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 nine months ending on September 30, 2017 (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 2016 (which is included in the Company's periodical report for 2016) (hereinafter, respectively: "2016 Board of Directors Report" and "2016 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" – September 30, 2017.

"Report signing date" or "the date of signing the report" – November 16, 2017.

"The reported quarter" – the third quarter of 2017.

Preamble

Below are the Company's principal results for the nine months ended September 30, 2017.

1. **Profitability** – in the third quarter of 2017, the Company's net income attributed to the Company's shareholders amounted to approximately EUR 15.9 million compared to income of EUR 23.9 million in the corresponding quarter last year.

   - **Income producing real estate** – in the third quarter of 2017, the FFO amounted to EUR 8.8 million compared to EUR 8.3 million in the second quarter of 2017. In the reported quarter, the FFO grosses up an annual rate of EUR 35.2 million.

   - **Residential development activity**- in the reported quarter, no apartments were delivered to apartment purchasers.

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
C	109	56.2	12.4	28%	100%	0%
D	119	67.6	16.4	32%	74%	0%
Total	228	123.8	28.8	30%	86%	0%

b. Income producing real estate[4]

Zoning	Area (square meters)	Actual Return of rental fees[5]	ERV Return[6]	Actual NOI return[6]	NOI return according to ERV[7]	Occupancy rate
Residential	648	6.1%	7.8%	5.3%	7.0%	96%
Commercial	330	6.3%	7.2%	5.8%	6.6%	96%
Total	**978**	**6.2%**	**7.5%**	**5.5%**	**6.8%**	**96%**

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

- **Residential**: in the third quarter of 2017, rental fees increased by 6.2 % from identical assets and 6.4% in rental fees per square meter in new rentals compared to the corresponding quarter of 2016. The rental fees in new rentals in the residential market are higher by 27% of the actual rental fees.

- **Commercial**: in the third quarter of 2017, rental fees have increased by 1.3% from identical assets compared to the corresponding quarter in 2016 mainly from the betterment of assets.
  In this regard it is indicated that the Company promotes projects for the betterment of commercial assets out of the existing portfolio of the Company at an estimated investment scope of approximately EUR 50 million[8] which will take several years and will produce an annual yield of 9% on the investment. In addition the Company examines and promotes rezoning procedures in part of those assets[9] and other assets as well, which in case they will mature, the expected investment volume will be more material.

[2]as of the report date
[3]Data according to 100%, the effective corporation's share in the project is 83%; sales include reservations.
[4]assets consolidated in the Company's financial statements
[5]data of November 2017 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
[8]of which EUR 30 million in four assets under the Matrix Portfolio
[9]of which 2 assets in large cities in Bavaria

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

   a. **Equity and NAV**: The equity attributed to approximately EUR 573.6 million and the NAV [10]amounted to EUR 667.9 million as of the report date.

   b. **Debt ratios**: the LTV ratio[11] is 43.1% as of the report date. The EBITDA ratio to interest expenses (only from the income producing portfolio, excluding operating income from development activity) is 3.55 in the third quarter of 2017.

   c. **Liquidity**: cash balances and liquid balances amounted to approximately EUR 107.2 million as of the report date.

4. **Dividend policy –** on May 18, 2017 the Company's Board of Directors adopted the dividend policy deriving from the Company's annual FFO, according to which each year from 2018 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".

[10]EPRA NAV – for details regarding the index and the calculation manner see section 5 of part A.
[11]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 11,005[12] apartments, with a total leasing area of approximately 648,000 m^2**.**

  Upon completion of the acquisition of the apartments in Leipzig, Hela and Magdeburg, which is expected to be completed by the end of November 2017 (for further details see "Material and other events during the reporting period"), the Company's income producing residential real estate portfolio will include 11,912 apartments with a total area of 701 thousand square meters.

- ❑ **Commercial income-producing real-estate** – as of the report signing date, the Group owns 27 commercial income-producing properties[13] in the commercial segment (commerce and offices) with an overall leasing area of approximately 330,000 m^2.
- ❑ **Entrepreneurship Residential Real estate** - for details regarding the marketing, sales and performance of Stage C (109 units) and Stage D (119 units) 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 2 land complexes in Dusseldorf, Germany, undergoing advanced procedures for changing the zoning from offices to residential. For details regarding the Company's progress in the zoning changes of the lands in Dusseldorf, see the section Material events and others during the reported period".

