided by operating activities (Cash flows used in operating activities)** | (118,798) | 16,361 | 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)** | (4,166) | (8,006) | (114,264) | capex investments in existing assets |
| **Cash flows provided by financing activities (Cash flows used in financing** | | 25,913 | 64,039 | |

| | | | | |
|---|---|---|---|---|
| **activities)** | 92,345 | | | |

- <u>Access to financing sources</u> – 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.

  It is indicated that for the period of three months ended March 31, 2018, the Company has in its solo reports negative cash flows from operating activity amounting to EUR 1,667 thousand[32] and for the period of twelve months ended December 31, 2017 the Company has in its solo reports (but not in the consolidated statements) negative cash flows from operating activities amounting to EUR 1,816 thousand . The Board has determined, based on its examination, that this does not indicate on liquidity difficulty since cash flows and liquid balances in the Company (solo) with the unlimited liquid balances which can be distributed immediately from subsidiaries as of the signing date of the report amount to EUR 63 million compared to its current liabilities amounting EUR 18 million so as of the report signing date, the Company (solo) has a working capital surplus of EUR 45 million consisting of cash balances and liquid balances.

  The Board believes that the issue at hand is merely technical whereas in view of the high liquid balances maintained by the Company (solo), the Company elected not to receive management fees or distribute dividends from its wholly owned subsidiary (Brack German Properties B.V) and therefore no current revenues were recorded under the separate activity of the Company (solo) in a manner resulting in negative cash flows from operating activity of the solo company in 2017 and in the reported period.

  In addition, it is indicated that during the reported period, the Company classified five non-recourse loans taken by the Company's sub-subsidiaries in the amount of € 125 million as current maturities, in accordance with the original amortization schedule of such loans (taken in 2013 and 2014) and as part of the Company's ordinary course of business and as a result of the above, as of March 31, 2018, the Company has a working capital deficiency (consolidated) of approximately € 52 million. The Company's Board of Directors stated at its meeting from May 17, 2018, that the aforesaid does not indicate a liquidity problem in the corporation, since they are non-recourse loans in sub-subsidiaries that are repayable in accordance with their repayment schedule within a where as of the report date, these loans are in compliance with all the covenants stipulated in the loan agreements. The Company intends to refinance the debt as it does with respect to all its debts that have reached maturity. As of the report signing date, one of the five loans of EUR 9 million was refinanced. In addition, regarding a loan amounting to EUR 44.5 million, the Company was informed by the lending bank that the bank's board of directors has approved the refinancing in more favorable terms than the terms of the current financing and the Company estimates that the refinancing agreement is expected to be signed in the next two to three weeks. Therefore, the Company expects that during the second quarter of 2018 the the working capital (consolidated) will be positive.

**(4) <u>FFO (Funds from Operations)</u>**

**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

[32] 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 land in Dusseldorf, which was classified as long-term inventory of land, does not represent the Company's cash flows (consolidated), which are consistently positive.

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 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 March 31, 2018** | **Three months ended March 31, 2017** | **Year ended December 31, 2017** |
|---|---|---|---|
| | | | |
| **Net profit attributed to the Company's shareholders** | 11,699 | 22,582 | 101,124 |
| | | | |
| **Adjustments for net profit:** | | | |
| **A. Adjustments for revaluations** | | | |
| | | | |
| Increase in the value of investment property and adjustments of liability value relating to investment property | (5,705) | (21,497) | (101,649) |
| Transaction costs under as part of purchasing new assets recognized in profit or loss | - | - | 5,423 |
| Revaluation of loans and interest swap transactions at fair value | 291 | (161) | (313 |
| **B. Adjustments for non cash items** | | | |
| Cost of share-based payment and changes in capital reserves | - | 394 | 1,303 |
| Amortization of financing costs, indexing and non cash exchange rate differences and hedging transactions | (2,427) | 5,350 | 5,699 |
| Interest component in hedging transactions | 328 | 228 | 1,091 |
| Deferred tax expenses and taxes for prior years | 5,686 | 2,204 | 27,133 |
| **B. Unique items / new activities / ceased activities / other** | | | |
| Depreciation and contributions, professional services and onetime expenses | 1,457 | (725) | 534 |
| Adjustments related to associates and non controlling interests | 569 | - | - |
| 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 | 1,233 | 1,154 | 3,908 |
| Adjustments for sale of apartments | (3,739) | (1,447) | (9,756) |
| **Total of adjustments to net profit** | (2,307) | (14,500) | (66,627) |
| **F.F.O** | 9,392 | 8,082 | 34,497 |

**As aforesaid, the FFO in the three months ended March 31, 2018 amounted to approximately EUR 9.4 million, grossing up an annual FFO rate of EUR 37.6 million.**

## 5) 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 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 March 31, 2018 EUR in millions** | **As of December 31, 2017 EUR in millions [33]** |
|---|---|---|
| Equity attributed to the Company's shareholders | 605.4 | 591.2 |
| Plus deferred taxes for EPRA adjustments (net of non controlling interest) | 91.3 | 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 | 4.3 | 8.2 |
| **EPRA NAV –Net Asset Value** | **701.2** | **689.3** |
| | | |

## (6) Events after the report date that have an effect on the Company's financial position - there were no material events after the report date that had an effect on the Company's financial position.

[33]before the adoption of IFRS 15

**Part B – Exposure to Market Risks and Way of Managing Them**

- **Market risks to which the Company is exposed**

Exchange rate effects – as of the report date, the Company's net currency exposure, net of the liabilities for which the Company carried out currency hedging transactions is at a rate of 2.2% of its total scope of assets as a result of the Company's liabilities due to the bonds (Series A, B and C) that were issued to the public in Israel and are denominated in NIS. Other than that, the Company is not exposed to material changes in currency exchange rates, as most of its activities, assets and liabilities are denominated in EUR. The Company reviews from time to time, the possibility, and hedges its liabilities in NIS, partly or wholly, against future changes in the EUR/NIS exchange rate.

- The fair value of the Company's primary financial instruments

As at the report date, most of the Company's financial instruments are presented at their fair value.

Below are sensitivity tests for changes in the fair value of the Company's primary financial instruments, due to changes in the interest (in EUR thousands):

The basic interest is 3-month Euribor.

March 31, 2018:

| | 10% | 5% | Fair Value | -5% | -10% |
|---|---|---|---|---|---|
| Bonds *) | 583 | 292 | (135,062) | (294) | (590) |
| Fixed-interest loans | 1,196 | 598 | (470,412) | (598) | (1,196) |
| Interest rate swap transactions which are not recognized as accounting hedging | 24 | 12 | (431) | (12) | (24) |
| Total | 1,803 | 902 | (605,905) | (904) | (1,810) |

*) The fair value of the bonds is presented at its quoted value in the Tel Aviv stock exchange Ltd. The sensitivity tests are performed based on the interest basis deriving from this value.

Below are sensitivity tests for changes in the fair value of the Group's primary financial instruments, due to changes in the EUR-NIS exchange rate (in EUR thousands):

March 31, 2018:

| | **10%** | **5%** | **Fair Value** | **-5%** | **-10%** |
|---|---|---|---|---|---|
| Bonds (net of cash held in NIS) | 11,361 | 5,681 | (113,612) | (5,681) | (11,361) |

Below are sensitivity tests for changes in the fair value of the Group's primary financial instruments, due to changes in the EUR-dollar exchange rate (in EUR thousands):

March 31, 2018:

| | **10%** | **5%** | **Fair Value** | **-5%** | **-10%** |
|---|---|---|---|---|---|
| Currency hedging transactions | (6,250) | (3,125) | (5,666) | 3,125 | 6,250 |

Below are sensitivity tests for changes in the fair value of the Group's primary financial instruments, linked to the consumers' price index, due to changes in consumers' price index

March 31, 2018:

| | **4%** | **3%** | **Fair Value** | **-3%** | **-4%** |
|---|---|---|---|---|---|
| Bonds | (5,402) | (4,052) | (135,062) | 4,052 | 5,402 |

The fair value of the investment properties is also affected by changes in the interest rate in the market. A permanent increase/decrease (increase/decrease forecast by the market as one which is not temporary, but rather characterizes a medium/long-term trend) in market interest rates will lead to changes in the requested yields on real-estate properties (although there is no full correlation between the change in market interest levels and the change in yield on properties), and to a decrease/increase in their fair value, respectively. However, since only a change in market interest levels forecast as being permanent will lead to a change in the fair value of the Company's properties, the transmission between the change of interest in the market and the change in the fair value of the Company's properties is "slow", and occurs over time (usually, a period of between 6 and 9 months is necessary before real-estate prices in the market react to changes in market interest rates). Therefore, the effect of the increase in market interest rates, which generally leads, after a certain period of time, to a decrease in the fair value of the Company's properties, will be offset by the decrease in the fair value of the Company's financial liabilities, and vice-versa.