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[12]Excluding 55 apartments for which the Company has entered into purchase agreement in Leipzig in the second quarter of 2017 and ownership was not yet transferred to the Company and excluding 802 apartments in Leipzig, Hela and Magdeburg, for which the Company entered into a purchase agreement during the third quarter and which ownership is expected to be transferred by the end of November 2017 (for further details see "Material and other events during the reporting period"). .

[13]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 586,987 thousand. As of the report date, the average rate of interest of these loans is approximately 1.70%. The average duration of the loans is about 3.6 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 1.61 years, Series B at a scope of approximately NIS 210,000 thousand par value with an interest (linked) of approximately 3.29% per year with an average duration of approximately 4.27 years and Series C at a scope of NIS 153,641 thousand par value with an interest (linked) of approximately 3.3% per year with an average duration of approximately 6.53 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.[14]

The real estate market in Germany is characterized with high stability and positive directions as occupancy rates improve and rental prices are increasing. In 2016, the German GDP recorded an increase of 1.9% while the other large European economies recorded lower growth rate, when the GDP of the entire Eurozone increased by 1.7%. In 2016, the German GDP has grown mainly from an increase in private consumption and increase in volumes of investments in construction. The Organization for Economic Co-operation and Development (OECD) expects a steady economic activity in Germany in 2017, which is expected to show a growth of 1.7% mainly due to an additional improvement in the private consumption, which is supported among others, by low interest and low petrol prices as well as due to low unemployment rate. In the third quarter of 2017, the German GDP increased by 0.8%.

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

  - ❑ **Exclusivity agreements for the purchase of 802 residential units in the cities of Magdeburg, Leipzig and Halle, Germany** - On September 4, 2017 and September 11, 2017, the Company entered into 2 exclusivity agreements with third parties not related to the Company and/or its controlling shareholder for the purchase of 802 residential units for rental in a federal capital and two large cities in Germany for a total price of approximately € 65 million. The transaction completion is expected to be carried out in November 2017. To the best of the Company's knowledge, as of the report date, the acquired properties are leased to a large number of tenants at an occupancy rate of approximately 89.3%, generating a current annual rental of € 2.9 million grossing up a significant rental increase potential, as per the Company's estimate, of 39%, in view of the average rental in the market in those cities/locations for similar properties. For further details see immediate reports dated September 5,

[14] As of the date of signing the report, the German government bonds for 10 years yields a nominal annual return of 0.436%.

2017, September 12, 2017 and October 30, 2017 (Ref numbers: 090006-01-2017, 091929-01-2017 and 102768-01-2017, respectively)

- **<u>Exclusivity agreements for the purchase for 55 residential units in Leipzig, Germany</u>** - During September the Company entered into a notarized sale agreement with a third party who is unrelated to the Company and/or its controlling shareholder for the purchase of 55 residential units for rental in Leipzig, Germany, at a total price of approximately € 3.9 million. To the best of the Company's knowledge, as of the report date, the acquired properties are leased to a large number of tenants at an occupancy rate of 95%, generating a current annual rental of approximately € 194 thousand grossing up a significant rental increase potential, as per the Company's estimate, of 30%, in view of the average rental in the market in Leipzig in similar locations/properties. The transaction is expected to be completed in November 2017.

- **<u>Refinancing of loans from German banks</u>** - During the third quarter of 2017, the Company (through sub-subsidiaries) refinanced 3 loans from a German bank. The new loans are for a period of 5 years and amount to € 32.6 million plus a credit facility of € 17.4 million (For free use according to the needs of the Company from time to time). The new loans bear fixed annual interest at the rate of 1.06%, with an annual repayment of about 2% of the new loan amount. The total amount of the repaid loans amounted to € 32.6 million.

  These loans bore variable annual interest which as of the repayment date, was 1.7% per annum.

  In addition, on September 27, 2017, the Company's sub subsidiaries (one wholly-owned company and another company held under a joint venture) entered into a loan agreement with a German bank for the purpose of financing the Leipzig properties that were acquired by equity and refinancing an existing loan on a Leipzig property that was acquired in 2013.

  The new loan is for 5 years amounting to €18 million in addition to a credit facility of € 3 million (For free use according to the Company's needs from time to time) and in total of approximately € 21 million. The new loan bears fixed annual interest at the rate of 1.14% with an annual principal repayment of 2% of the new loan amount.

  The scope of the repaid loan (repaid on August 30, 2017 from the Company's own sources) amounted to € 7.2 million. This loan bears fixed interest at the rate of 3.85% per annum. It should be stressed that the new loan was received during the fourth quarter of 2017, and the outstanding loan was repaid during the third quarter of 2017 and therefore these loans are not part of the Company's loan balance as of September 30, 2017.

- **<u>Changes in the composition of the board of Directors</u>** - On July 25, 2017, the tenure of Mr. Jan Van Der Meer (Chairman of the Board of Directors), Robert Israel (independent director), Or Levkovitch (director) and Nansia Koutsou (director) has ended as directors on the Company's Board of Directors , and on that date the tenure of Mr. Noam Sharon (director), Noa Shacham (independent director) and Liudmila Popova has commenced ("the new directors") as directors on the board of directors of the Company. In addition, on October 16, 2017, Mr. Alexander Dexne (an independent director) was appointed as a director and chairman of the Board of Directors. It is further noted that Ms. Liudmila Popova was appointed by the Company's Board of Directors at its meeting on August 17, 2017 as the temporary Chairman of the Company's Board of Directors until the appointment of Alexander Dexne as Chairman of the Board of Directors. For further details regarding the new directors, see the immediate reports of July 26, 2017 (references 2017-01-077082, 2017-01-077073, 2017-01-077070) which are brought in this

  report by way of reference.

- **<u>Change of control in the Company</u>** – on June 14, 2017 (completion date) Redzone Empire Holding Ltd. (Redzone" or "the Purchaser"), which is, to the best of the Company's knowledge, a Cypriot private

company wholly owned by Mr. Teddy Sagi ("Sagi") purchased 3,172,910 ordinary shares of Euro 0.01 par value each of the Company (which at the time
and paid-up share capital) for a total consideration of NIS 1,092 million .The amount of the aforementioned shares was acquired by Redzone from Shimon Weintraub ("Weintraub") and Ronen Peled ("Peled"), the joint controlling shareholders of the Company until that date, from interested parties in the Company until that date and from others (collectively: the Sellers) in several off-stock exchange transactions (for details about most of these transactions, see the Company's immediate reports regarding changes in holdings of interested parties in the Company from June 15, 2017 [Reference No. 2017-01-061152 and 2017-01-061161) according to agreements dated May 22, 2017 (for details regarding these agreements see immediate report dated May 23, 2017 (reference -01-2017 052314). On the completion date, Mr. Sagi became the controlling shareholder in the Company instead of messers Weintraub and Peled.

- **<u>Purchase of 18 flats in Leipzig</u>** - during the fourth quarter of 2016 and the first quarter of 2017 the Company entered into notarized sale agreements with third parties who are not related to the Company and/or to its controlling shareholder for the purchase of 18 flats in addition to 435 flats that are owned by the Company in the Leipzig Am Zoo asset [15] for a total consideration (including transaction costs) of approximately EUR 550 thousand. The completion of the transaction was financed by the Company's equity and was carried out during the first quarter of 2017.
- **<u>Review of Privatization [16]in Leipzig</u>** – in 2015 and 2016, the Company commenced reviewing the Privatization process for a building spanning over 779 m^2 in Leipzig. As part of such process, the Company expects to invest a total of EUR 1.5 million (including the value of the income generating asset) in adapting the asset and turning it into a building consisting of 8 flats. The total sale consideration amounted to EUR 2.3 million and the expected entrepreneurial profit grosses up a profitability of 50% over total cost and 1.4 times the value in the financial statements as an income generating asset. As of the report signing date, the delivery of the flats has ended. The Company explores the option of expanding its activity in this field.