- Linkage basis report

Apart from the payments due to the bonds issued by the Company to the public in Israel that are denominated in NIS, the Company's entire activity as of the report date is performed in EUR, and therefore the Company's assets and liabilities are affected mainly by the EUR currency. The payments of principal and interest due to the bonds issued by the Company will be paid in NIS and linked to the consumers' price index. As at the Report Period, the Company has no material exposure to other currencies except for NIS.

**Part C – Corporate Governance Aspects**

The Company is a Dutch company and the provisions of the Companies Law, 5759-1999 (hereinabove and hereinafter: "**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 (hereinafter: "**the Securities Law**").

On February 17 ,2016 ,the Securities Order came into force (replacing the fourth addendum of the law )- 2016 whereby the fourth amendment to the Securities Law has been replaced with the new fourth addendum which is twofold :Part A ,which applies the provisions of corporate law which will apply to companies incorporated outside Israel (below and only in this sub section "foreign companies which shares are offered to the public in Israel - **including applying the provisions of sections 311-301 of the Companies Law regarding a permitted distribution ,dividends ,acquisition and prohibited distribution** (hereinafter" :part A of the fourth addendum) and Part B which applies the provisions of corporate law on foreign companies offering liability certificates to the public. It is clarified that the fourth addendum will not apply to foreign companies offering shares or liability certificates to the public **prior to the legislative amendment** (like the Company). Nevertheless, the amendment will apply to every foreign company (including the Company) that will carry out an IPO of securities from the amendment date (February 17, 2016 onwards) including foreign companies (including the Company) which carry out a reissuance. **Accordingly, since the Company performed reissuance of bonds (Series C) on April 4, 2016 starting from that date, the amendment applies to the Company.**

(1) Further to the aforesaid and according to the directive of the Securities Authority (ISA) for foreign companies, which section 39a is applicable to them, to update the incorporation documents such that they reflect the provisions of the fourth addendum, and according to the Company's obligation toward ISA at the end of January 2017, that it will act to complete all of the actions described above as soon as practicable including the summoning of the shareholders meeting (that was held on July 3, 2017) , the Company has acted and acts in the manner detailed below:

(a) Recently the Company has reviewed with its legal advisors in Holland a formal prescription of the provisions of the companies law in the Company's articles of association so as to reflect the above fourth addendum and upon the conclusion of such review (after receiving the approval of the board which was granted on May 18, 2017) the Company summoned a general meeting of shareholders to July 3, 2017 for approving the revised articles;

(b) Based on interim findings it appears that there is no prevention to include those provisions, mutatis mutandis, (as far as those were not yet prescribed in the Company's articles) and regarding the derivative claim and answer and monetary sanction – by approximate performance as stated in sub section (c) below;

(c) since the sections of the derivative claim and answer (sections 194 – 205a of the companies law) and the sections of imposing monetary sanction (sections 363a(a) and (b)(2) to (12), 363b and 363c of the companies law) cannot be prescribed explicitly in the Company's articles since they are not in line with the absolute law applicable to the Company in Holland, the Company included in the revised articles (which was brought for approval of the meeting of the Company's shareholders on July 3, 2017) provisions that relate to jurisdiction and application of law including the derivative claim and answer and imposing administrative enforcement measures by the ISA;

(d) in addition to the aforesaid, on January 29, 2017, the deeds of trust were amended between the Company, on one hand and Reznik Paz Nevo Trusts Ltd. on the other hand as the trustee for the bondholders (Series A – C) such that the deeds of trust contained the obligations of the Company/officers in connection with imposing monetary sanctions and/or administrative enforcement measures on the Company and/or its officers[34] as well as the obligations of the Company and its officers not to raise any allegations against the right of the bondholders to file a derivative claim (the obligations of the Company and officers). Furthermore, the obligations of the Company and officers were included in the shelf offering report published by the Company on January 29, 2017 under the shelf prospectus dated May 28, 2015 bearing the date of May 29, 2015;

[34]Not to raise allegations against the powers of ISA and/or the administrative enforcement committee in Israel (the committee) in connection with monetary sanctions and/or administrative enforcement measures that will be imposed on the Company and/or its officers (as the case maybe) by ISA and/or the committee pursuant to Chapter H3 and/or Chapter H4 of the securities law and uphold the resolutions of ISA and/or committee including, without derogating from the generality of the foregoing, pay the monetary sanctions and/or payments to injured parties from the violation to be imposed on the Company and/or its officers (as the case may be and if imposed at all) and to take actions to cure the violation and prevent its recurrence.

(2) The special general meeting of the Company's shareholders approved on July 3, 2017 (following the approval of the Company's Board of Directors on May 18, 2017) that since the Company's shares were offered for the first time to the public in Israel and were listed for trading on the Tel Aviv Stock Exchange Ltd under the provisions of section 39a of the Companies Law and therefore some of the provisions of the Israeli Companies Law also apply to the Company, in addition to the Articles of Association of the Company and Dutch law.

The laws applicable to the Company pursuant to the said provisions of the law must be fully incorporated in the Articles of Association of the Company, mutatis mutandis, and as far as possible. Accordingly in order to act such that all the steps required under Israeli law and under Dutch law, will be implemented in order to comply with these two sets of laws, as applicable from time to time, the shareholders approved the revised the Articles of Association in accordance with the amendment letter of the Articles of May 19, 2017 prepared by the Dutch Civil Law Notaries Office Notariskantoor Spier & Hazenberg in Amsterdam and was available for examination on the Company's website and offices. The amendment letter includes a combination of provisions of the Israeli legislation and regulation by virtue of the Companies Law.

For further details regarding the changes and the background for the implementation of the change, see section 1 (a) of the immediate report dated May 21, 2017 [Ref. No. 2017-01-051051 .[The text of the amendment letter to the Articles of Association, which was approved by said meeting, with the marking the changes (on the English translation only) with respect to the Company's articles of association in its version prior to the said change, was attached as Appendix A to the immediate report of May 21, 2017 [Ref. 2017-01-051051).

It should be noted that the changes in the Company's Articles of Association came into force and effect on July 4, 2017. For details, see also the immediate report dated from that date [Ref. 2017-01-06985).

(3) <u>Translation of the report to English</u>

Without derogating from the liability, pursuant to the law, of each Board member for the contents of this report, it is clarified that the most of the members of the Board of Directors the Messers, Alexander Dexne, Lambertus Van den Heuvel, Ulrich Tappe, are not Hebrew speakers. The members of the Board of Directors informed the Company that they approved this report based on the translation of the report to English and not the original version of the report in Hebrew. Said directors stated that they are aware that the binding version of the report is in its original version in Hebrew.

(4) <u>Donations</u>

In the reported period the Company did not make donations

(5) <u>Directors with accounting and financial expertise and independent directors</u>

For information regarding the skills, education and experience of the Messers, Lambertus Van Den Heuvel (external director), Ulrich Tappe (director and manager of the development division of the Company) and Alexander Dexne (chairman of the Board of Directors and independent director) and Meir Jacobson (external director) in respect of whom the Company views them as directors having accounting and financial expertise, see regulation 26 in the chapter "Additional Information About the Corporation" which is attached in chapter D to the periodic report for 2017.

**Part D – Disclosure Provisions in Regard to the Corporation's Financial Reporting**

- Events after the date of the Statement of Financial Position

  See part A, section (6) as aforesaid.

- 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.

- Disclosure regarding material and very material valuations in the first quarter of 2018

  No material or very material valuations took place in the first quarter of 2018.