- **<u>Capital issuance</u>** – on January 31, 2017, the Company completed a public offering in Israel of 598,540 shares and 299,270 warrants (Series 1) exercisable into 299,270 shares of the Company at a total monetary scope of EUR 49.5 million (gross) by a uniform offer in the tender on the unit price pursuant to a shelf offering report that was published on January 29, 2017 by virtue of the shelf prospectus bearing the date of May 29, 2015[17]. In the second and third quarters of 2017, 268,130 warrants (Series 1) were exercised into the Company's shares for a total consideration of EUR 22,644 thousand. The remaining 31,140 warrants (Series 1) that were not exercised until the last exercise date (July 31, 2017) have expired.

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[15]Were purchased by an investee of the Company where the Company holds (by indirect holding) about 68% of the rights (before adjustments for Promote mechanism) and the remaining rights are held the investors club. The transfer of said shares was not yet performed and the investors hold contractual rights in the joint venture. Leipzig Am Zoo is a residential complex that was purchased in May 2013 consisting of 435 flats at an average area of 34 sq.m per unit. The total leasable area of the complex is 15,266 sq.m after purchasing the 18 flats

[16]In this framework, the Company is examining the feasibility of selling some of the apartments that are part of the Company's income producing assets to individuals so that each purchaser will purchase a single apartment from a building owned by the Company .As part of the process, the Company is required to adjust the asset from commercial and legal standpoints for sale

[17]For additional information see immediate report of the Company dated January 31, 2017 (Reference 011337-01-2017) which is brought by way of reference.

- ❑ **<u>Purchase of residential portfolio in Hannover, Germany</u>** - on February 8, 2017, the Company (through a sub subsidiary) entered into a notarized sale agreement with a third party that is not related to the Company and/or to its controlling shareholder (in this sub section only: the seller) under which the seller will sell the Company 156 residential units in Hannover, Germany (in this sub section only: the acquired asset) for a total consideration of EUR 18 million (including related transaction costs).

  For the purpose of financing the purchase, the Company (through a sub-subsidiary) entered into an agreement with a German bank to obtain a loan in the amount of EUR 10.4 million under non-recourse terms which its final repayment date is 5 years from the date of receiving the loan bearing a variable interest based on Euribor plus a margin of 1.20% per annum. On May 31, 2017, the full consideration was paid to the seller and all of the rights in th Company[18].

- ❑ **<u>Purchase of residential portfolio in Essen, Germany</u>** - on February 22, 2017, the Company (through a sub subsidiary) entered into a notarized sale agreement with a third party that is not related to the Company and/or to its controlling shareholder (in this sub section only: the seller) under which the Company will purchase from the seller 320 residential units in Essen, Germany for a total consideration of EUR 23.6 million (including related transaction costs).

  For the purpose of financing the purchase, the Company (through a sub-subsidiary) entered into an agreement with a German bank to obtain a loan in the amount of EUR 16 million under non-recourse terms which its final repayment date is 5 years from the date of receiving the loan bearing a fixed interest rate of 1.18% per annum. On May 31, 2017, the full consideration was paid to the seller and all of the rights in the purchased assets have been transferred to the Company[19].

- ❑ **<u>Purchase of residential assets in Leipzig, Bremen and Dusseldorf, Germany</u>** – in the first quarter of 2017, the Company, through its wholly owned Dutch companies, entered into 4 different transactions for the purchase of 164 flats for leasing in Leipzig, Bremen and Dusseldorf in Germany (the acquired assets) for a total consideration of EUR 15.4 million (including related transaction costs). The acquired assets span over a leasable area of 7.3 thousand sqm, generating current annual of EUR 631 thousand grossing up a significant rental increase potential of 25% to 35%, as per the Company's estimate in view of the average rental in those cities/locations for similar assets. The transaction was financed in the first stage by equity. In the second and third quarters of 2017, the full consideration was paid to the sellers and all of the rights in the purchased assets have been transferred to the Company.

- ❑ **<u>Adoption of dividend policy</u>** – on May 18, 2017, the Company's Board of Directors adopted a 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[20] (from the income producing activity only, excluding profit from the Company's development activity) according to the audited annual consolidated financial statements known on the time the distribution resolution has been made. 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

[18] For additional information see immediate report of the Company dated February 9, 2017 (reference number 014511-01-2017) which is brought by way of reference.

[19] For additional information see immediate report of the Company dated February 23, 2017 (reference number 0-01-2017) which is brought by way of reference.

[20] for information about the FFO calculation manner for 2016 see section 1.7.5.2 in Chapter A "Description of the corporations business" in the Company's periodic report for 2016 (which was published on March 26, 2017 (Ref. number 029265-01-2017).

the entire year (namely, if the FFO in the fourth quarter amounts to EUR 9 million, the FFO amount for that year from which the distribution amount is to be derived will be EUR 36 million. The resolution on such distribution will be made by the Company's Board of Directors after the approval of the annual financial statements for that year for which distribution is made.

It should be noted that this decision does not derogate from the Board of Directors' authority to examine from time to time the policy and decide at any time, taking into account business considerations and the provisions of the law, on a change in policy or on a change in the distribution rate for a particular period or decide not to make a distribution at all It is hereby clarified that the aforesaid dividend policy should not be regarded as a commitment by the Company to make a distribution according to its provisions, and each distribution will be discussed separately by the Company's Board of Directors, which will be authorized to decide on the actual distribution at its discretion, inter alia, taking into account the criteria detailed above and subject to the approval to carry out such distribution by the general meeting of the Company's shareholders, if and to the extent required (in accordance with the provisions of any law).

The Company's Board of Directors may also review from time to time such dividend policy and change it and/or cancel it at its sole discretion.

- ❑ **Sale of an office property to the Chinese Consulate, Düsseldorf, Germany** - on June 1, 2017, a notarized sale agreement was signed between the Company's sub subsidiary (100%) and the Chinese Government for the sale of an office property with a 4,316 sqm. used as the Chinese Consulate in Dusseldorf for a consideration of € 14.8 million. The purchase cost (including transaction costs) to be paid by the purchaser grosses up a rental yield of about 4.5% and a value per square meter of € 3,700. The entire consideration of the sale and the completion of the transaction have been carried out on June 17, 2017.

- ❑ **Acceleration of the vesting period of the Company's employee share option plan (ESOP -3)** - as a result of the change in the control of the Company's shares, as above, the vesting period of the options has ended and all options are available for immediate exercise.Following the acceleration of the vesting period ,the Company recognized a one-time expense of EUR 0.4 million ,as part of the cost of a share-based payment against a capital reserve .See also Note 18(E) to the annual financial statements.

- ❑ **Ratification of credit rating by Maalot – on March 26, 2017, 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- [21]

- ❑ **Advancement of construction rights in existing residential complexes** – the Company advances the review of the possibility of adding an additional construction rights in existing residential complexes. For the avoidance of doubt, construction rights, if any, are not reflected in the appraisals of the assets.

- ❑ **The Company's residential project in Aachen, Germany** - on February 26, 2016, the Company (through sub- subsidiaries) entered with a third party who is not related to the Company and/or its controlling shareholders (the "Partner") into a notarized sale agreement with a third party who is not related to the Company and/or its controlling shareholders (the seller) to acquire ownership rights to the land in the city of Aachen in Germany, on which an old plant which is not in use is erected, for a total consideration of € 6 million (the Company's share is EUR the various required conditions were met[22].

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[21]For additional information see Maalot rating activity report that was attached to the Company's immediate report of dated March 26, 2017 (reference number 029532-01-2017) which is brought by way of reference.

[22]For additional information see the Company's immediate report dated February 28, 2016 (reference 035506-01-2016 which is brought in this report by way of reference

The planning authorities in Aachen have agreed with the Company on the planning concept of the project such that it would be feasible to construct 280-300 residential units (instead of 180-220 residential units as was indicated in the immediate report published by the Company on the asset purchase date) such that it will result in increase in the sales volume and the expected profitability in the project compared to the original planning of the project. In addition, in January 2017, the planning authorities in the city have approved to change the planning master plan for the area from industry to residence such that the Company would be able to promote the urban building plan and bring such plan for approval of the planning authorities in the city during the second quarter of 2018 and commence construction in the second half of 2018 simultaneously with issuing building permits for the project.

During the second quarter, the Company commenced promoting a detailed architectural planning for the purpose of submitting a building permit application for the first stage of the project, as well as commenced a detailed planning of the public infrastructure in the project (roads, sewage/water/ electricity, kindergarten etc) and at the same time promotes the planning procedures and approval of the Urban Planning Scheme in the timetables detailed above.