**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):

| | **Bonds (Series A)** | **Bonds (Series B)** | **Bonds (Series C)** |
|---|---|---|---|
| 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 31.3.2018 (thousands NIS) | 171,520 | 200,000 | 153,642 |
| Linked par value as at 31.3.2018 (thousands NIS) | 178,454 | 200,000 | 153,642 |
| Sum of cumulative interest plus linkage differentials (thousands NIS) as at 31.3.2018 | 1,798 | 1,636 | 980 |
| Value in financial statements as at 31.3.2018 including interest payable (thousands NIS) | 178,767 | 199,875 | 153,528 |

| | | | |
|---|---|---|---|
| Value at the stock exchange as at 31.3.2018 (thousands NIS) | 190,902 | 223,180 | 170,573 |
| 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 installments on July 14 of each of the years 2014 to 2020 (inclusive) such that each of the first six installments will constitute 14.28% of the principal of the total par value of the bonds (Series A), and the last installment will constitute 14.32% of the total par value of bonds (Series A). | Payable in 12 unequal annual installments on December 31 of each of the years 2013 to 2024 (inclusive) such that each of the first seven installments will constitute 4% of the principal of the total par value of the bonds (Series B), and each of the last five installments 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 installments on July 20 of each of the years 2015 to 2026 (inclusive) such that each of the first nine installments 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 installments 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 installment 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 installment 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 |
| (C) | Contact details: | Tel: 03-6399200<br>Fax: 03-6389222<br>Email: trust@rpn.co.il |
| (D) | 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 |
| (C) | Contact details: | Tel: 03-6399200<br>Fax: 03-6389222<br>Email: trust@rpn.co.il |
| (D) | 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 |
| (C) | Contact details: | Tel: 03-6399200<br>Fax: 03-6389222<br>Email: trust@rpn.co.il |
| (D) | Mailing address for documents: | 14 Yad Harutzim Street, Tel-Aviv |

3) Rating

| Bond series | A | |
|---|---|---|
| Name of rating company | Maalot | |
| | **Bonds' rating** | **Issuer's rating** |
| Rating of the issuer and bonds on the date of initial issue (March 2011) | A3 (Midroog)[35] | |
| 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 |

[35]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).

| **Bond series** | **B** | |
|---|---|---|
| Name of rating company | **Maalot** | |
| | **Bonds' rating** | **Issuer's rating** |
| 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 |

| | | |
|---|---|---|
| **Bond series** | **C** | |
| Name of rating company | Maalot | |
| | **Bonds' rating** | **Issuer's rating** |
| 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%[36]:**

The Company's equity, which is attributed to the majority shareholders as at the Report Period, namely, as of March 31, 2018, is EUR 605,424 thousand.

The financial debt, net, according to solo reports of the Company as of the same date is EUR 66,881 thousand.

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 March 31, 2018, is approximately 905%**.**

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

**<u>With respect to the bond holders (Series A):</u>**

"**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 March 31, 2018– 943,804.

The total issued share capital of BGP as of March 31, 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 March 31, 2018 – 47.7%.

BGP's equity which is attributed to its shareholders, as appears in the Company's financial statements as of March 31, 2018 – EUR 678,275 thousand.

The EUR/NIS representative exchange rate known, as of the signing date of the report as published by the Bank of Israel - NIS 4.2259

The value of the charged shares – NIS 1,367,487 thousand.

Net debt – NIS 180,252 thousand.

[36]The requirement to meet this ratio is relevant only to the bondholders of series A and B

Accordingly ,the ratio between the charged share value to net debt, as of the end of the Report Period, is approximately 759% 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 March 31, 2018 – 640,027.

The total issued share capital of BGP as of March 31, 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 March 31, 2018 - 32.4%.

BGP's equity which is attributed to its shareholders, as appears in the Company's financial statements as of March 31, 2018 – EUR 678,275 thousand.

The EUR/NIS representative exchange rate known, as of the signing date of the report, as published by the Bank of Israel – NIS 4.2259

The value of the charged shares – NIS 927,342 thousand.

Net debt – NIS 201,636 thousand.

Accordingly ,the ratio between the charged share value to net debt, as of the end of the Report Period, is approximately 460% 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 March 31, 2018 – 394,430.

The total issued share capital of BGP as of March 31, 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 March 31, 2018 - 19.9%.

BGP's equity which is attributed to its shareholders, as appears in the Company's financial statements as of March 31, 2018 – EUR 678,275 thousand.

The EUR/NIS representative exchange rate known, as of the signing date of the report, as published by the Bank of Israel - NIS 4.2259

The value of the charged shares – NIS 571,494 thousand.

Net debt – NIS 154,622 thousand.

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 605.4 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 605.4 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 605.4 million and the debt ratio to CAP is 53.7% (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):

| | |
|---|---|
| Financial liabilities according to solo reports | 121,917 |
| Financial liabilities of the subsidiaries | 777,948 |
| Net of cash, cash equivalents and deposits | (83,549) |
| Net of debt in respect of inventory of apartments under construction | (2,500) |
| Net financial debt – consolidated | 813,816 |
| CAP[37] | |
| Equity including non controlling interests | 701,522 |
| Net financial debt, consolidated | 813,816 |
| CAP | 1,515,338 |

Therefore, **this ratio is 53.7** % 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.

[37]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.

5) 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 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, 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[38].

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.

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

[38]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 334% 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 299% 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**

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 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 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.

6) Attaching the financial statements of BGP

According to legal position No 29-103 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 March 31, 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:

| Data as of March 31, 2018 (EUR in thousands) | The Company Consolidated | Assets/liabilities In the pledged investee company | Assets/liabilities In unpledged companies |
|---|---|---|---|
| **Total assets** | 1,736,343 | 1,680,498 | 55,845 |
| Current assets and held for sale | 140,998 | 85,153 | 55,845* |
| Noncurrent assets | 1,595,345 | 1,595,345 | - |
| **Total liabilities** | 1,034,821 | 906,125 | 128,696 |
| Current liabilities and held for sale | 187,766 | 169,595 | 18,171** |
| Noncurrent liabilities | 847,055 | 736,530 | 110,525*** |
| **Non- controlling interests** | 96,098 | 96,098 | 0 |
| **Total equity** | 605,424 | 678,275 | (72,851) |
| **Rate of assets out of the total assets in the balance sheet** | 100% | 97% | 3% |
| **Rate of liabilities out of the total liabilities in the balance sheet** | 100% | 88% | 12% |
| **Rate of equity out of the total equity in the balance sheet** | 100% | 112% | (12%) |

*) 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

| **Data as of December 31, 2017 (EUR in thousands)** | **The Company Consolidated** | **Assets/liabilities In the pledged company** | **Assets/liabilities In unpledged companies** |
|---|---|---|---|
| **Total assets** | 1,647,279 | 1,580,322 | 66,957 |
| Current assets | 188,901 | 121,944 | * 66,957 |
| Noncurrent assets | 1,458,378 | 1,458,378 | - |
| **Total liabilities** | 948,709 | 815,312 | 133,397 |
| Current liabilities | 239,324 | 219,778 | ** 19,546 |
| Noncurrent liabilities | 709,385 | 595,534 | *** 113,851 |
| **Non- controlling interests** | 107,402 | 107,402 | - |
| **Total equity** | 591,168 | 657,608 | (66,440) |
| **Rate of assets out of the total assets in the balance sheet** | 100% | 96% | 4% |
| **Rate of liabilities out of the total liabilities in the balance sheet** | 100% | 86% | 14% |
| **Rate of equity out of the total equity in the balance sheet** | 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 8, 2018, Reznik Paz Nevo Trusts Ltd., which serves as the trustee for the holders of the Company's bonds (Series A, B and C) has called a meeting of the bondholders (without actual convening) for April 15, 2018, in view of the transfer of control to ADLER[39]

The subjects on the agenda of said meetings were as follows:

(A) Not to call the bonds for immediate repayment in respect of the cause that was established for the bond holders in respect of the transfer of such control;

(B) Approve the amendment of the trust deeds (Series B and C only) in the matter of this cause of action;

For further details, see the immediate reports of the trustee from that date [Reference No. 029091-01-2018, 029103-01-2018 and 029112-01-2018].

On April 11, 2018, the trustee announced that at the request of the Company's bondholders the aforesaid meetings were postponed to April 17, 2018.

On April 25, 2018, the trustee announced the results of the holders' meetings, as detailed below -

[39]In this regard it should be indicated that the trust deeds (Series A, B and C) contain a cause for calling for immediate repayment in case the control of the Company is transferred.

(A) The meeting of the bondholders (Series A) 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;

(B) The meeting of the bondholders (Series B) decided to approve by the required majority: (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 B) in the matter of such cause as aforesaid;

(C) The meeting of the bondholders (Series C) resolved not to approve: (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;

| Names of signatories | Position | Signature |
|---|---|---|
| Alexander Dexne | Chairman of the Board of Directors | __________________ |
| Ofir Rahamim | Co-CEO | __________________ |

May 17, 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[40].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[41]

| Serial number out of loan table | Date of extending the loan | The original loan amount EURO in thousands | Principal balance as of March 31, 2018 EURO in thousands | Financial liabilities/other liabilities | Financial covenants - actual ICR/DSCR, as of March 31, 2018 and as of the report signing date | Financial covenants – actual LTV, as of March 31, 2018 and as of the report signing date |
|---|---|---|---|---|---|---|
| | | | | | **As of March 31, 2018** | **As of March 31, 2018** |
| 4 | August 31, 2015 | 49,480 | 44,790 | LTV smaller than 75%<br>DSCR greater than 130% | DSCR = 198% | LTV – 59% |
| | | | | | **As of the report signing date** | **As of the report signing date** |
| | | | | | DSCR = 198% | LTV – 59% |

[40]As to financial covenants in connection with debentures (Series A, B and C) of the Company see section e above, "designated disclosure for bondholders".

[41]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 March 31, 2018 EURO in thousands | Financial liabilities/other liabilities | Financial covenants - actual ICR/DSCR, as of March 31, 2018 and as of the report signing date | Financial covenants – actual LTV, as of March 31, 2018 and as of the report signing date |
|---|---|---|---|---|---|---|
| 5 | August 31, 2015 | 13,031 | 11,533 | LTV smaller than 70%<br>DSCR greater than 130% | **As of March 31, 2018**<br>DSCR = 184%<br>**As of the report signing date**<br>DSCR = 184% | **As of March 31, 2018**<br>LTV= 53%<br>**As of the report signing date**<br>LTV = 53% |
| 6 | September 30, 2016 | 110,000 | 106,697 | LTV smaller than 75%<br>DSCR greater than 135% | **As of March 31, 2018**<br>DSCR = 283%<br>**As of the report signing date**<br>DSCR = 283% | **As of March 31, 2018**<br>LTV= 53%<br>**As of the report signing date**<br>LTV = 53% |

| Serial number out of loan table | Date of extending the loan | The original loan amount EURO in thousands | Principal balance as of March 31, 2018 EURO in thousands | Financial liabilities/other liabilities | Financial covenants - actual ICR/DSCR, as of March 31, 2018 and as of the report signing date | Financial covenants – actual LTV, as of March 31, 2018 and as of the report signing date |
|---|---|---|---|---|---|---|
| 8 | June 20, 2013 | 51,500 | 44,176 | LTV smaller than 70%<br>DSCR greater than 140% | **As of March 31, 2018**<br>DSCR = 209% | **As of March 31, 2018**<br>LTV= 40% |
| | | | | | **As of the report signing date**<br>DSCR = 209% | **As of the report signing date**<br>LTV = 40% |
| 11 | February 28, 2014 | 125,000 | 57,223[42] | LTV smaller than 77%<br>DSCR greater than 130% | **As of March 31, 2018**<br>DSCR = 153% | **As of March 31, 2018**<br>LTV= 46% |
| | | | | | **As of the report signing date**<br>DSCR = 153% | **As of the report signing date**<br>LTV = 46% |

[42]it is indicated that upon providing the loan 4 assets in eastern Germany were included in the portfolio that were sold at the end of November 2016 and therefore part of the loan principal was paid at early repayment.

| Serial number out of loan table | Date of extending the loan | The original loan amount EURO in thousands | Principal balance as of March 31, 2018 EURO in thousands | Financial liabilities/other liabilities | Financial covenants - actual ICR/DSCR, as of March 31, 2018 and as of the report signing date | Financial covenants – actual LTV, as of March 31, 2018 and as of the report signing date |
|---|---|---|---|---|---|---|
| 12 | August 30, 2017-refinance | 32,583 | 49,587[43] | LTV smaller than 65%<br>DSCR greater than 160% | **As of March 31, 2018**<br>DSCR = 245%<br>**As of the report signing date**<br>DSCR = 245% | **As of March 31, 2018**<br>LTV= 53%<br>**As of the report signing date**<br>LTV = 53% |
| 16,22 | December 31, 2014 | 10,000 | 14,561[44] | LTV smaller than 80%<br>DSCR greater than 145% | **As of March 31, 2018**<br>DSCR = 250%<br>**As of the report signing date**<br>DSCR = 250% | **As of March 31, 2018**<br>LTV= 47%<br>**As of the report signing date**<br>LTV = 47% |

[43]includes a credit facility of EUR 17.3 million that was drawn in February 2018.

[44]Includes EUR 5.5 million (original amount of EUR 5.6 million) granted by the bank at the beginning of June 2016 to the asset company against charging rights in another asset.

| Serial number out of loan table | Date of extending the loan | The original loan amount EURO in thousands | Principal balance as of March 31, 2018 EURO in thousands | Financial liabilities/other liabilities | Financial covenants - actual ICR/DSCR, as of March 31, 2018 and as of the report signing date | Financial covenants – actual LTV, as of March 31, 2018 and as of the report signing date |
|---|---|---|---|---|---|---|
| 20 | May 30, 2016 | 25,000 | 24,083 | LTV smaller than 76%<br><br>DSCR greater than 130% | **As of March 31, 2018** | **As of March 31, 2018** |
| | | | | | DSCR = 182% | LTV= 64% |
| | | | | | **As of the report signing date** | **As of the report signing date** |
| | | | | | DSCR = 182% | LTV= 64% |
| 26 | December 31, 2016 | 55,800 | 53, 707 | LTV smaller than 75%<br><br>DSCR greater than 160% | **As of March 31, 2018** | **As of March 31, 2018** |
| | | | | | DSCR = 198% | LTV= 59% |
| | | | | | **As of the report signing date** | **As of the report signing date** |
| | | | | | 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 March 31, 2018 EURO in thousands | Financial liabilities/other liabilities | Financial covenants - actual ICR/DSCR, as of March 31, 2018 and as of the report signing date | Financial covenants – actual LTV, as of March 31, 2018 and as of the report signing date |
|---|---|---|---|---|---|---|
| 29 | November 23, 2017 | 46,500 | 46,181 | LTV smaller than 79%<br>DSCR greater than 110% | **As of March 31, 2018**<br>DSCR = 136%<br>**As of the report signing date**<br>DSCR = 136% | **As of March 31, 2018**<br>LTV= 72%<br>**As of the report signing date**<br>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 306 million and average LTV of 44.5%.

**BRACK CAPITAL PROPERTIES NV**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF MARCH 31, 2018**

**UNAUDITED**

**IN THOUSANDS OF EUROS**

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עמית, חלפון

## 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 condensed consolidated statement of financial position as of March 31, 2018 and the condensed consolidated statements of profit or loss and other comprehensive income, changes of equity and cash flows for the three-month period ending that date. 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.