Progress with the development of the residential project in Düsseldorf

Below are the major developments regarding the development of the residential project in Grafental in the reported period and until the date of signing the report:

a. **Performance and marketing of Stage C** – in April 2016, upon receiving the building permit, the Company commenced the construction of Stage C which includes 109 flats and 128 parking spaces at a total area of 16,000 m^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 44.24 million and EUR 46.2 million, respectively, were received from apartment purchasers.

b. **Performance and marketing of Stage D –** on April 2017, upon receiving the building permit, the commenced constructing Stage D which includes 109 flats and underground parking lot of 125 parking spaces with 10 townhouses (total 119 flats at a total scope of 18,000 m^2 gross). In May 2017, the Company commenced marketing and sales of Stage D and as of the report date and the report signing date, 89 flats (signed agreements and reservations) were marketed (about 74% of this stage) for a total consideration of EUR 50 million.

   As of the report date and the report signing date, advances of EUR 8.7 million and EUR 11.2 million, respectively, were received from apartment purchasers.

   The selling prices 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).

c. **Planning Stage E** – the Company commenced the planning of Stage E that will include 84 flats and 5 townhouses at a total scope of 13,450 m^2, gross, and filed applications for building permits for this stage in September 2016.

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

Project marketing – stage C					
Data according to 100% The effective corporation's share in the project – 83%)		**2017**			**2016**
	As of the date of signing the report	**quarter 3**	**quarter 2**	**Quarter 1**	
Cumulative signed agreements in the current period					
Flats (#)	109	108	105	91	72
Flats – total monetary consideration (including for parking, EUR in thousands)	56,150	55,820	54,467	47,648	37,482
Flats (square meters)	12,284	12,203	11,913	10,408	8,205
Average price per sq.m (EUR) (including consideration for parking)	4,571	4,572	4,572	4,578	4,586
Apartment reservations as of the report signing date					
Flats (#)	0				
Flats – total monetary consideration (including for parking, EUR in thousands)	0				
Flats (square meters)	0				
Average price per sq.m (EUR)	NA				
Cumulative signed agreements and reservations until the date of signing the reports					
Flats (#)	109				
Flats – total monetary consideration (including for parking, EUR in thousands)	56,150				
Flats (square meters)	12,284				
Average price per sq.m (EUR)	4,571				

Marketing rate of the project %					
	As of the report signing date	As of September 30, 2017	As of June 30, 2017	As of March 31, 2017	As of December 31, 2016
Marketing rate on the last date of the period - signed agreements	100%	99.4%	97.0%	84.9%	66.8%
Marketing rate on the last date of the period - signed agreements and reservations	100%				
Advances from tenants					
	of date the of As report the signing	As of September 30, 2017	As of June 30, 2017	As of March 31, 2017	As of December 31, 2016
Advances from tenants (EUR in thousands)	46,185	44,237	30,872	18,879	7,104
Rate of Advances from tenants (%)	82.3%	78.8%	55.0%	33.6%	12.7%
Spaces in respect of which agreements and reservations were not yet signed as of the report signing date					
Flats (#)	0				
Flats – total expected monetary consideration (including for parking, EUR in thousands)	0				
Flats (square meters)	0				
Average price per sqm (EUR)	NA				
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)	0				

* 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 .

Project marketing – stage D				
Data according to 100% The effective corporation's share in the project – 83%)		**2017**		
	As of the date of signing the report	**quarter 3**	**quarter 2**	**Quarter 1**
Cumulative signed agreements in the current period				
Flats (#)	84	68	29	NA
Flats – total monetary consideration (including for parking, EUR in thousands)	47,182	39,012	16,478	
Flats (square meters)	9,937	8,213	3,287	
Average price per sqm (EUR) (including consideration for parking)	4,748	4,750	5,013	Marketing commenced in May 2017
Apartment reservations as of the report signing date				
Flats (#)	5			
Flats – total monetary consideration (including for parking, EUR in thousands)	2,624			
Flats (square meters)	558			
Average price per sqm (EUR)	4,703			
Cumulative signed agreements and reservations until the date of signing the reports				
Flats (#)	89	It is indicated that the average price in the Condo apartments is EUR 4,968 per square meter.		
Flats – total monetary consideration (including for parking, EUR in thousands)	49,806			
Flats (square meters)	10,495			