### 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.

May 17, 2018 Amit, Halfon, CPAs

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## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | March 31, 2018 | March 31, 2017 | December 31, 2017 |
|---|---|---|---|
| | (Unaudited) | (Unaudited) | (Audited) |
| | € in thousands | | |
| Current Assets | | | |
| Cash and cash equivalents | 82,510 | 123,546 | 113,129 |
| Balances receivable from banks | 723 | 2,195 | 932 |
| Restricted deposits, financial assets and other receivables | 8,047 | 13,157 | 10,727 |
| Income receivable from the sale of apartments (*) | 13,051 | - | - |
| Tenants and trade receivables, net | 3,249 | 4,121 | 3,735 |
| Inventory of buildings under construction | 21,518 | 44,451 | 48,756 |
| | 129,098 | 187,470 | 177,279 |
| Asset held for sale | 11,900 | - | 11,622 |
| Non-Current Assets | | | |
| Investments in companies measured at equity | 8,518 | 8,318 | 8,318 |
| Inventory of real estate | 214,584 | 14,092 | 72,659 |
| Investment property - rights to land | 67,094 | 101,984 | 67,094 |
| Investment property – income generating assets | 1,296,841 | 1,116,174 | 1,283,549 |
| Restricted deposits for investments in properties | 7,408 | 2,324 | 7,297 |
| Other accounts receivable, fixed assets and other financial assets | 374 | 1,669 | 18,023 |
| Deferred taxes | 526 | 6,367 | 1,438 |
| | 1,595,345 | 1,250,928 | 1,458,378 |
| | 1,736,343 | 1,438,398 | 1,647,279 |

* 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 FINANCIAL POSITION**

| | March 31, 2018 | March 31, 2017 | December 31, 2017 |
|---|---|---|---|
| | (Unaudited) | | (Audited) |
| | € in thousands | | |
| Current Liabilities | | | |
| Current maturities of loans from banks | 139,768 | 24,164 | 161,731 |
| Current maturities of debentures | 16,654 | 18,489 | 17,399 |
| Loans for financing inventory of buildings under construction | 2,500 | 3,000 | 4,000 |
| Current maturities of other financial liabilities | 745 | 450 | 941 |
| Accounts payable | 20,033 | 22,447 | 25,424 |
| Advances from apartment purchasers | 1,069 | 19,901 | 23,119 |
| Liability component in respect of the issuance of warrants | - | 542 | - |
| | 180,769 | 88,993 | 232,614 |
| Liabilities held for sale | 6,997 | | 6,710 |
| Non-Current Liabilities | | | |
| Loans from banks and others | 629,300 | 554,454 | 495,066 |
| Debentures | 105,263 | 135,586 | 110,072 |
| Other liabilities | 3,095 | 3,133 | 3,095 |
| Other financial liabilities | 5,352 | 296 | 3,779 |
| Deferred taxes | 104,045 | 72,888 | 97,373 |
| | 847,055 | 766,357 | 709,385 |
| Equity Attributable to Company Shareholders | | | |
| Share capital | 77 | 72 | 77 |
| Premium on shares | 144,237 | 115,590 | 144,237 |
| Treasury shares | (746) | (883) | (746) |
| Other capital reserves | 1,512 | 6,988 | 2,322 |
| Statutory capital reserve | 326,111 | 253,971 | 319,337 |
| Retained earnings (*) | 134,233 | 112,765 | 125,941 |
| Total equity attributable to Company shareholders | 605,424 | 488,503 | 591,168 |
| Non-controlling interests | 96,098 | 94,545 | 107,402 |
| Total equity | 701,522 | 583,048 | 698,570 |
| | 1,736,343 | 1,438,398 | 1,647,279 |

(*) 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.

| May 17, 2018 | | | |
|---|---|---|---|
| Date of approval of the financial statements | Alexander Dexne<br>Chairman of the Board of Directors | Ofir Rahamim<br>Joint CEO | Guy Priel<br>CFO |

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

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 2018 | 2017 | 2017 |
| | (Unaudited) | | (Audited) |
| | € in thousands (except per share amounts) | | |
| Revenues from rental of properties | 19,762 | 18,129 | 74,124 |
| Revenues from property management and others | 6,574 | 7,153 | 27,022 |
| Property management expenses | (6,558) | (6,750) | (26,513) |
| Cost of maintenance of rental properties | (2,879) | (2,289) | (9,689) |
| Rental and management revenues, net | 16,899 | 16,243 | 64,944 |
| Revenues from sale of apartments | 18,575 | 8,371 | 58,958 |
| Cost of sale of apartments | (14,175) | (6,627) | (47,203) |
| Income from sale of apartments | 4,400 | 1,744 | 11,755 |
| Other income | | - | 2,008 |
| Administrative and general expenses | (4,082) | (2,355) | (11,499) |
| Administrative and general expenses attributed to the inventory of apartments under construction and inventory of real estate | (807) | (724) | (2,141) |
| Selling and marketing expenses | (94) | (172) | (389) |
| Cost of share based payment (Administrative and general) | - | (218) | (871) |
| Operating income before change in investment property value | 16,316 | 14,518 | 63,807 |
| Increase in value of investment property, net | 5,525 | 21,207 | 108,736 |
| Operating income | 21,841 | 35,725 | 172,543 |
| Finance income | - | 26 | 25 |
| Finance expenses excluding the effect of exchange rate differences, CPI and currency hedging transactions | (4,615) | (4,924) | (19,529) |
| Effect of exchange rate differences, CPI and currency hedging transactions, net | 2,820 | (4,749) | (3,005) |
| Change in value of loans, interest-swap transactions and refinance costs, net | (250) | 288 | 685 |
| Income before taxes on income | 19,796 | 26,366 | 150,733 |
| Taxes on income | (6,874) | (2,204) | (31,689) |
| Net income | 12,922 | 24,162 | 119,044 |
| Other comprehensive income: | - | - | - |
| Total other comprehensive income | 12,922 | 24,162 | 119,044 |
| Total comprehensive income attributable to: | | | |
| Company shareholders | 11,699 | 22,582 | 101,124 |
| Non-controlling interests | 1,223 | 1,580 | 17,920 |
| | 12,922 | 24,162 | 119,044 |
| Net earnings per share attributable to the Company's shareholders (in Euro) | | | |
| Basic net income | 1.51 | 3.22 | 13.70 |
| Diluted net income | 1.51 | 3.13 | 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 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share Capital | Premium on Shares | Treasury Shares | Other capital reserves | Statutory Capital Reserve | Retained Earnings | Total | Non-Controlling Interests | Total Equity |
| | Unaudited | | | | | | | | |
| | € in thousands | | | | | | | | |
| Balance as of January 1, 2018 (audited) | 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 after initial adoption | 77 | 144,237 | (746) | 2,322 | 319,337 | 129,308 | 594,535 | 108,092 | 702,627 |
| Net income and comprehensive income | - | - | - | - | - | 11,699 | 11,699 | 1,223 | 12,922 |
| Total comprehensive income | - | - | - | - | - | 11,699 | 11,699 | 1,223 | 12,922 |
| Classification as per provisions of Dutch law | - | - | - | - | 6,774 | (6,774) | - | - | - |
| Purchase of rights from non-controlling interests | - | - | - | (810) | - | - | (810) | (2,160) | (2,970) |
| Distribution and payment to non controlling interests | - | - | - | - | - | - | - | (11,057) | (11,057) |
| Balance as of March 31, 2018 (unaudited) | 77 | 144,237 | (746) | 1,512 | 326,111 | 134,233 | 605,424 | 96,098 | 701,522 |

(*) 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 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share Capital | Premium on Shares | Treasury Shares | Other capital reserves | Statutory Capital Reserve | Retained Earnings | Total | Non-Controlling Interests | Total Equity |
| | 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 | - | - | - | - | - | 22,582 | 22,582 | 1,580 | 24,162 |
| Total comprehensive income | - | - | - | - | - | 22,582 | 22,582 | 1,580 | 24,162 |
| Classification as per provisions of Dutch law | - | - | - | - | 20,508 | (20,508) | - | - | - |
| Cost of share-based payment | - | - | - | 218 | - | - | 218 | - | 218 |
| Capital reserve adjustment in respect of transactions with controlling shareholder | - | - | - | 156 | - | - | 156 | - | 156 |
| Issuance of share capital, net | 5 | 46,369 | - | - | - | - | 46,374 | - | 46,374 |
| Distribution and payment to non controlling interests | - | - | - | - | - | - | - | (7,925) | (7,925) |
| Balance as of March 31, 2017 (unaudited) | 72 | 115,590 | (883) | 6,988 | 253,971 | 112,765 | 488,503 | 94,545 | 583,048 |

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 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share Capital | Premium on Shares | Treasury Shares | Other capital reserves | Statutory Capital Reserve | Retained Earnings | Total | Non-Controlling Interests | Total Equity |
| | 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 |
| Total 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 |
| Adjustment of capital reserve in respect of transactions with controlling shareholder | - | - | - | 432 | - | - | 432 | - | 432 |
| Issuance of capital, net | 5 | 46,369 | - | - | - | - | 46,374 | - | 46,374 |
| Exercise of options and warrants into shares | 5 | 28,647 | 137 | (5,595) | - | - | 23,194 | - | 23,194 |
| Distribution and payment to non-controlling interests | - | - | - | - | - | - | - | (11,408) | (11,408) |
| Balance as of December 31, 2017 (audited) | 77 | 144,237 | (746) | 2,322 | 319,337 | 125,941 | 591,168 | 107,402 | 698,570 |

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

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Three months ended March 31, 2018 | Three months ended March 31, 2017 | Year ended December 31, 2017 |
|---|---|---|---|
| | Unaudited | Unaudited | Audited |
| | € in thousands | | |
| Cash flows from operating activities: | | | |
| Net income | 12,922 | 24,162 | 119,044 |
| Adjustments required to present net cash provided by operating activities: | | | |
| Adjustments to profit or loss: | | | |
| Depreciation | 30 | 74 | 289 |
| Financial expenses, net | 779 | 10,804 | 20,817 |
| Increase in value of investment property, net | (5,525) | (21,207) | (106,505) |
| Deferred taxes, net | 5,760 | 2,201 | 24,413 |
| Cost of share-based payment | - | 218 | 871 |
| Capital reserve adjustment in respect of transactions with controlling shareholder | - | 156 | 432 |
| | 1,044 | (7,754) | (59,683) |
| Cash flows from operating activities before changes in asset and liability items | 13,966 | 16,408 | 59,361 |
| Changes in assets and liabilities items: | | | |
| increase in tenants, restricted deposits and other receivables related parties and income receivable from the sale of apartments (*) | (3,609) | (4,065) | (1,266) |
| Increase (decrease) in accounts payable | (2,001) | (1,411) | 369 |
| | (5,610) | (5,476) | (897) |
| Net cash provided by operating activities before decrease (increase) in inventory of real estate, inventory of buildings under construction and advances from apartment purchasers | 8,356 | 10,932 | 58,464 |
| Increase (decrease) in advances from apartment purchasers (*) | (4,520) | 6,015 | 7,045 |
| Decrease (increase) in inventory of buildings under construction and real estate inventory (*) | 5,926 | (586) | 8,567 |
| Net cash provided by operating activities before the purchase of long term inventory | 9,762 | 16,361 | 74,076 |
| Purchase of long term inventory of lands (**) | (128,560) | - | - |
| Net cash provided by operating activities | (118,798) | 16,361 | 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**

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | **2018** | **2017** | **2017** |
| | **Unaudited** | | **Audited** |
| | **€ in thousands** | | |
| Cash Flows from investing activities | | | |
| Investment in investment property | (3,827) | (5,295) | (91,948) |
| Investment in companies measured at equity | (200) | - | - |
| Proceeds from sale of investment property | - | - | 14,272 |
| Purchase of newly consolidated subsidiaries, net (a) | - | - | (17,279) |
| Withdrawal (placement) of restricted deposits, prepaid transaction costs and withdrawal (placement) of long-term deposits in banks, net | 99 | (2,737) | (20,392) |
| Interest received and sale of derivatives, net | (238) | 26 | 1,083 |
| Net cash used in investing activities | (4,166) | (8,006) | (114,264) |
| Cash flows from financing activities | | | |
| Interest paid | (4,303) | (5,275) | (16,708) |
| Exercise of stock options | - | - | 22,645 |
| Distribution and payment to non controlling interests | (11,057) | (6,145) | (11,408) |
| Receipt of long-term loans, net | 138,983 | - | 108,052 |
| Repayment of debentures | - | - | (18,101) |
| Repayment of long-term loans | (28,308) | (9,583) | (67,357) |
| Issuance of shares and warrants, net | - | 46,916 | 46,916 |
| Purchase of rights from non-controlling interests | (2,970) | - | - |
| | | | - |
| Net cash provided by (used in) financing activities | 92,345 | 25,913 | 64,039 |
| Change in cash and cash equivalents | (30,619) | 34,268 | 23,851 |
| Balance of cash and cash equivalents at the beginning of the period | 113,129 | 89,278 | 89,278 |
| Balance of cash and cash equivalents at the end of the period | 82,510 | 123,546 | 113,129 |

(a) Purchase of previously consolidated subsidiaries :

| | | | |
|---|---|---|---|
| Assets and liabilities of consolidated subsidiaries as of date of sale: | | | |
| Investment property | - | - | (46,950) |
| Working capital | - | - | (1,905) |
| Loans from banks, net | - | - | 34,250 |
| Loss from transaction costs | - | - | (2,674) |
| | - | - | (17,279) |
| additional information | | | |
| Taxes paid | 2,080 | 633 | 2,407 |

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

**Note 1: -** **General**

These Financial Statements have been prepared in a condensed format as of March 31, 2018 and for the three month period then ended (hereinafter – the Consolidated Interim Financial Statements). These Statements should be read in conjunction with the annual financial statements as of December 31, 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 not 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.

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

New standards adopted in the reported period **(Cont,)**

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.

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.

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

New standards adopted in the reported period **(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.

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

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

| As of January 1, 2018 (EUR in thousands) | According to previous policy | Effect of change | According to IFRS 15 |
|---|---|---|---|
| Inventory of buildings under construction | 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 |
| Provision for deferred taxes | 97,373 | 1,842 | 99,215 |
| 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 March 31, 2018 and on the statement of comprehensive income or loss for the 3 months period then ended, assuming that the previous revenue recognition policy would have continued during this period:

| As of March 31, 2018 (EUR in thousands) | According to previous policy | Effect of change | According to IFRS 15 |
|---|---|---|---|
| Inventory of buildings under construction | 47,995 | (26,477) | 21,518 |
| income receivable from the sale of apartments | 99 | 12,952 | 13,051 |
| Advances from apartment purchasers | 22,853 | (21,784) | 1,069 |
| Deferred taxes | 101,466 | 2,579 | 104,045 |
| Non controlling interests | 95,245 | 853 | 96,098 |
| Equity attributed to the Company | 600,597 | 4,827 | 605,424 |

c. The table below summarizes the effects on the comprehensive income or loss for the 3 months period ended on March 31, 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 | 19,762 | - | 19,762 |
| Revenues from property management and others | 6,574 | - | 6,574 |
| Property management expenses | (6,558) | - | (6,558) |
| Cost of maintenance of rental properties | (2,879) | - | (2,879) |
| Rental and management revenues, net | 16,899 | - | 16,899 |
| Revenues from sale of apartments | 6,255 | 12,320 | 18,575 |
| Cost of sale of apartments | (4,215) | (9,960) | (14,175) |
| Income from sale of apartments | 2,040 | 2,360 | 4,400 |
| Other income | | | |
| Administrative and general expenses | (4,082) | - | (4,082) |
| Administrative and general expenses attributed to the inventory of apartments under construction and inventory of real estate | (807) | - | (807) |
| Selling and marketing expenses | (94) | - | (94) |
| Cost of share based payment (Administrative and general) | - | - | - |
| Operating income before change in investment property value | 13,956 | 2,360 | 16,316 |
| Increase in value of investment property, net | 5,525 | - | 5,525 |
| Operating income | 19,481 | 2,360 | 21,841 |
| Finance income | - | - | - |
| Finance expenses excluding the effect of exchange rate differences, CPI and currency hedging transactions | (4,615) | - | (4,615) |
| Effect of exchange rate differences, CPI and currency hedging transactions, net | 2,820 | - | 2,820 |
| Change in value of loans, interest-swap transactions and refinance costs, net | (250) | - | (250) |
| Income before taxes on income | 17,436 | 2,360 | 19,796 |
| Taxes on income | (6,137) | (737) | (6,874) |
| Net income | 11,299 | 1,623 | 12,922 |
| Other comprehensive income: | - | - | - |
| Total other comprehensive income | 11,299 | 1,623 | 12,922 |
| Total comprehensive income attributable to: | | | |
| Company shareholders | 10,239 | 1,460 | 11,699 |
| Non-controlling interests | 1,060 | 163 | 1,223 |
| | 11,299 | 1,623 | 12,922 |
| Net earnings per share attributable to the Company's shareholders (in Euro) | | | |
| Basic net income | 1.32 | 0.19 | 1.51 |
| Diluted net income | 1.32 | 0.19 | 1.51 |

**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:

| | March 31, 2018 | | March 31, 2017 | | December 31, 2017 | |
|---|---|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value |
| | Unaudited | | | | Audited | |
| | € in thousands | | | | | |
| Financial liabilities: | | | | | | |
| Debentures and interest payable in respect of debentures | 122,945 | 135,062 | 155,389 | 167,737 | 129,003 | 142,868 |

Management has estimated 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.

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

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:

| | March 31, 2018 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| | | Unaudited | |
| | | € in thousands | |
| Liabilities: | | | |
| Foreign currency forward contracts– dollar | (5,666) | - | - |
| Interest swap agreements | - | (431) | - |

| | March 31, 2017 | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| | | Unaudited | |
| | | € in thousands | |
| Assets: | | | |
| Foreign currency forward contracts– dollar | 1,776 | - | - |
| CAP transactions | - | 1 | - |
| Liabilities: | | | |
| Interest swap agreements | - | (730) | - |
| Loans | - | - | (76,074) |

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

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

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.

**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 in active market used in valuation:

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

## Note 4: - Operating Segments

| | Income-Generating Commercial Real Estate | Income-Generating Residential Real Estate | Land for Betterment | Residential development | Adjustments | Total |
|---|---|---|---|---|---|---|
| | € in thousands | | | | | |
| For the Three-Month Period Ended March 31, 2018 (unaudited) | | | | | | |
| Revenues from sale of apartments | - | - | - | 18,575 | - | 18,575 |
| Cost of sale of apartments | - | - | - | (14,175) | - | (14,175) |
| Income from sale of apartments | - | - | - | 4,400 | - | 4,400 |
| Revenues from property rental | 7,616 | 12,097 | 49 | - | - | 19,762 |
| Revenues from property management and others | 1,402 | 5,119 | 53 | - | - | 6,574 |
| Property management expenses | (1,403) | (5,102) | (53) | - | - | (6,558) |
| Rental property maintenance expenses | (841) | (1,966) | (72) | - | - | (2,879) |
| Total rental and management revenues, net | 6,774 | 10,148 | (23) | - | - | 16,899 |
| Administrative and general expenses | | | | | | (4,082) |
| Selling and marketing expenses and administrative and general expenses attributed to inventory of buildings under construction and inventory of real estate | - | - | - | (901) | - | (901) |
| Increase in value of investment property, net | 646 | 4,879 | - | - | - | 5,525 |
| Financial expenses, net | | | | | | (2,045) |
| Income before taxes on income | | | | | | 19,796 |

## Note 4: - Operating Segments (Cont.)

| | Income-Generating Commercial Real Estate | Income-Generating Residential Real Estate | Land for Betterment | Residential development | Adjustments | Total |
|---|---|---|---|---|---|---|
| | € in thousands | | | | | |
| For the Three-Month Period Ended March 31, 2017 (unaudited) | | | | | | |
| Revenues from sale of apartments | - | - | - | 8,371 | - | 8,371 |
| Cost of sale of apartments | - | - | - | (6,627) | - | (6,627) |
| Income from sale of apartments | - | - | - | 1,744 | - | 1,744 |
| Revenues from property rental | 7,883 | 10,199 | 47 | - | - | 18,129 |
| Revenues from property management and others | 2,051 | 5,087 | 15 | - | - | 7,153 |
| Property management expenses | (2,046) | (4,689) | (15) | - | - | (6,750) |
| Rental property maintenance expenses | (658) | (1,473) | (158) | - | - | (2,289) |
| Total rental and management revenues, net | 7,230 | 9,124 | (111) | - | - | 16,243 |
| Administrative and general expenses | | | | | | (2,355) |
| Selling and marketing expenses and administrative and general expenses attributed to inventory of buildings under construction and inventory of real estate | - | - | - | (896) | - | (896) |
| Cost of share based payment | | | | | | (218) |
| Increase in value of investment property, net | (117) | 21,538 | (214) | - | - | 21,207 |
| Financial expenses, net | | | | | | (9,359) |
| Income before taxes on income | | | | | | 26,366 |

## Note 4: - Operating Segments (Cont.)

| | Income-generating commercial real estate | Income-generating residential real estate | Land for betterment | Residential development | Adjustments | Total |
|---|---|---|---|---|---|---|
| | | | Euros in thousands | | | |
| For the year ended December 31, 2017 (audited) | | | | | | |
| 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 |
| Revenues from sale of apartments | - | - | - | 58,958 | - | 58,958 |
| Cost of sale of apartments | - | - | - | (47,203) | - | (47,203) |
| Income from sale of apartments | - | - | - | 11,755 | - | 11,755 |
| Other income | 2,008 | | | | | 2,008 |
| General and administrative expenses | | | | | | (11,499) |
| Selling and marketing and general and administrative expenses attributed to inventory of buildings under construction and inventory of real estate | - | - | - | (2,530) | - | (2,530) |
| Cost of share based payment | | | | | | (871) |
| Increase 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 |

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

1. Refinancing - On January 31, 2018, the Company refinanced a total 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%.

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. In accordance with the Company's intention to develop the land and sell the units of the complex, the land was classified in the financial statements as long-term inventory of real estate.

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).

   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.

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

5. - On April 8, 2018, Reznik Paz Nevo Trusts Ltd., which serves as a trustee for the holders of the Company's Series A, B and C bonds called meetings (without actual convening) as of April 15, 2018, in light of the transfer of control of the Company to ADLER Real Estate AG (ADLER) that was actually transferred on April 2, 2018 after the date of the financial statements.

The subjects on the agenda of said meetings were as follows:

(A) Not to call the bonds for immediate repayment in respect of the cause that was established for the bond holders in respect of the transfer of such control as aforesaid;
(B) Approve the amendment of the trust deeds (Series B and C only) in the matter of this cause of action only;

On April 11, 2018, the trustee announced that at the request of the Company's bondholders the aforesaid meetings were postponed to April 17, 2018.

On April 25, 2018, the trustee announced the results of the holders' meetings, as detailed below –

(A) The meeting of the bondholders (Series A) 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;

(B) The meeting of the bondholders (Series B) decided to approve by the required majority (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 B) in the matter of such cause as aforesaid;

(C) The meeting of the bondholders (Series C) resolved not to approve (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 13, 2018, Reznik Paz Nevo Trusts Ltd. which is the trustee for the bondholders (Series C) called a meeting of holders (without actual convening) to May 21, 2018.

The agenda of the aforesaid meeting shall include the following subjects:

(A) to put the entire unpaid balance of the Series C bonds available for immediate repayment in respect of the cause established for the bondholders in respect of the transfer of control, and as an integral part of this resolution, to authorize the trustee to act as necessary to implement this resolution;

(B) (If the resolution in sub section a is not granted)giving 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.

6. On April 8, 2018, a motion for approval of a class action was filed against ADLER, Redzone Empire Holding Limited, Ophir Rahamim, Gal Tenenbaum and Fred Ganea (who serve as joint CEOs in the Company and the Director of the Economic Department of the Company) with the Tel Aviv District Court (the motion) by a shareholder in the Company (who holds 2 shares), concerning an alleged violation of the provisions of the Companies Law, as well as the alleged violations of the Tender Offer Regulations, regarding the special tender offer proposed by ADLER to the shareholders of the Company, in which ADLER undertook to purchase from the other parties to the claim their holdings in the Company's shares at a price of NIS 440 per share, subject to additional terms. The claim is based on an alleged violation of the duty of equality in the tender offer that is the subject of the claim.

**BRACK CAPITAL PROPERTIES NV**

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

**AS OF MARCH 31, 2018**

**UNAUDITED**

**IN THOUSANDS OF EUROS**

PKF

עמית, חלפון

## 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 March 31, 2018 and for the three-month period 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.

Givataim
May 18, 2018

Amit, Halfon, CPAs

רח' אריאל שרון 4, גבעתיים 5320047 טל: 03-6123939 פקס: 03-6125030 e-mail:
office@ahcpa.co.il www.ahcpa.co.il

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

| | March 31, 2018 | March 31, 2017 | December 31, 2017 |
|---|---|---|---|
| | Unaudited | Unaudited | Audited |
| | € in thousands | | |
| Current Assets | | | |
| Cash and cash equivalents | 37,520 | 41,049 | 41,382 |
| Cash and cash equivalents in trust | 17,516 | 41,677 | 24,554 |
| Balances receivable from banks | 723 | 2,195 | 932 |
| Other receivables | 86 | 125 | 89 |
| Other financial assets | - | 508 | - |
| | 55,845 | 85,554 | 66,957 |
| Non-Current Assets | | | |
| Other financial assets | - | 1,269 | - |
| Investment in investee | 678,275 | 557,946 | 657,608 |
| | 678,275 | 559,215 | 657,608 |
| | 734,120 | 644,769 | 724,565 |
| Current Liabilities | | | |
| Other accounts payable | 1,113 | 1,649 | 1,655 |
| Current maturity of debentures | 16,654 | 18,489 | 17,399 |
| Liability component in respect of issuance of warrants | - | 542 | - |
| Other financial liabilities | 404 | - | 492 |
| | 18,171 | 20,680 | 19,546 |
| Non-Current Liabilities | | | |
| Debentures | 105,263 | 135,586 | 110,072 |
| Other financial liabilities | 5,262 | - | 3,779 |
| | 110,525 | 135,586 | 113,851 |
| Equity | | | |
| Share Capital | 77 | 72 | 77 |
| Premium on Shares | 144,237 | 115,590 | 144,237 |
| Treasury Shares | (746) | (883) | (746) |
| Other capital reserves | 1,512 | 6,988 | 2,322 |
| Statutory capital reserve | 326,111 | 253,971 | 319,337 |
| Retained earnings (*) | 134,233 | 112,765 | 125,941 |
| Total equity | 605,424 | 488,503 | 591,168 |
| | 734,120 | 644,769 | 724,565 |

| May 17, 2018 | | | |
|---|---|---|---|
| Date of approval of the financial statements | Alexander Dexne<br>Chairman of the Board of Directors | Ofir Rahamim<br>Joint CEO | Guy Priel<br>CFO |

(*) see note 2c to the interim consolidated financial statements regarding the initial adoption of IFRS 15 revenues from contracts with customers.

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

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 2018 | 2017 | 2017 |
| | Unaudited | | Audited |
| | € in thousands | | |
| Administrative and general expenses | (537) | (1,010) | (3,542) |
| Financial income (expenses), net | (1,159) | (6,517) | (9,395) |
| Equity in earnings of investess | 11,077 | 30,109 | 114,061 |
| Net income | 11,699 | 22,582 | 101,124 |
| Other comprehensive income: | - | - | - |
| Total comprehensive income | 11,699 | 22,582 | 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

| | Three months ended March 31, 2018 | Three months ended March 31, 2017 | Year ended December 31, 2017 |
|---|---|---|---|
| | Unaudited | | Audited |
| | € in thousands | | |
| Cash flows from operating activities: | | | |
| Net income attributed to the Company's shareholders | 11,699 | 22,582 | 101,124 |
| Adjustments required to present net cash provided by operating activities: | | | |
| Adjustments to the profit or loss items: | | | |
| Financial expenses, net | (2,252) | 8,089 | 9,799 |
| Cost of share-based payment | - | 218 | 871 |
| Capital reserve adjustment in respect of transactions with controlling shareholders | - | 156 | 432 |
| Equity in earnings of investees | (11,077) | (30,109) | (114,061) |
| | (13,329) | (21,646) | (102,959) |
| Changes in assets and liabilities items: | | | |
| Decrease (increase) in other receivables and related parties | 3 | (29) | 8 |
| Increase (decrease) in accounts payable and related parties | (40) | 164 | 11 |
| | (37) | 135 | 19 |
| Net cash provided by (used in) operating activities of the Company | (1,667) | 1,071 | (1,816) |
| Cash Flows from investing activities | | | |
| Change in investment in investees, net | (297) | (9,535) | (8,146) |
| Interest received and exercise of derivatives, net | (238) | - | 1,083 |
| Net cash provided by (used in) investing activities of the Company | (535) | (9,535) | (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

| | Three months ended March 31, | | Year ended December 31, |
|---|---|---|---|
| | 2018 | 2017 | 2017 |
| | Unaudited | | Audited |
| | € in thousands | | |
| Cash flows from financing activities | | | |
| Interest paid | (1,660) | (2,057) | (5,853) |
| Issuance of debentures, net | - | - | - |
| Issuance of shares and stock options, net | - | 46,916 | 46,916 |
| Repayment of debentures | - | - | (18,101) |
| Exercise of stock options | - | - | 22,645 |
| Net cash provided by (used in) financing activities of the Company | (1,660) | 44,859 | 45,607 |
| Change in cash and cash equivalents | (3,862) | 36,395 | 36,728 |
| Balance of cash and cash equivalents at the beginning of the period | 41,382 | 4,654 | 4,654 |
| Balance of cash and cash equivalents at the end of the period | 37,520 | 41,049 | 41,382 |

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

**ADDITIONAL INFORMATION**

**Note 1: - General**

a. This separate financial information has been prepared in a condensed format as of March 31, 2018 and for the three month period 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.

**Note 2: Material Events during the Reported Period and afterwards**

a. On April 8, 2018, Reznik Paz Nevo Trusts Ltd., which serves as a trustee for the holders of the Company's Series A, B and C bonds called meetings (without actual convening) as of April 15, 2018, in light of the transfer of control of the Company to ADLER Real Estate AG (ADLER) that was actually transferred on April 2, 2018 after the date of the financial statements.

The subjects on the agenda of said meetings were as follows:

(A) Not to call the bonds for immediate repayment in respect of the cause that was established for the bond holders in respect of the transfer of such control as aforesaid;
(B) Approve the amendment of the trust deeds (Series B and C only) in the matter of this cause of action only;

On April 11, 2018, the trustee announced that at the request of the Company's bondholders the aforesaid meetings were postponed to April 17, 2018.

On April 25, 2018, the trustee announced the results of the holders' meetings, as detailed below –

(A) The meeting of the bondholders (Series A) 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;

(B) The meeting of the bondholders (Series B) decided to approve by the required majority (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 B) in the matter of such cause as aforesaid;

(C) The meeting of the bondholders (Series C) resolved not to approve (i) not to put the bonds

**Note 2: Material Events during the Reported Period (Cont.)**

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 13, 2018, Reznik Paz Nevo Trusts Ltd. which is the trustee for the bondholders (Series C) called a meeting of holders (without actual convening) to May 21, 2018.

The agenda of the aforesaid meeting shall include the following subjects:

(A) to put the entire unpaid balance of the Series C bonds available for immediate repayment in respect of the cause established for the bondholders in respect of the transfer of control, and as an integral part of this resolution, to authorize the trustee to act as necessary to implement this resolution;

(B) (If the resolution in sub section a is not granted)giving 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.

b. On April 8, 2018, a motion for approval of a class action was filed against ADLER, Redzone Empire Holding Limited, Ophir Rahamim, Gal Tenenbaum and Fred Ganea (who serve as joint CEOs in the Company and the Director of the Economic Department of the Company) with the Tel Aviv District Court (the motion) by a shareholder in the Company (who holds 2 shares), concerning an alleged violation of the provisions of the Companies Law, as well as the alleged violations of the Tender Offer Regulations, regarding the special tender offer proposed by ADLER to the shareholders of the Company, in which ADLER undertook to purchase from the other parties to the claim their holdings in the Company's shares at a price of NIS 440 per share, subject to additional terms. The claim is based on an alleged violation of the duty of equality in the tender offer that is the subject of the claim.