	(%) :Marketing rate of the project			
	As of the date of publishing the report	**Quarter 3**	**Quarter 2**	NA Marketing commenced in May 2017
Marketing rate on the last date of the period -signed agreements	69.8%	57.7%	24.4%	
Marketing rate on the last date of the period -signed agreements and reservations	73.6%			
	Advances from tenants			

	As of the date of publishing the report	**As of September 30, 2017**	**As of June 30, 2017**	NA Marketing commenced in May 2017
Advances from tenants (EUR in thousands)	11,171	8,710	2,127	
Rate of Advances from tenants (%)	16.5%	12.9%	3.1%	
	Spaces in respect of which agreements and reservations were not yet signed as of the date of publishing the report			
Flats (#)	30			
Flats – total expected monetary consideration (including for parking, EUR in thousands)	17,827			
Flats (square meters)	3,578			
Average price per sqm (EUR)	4,982			
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)	5,444			

Forecast of revenues, costs and entrepreneurial profits of the stages in progress (EUR in thousands)

	Stage C[23]	Stage D [24]
Total expected revenues	56,150	67,633
Advances from apartment purchasers as of the report date	44,237	8,710
Advances from apartment purchasers as of the date of signing the report	46,185	11,171
Total cumulative costs invested	37,453	21,411
Total costs remaining for investment	6,373	29,777
Total expected cost (including land (EUR in thousands)	43,826	51,188
Completion rate (engineering/monetary)(excluding land)(%)[25]	81.5%	24.7%
Total expected entrepreneurial profit	12,324	16,445
Total entrepreneurial profit recognized in the Company's financial statements (consolidated) cumulatively as of the report date	0	0
Rate of expected entrepreneurial profit (%)	28.1%	32.1%
Expected completion date and profit recognition	Fourth quarter of 2017 and first quarter of 2018	Fourth quarter of.2018

In accordance with accounting principles, the Company recognizes revenues, costs and gross profit deriving from the stages in progress, upon completion of performance and delivering the apartments to the tenants.

[23]The performance of Stage C has commenced in April 2016 upon receiving the building permit

[24]The performance and marketing of Stage D commenced in April and May 2017 upon receiving the building permit

[25]It is stressed that engineering completion rate is not identical to apartment delivery rate and profit recognition rate from delivering the apartments that was carried out when the apartments were delivered. See Note 2ff to the consolidated financial statements which is attached in Chapter C of the 2016 periodic report and note 2c1 of the consolidated statements of the Company for this period.

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 which its execution has not yet begun, 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 (stages C and D)	95,020	35,305	21,910

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 (stages C and D)	28,817	10,456	6,972
Stages E (under approved urban scheme) not yet in progress	78,488	25,301	18,302
Total	**107,305**	**35,757**	**25,274**

- Betterment of the land in Dusseldorf and changing the zoning 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:

    a. 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 the complex such that it will be feasible to build, with the formal approval of the new urban scheme which is in progress, if approved, on the entire parcel of land an additional 650 flats in addition to 850 flats that are included today in the valid urban scheme (in total 1,500 flats). The urban scheme for 300 residential units(Grafental Mitte) out of 650 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 Company will be able to obtain building permits for the first stage under Section 33 of the German Planning and Building Law in Grafental Mitte until the end of 2017. The urban scheme for the remaining 350 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 at the end of 2018 [26] [28]

[26]For additional information see section 1.8.5 in Chapter A "Description of the Corporation's businesses" attached to the 2016 periodic report.

b. Purchase of several office and residential buildings in Grafenberg neighborhood for betterment - On 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[27]
In the reported period, the Company had advanced with the Dusseldorf municipality a new urban scheme for the complex such that it will be feasible to construct a residential project on the land that will include 80 up to 100 flats (a constructed area of 20,000 m^2, gross) (instead of the existing buildings). The Company estimates that said plans will be approved, if at all, by the municipality and the land will be available for construction (with the necessary approvals) in the first half of 2018 [27] [28].

The following is a tabular summary of expected revenue, cash flow and entrepreneurial profit expected from the betterment of the land in Dusseldorf[28]

Data according to 100% (EUR in thousands)	Revenue not yet recognized	Cash flow not yet recognized	Entrepreneurial profit not yet recognized
Parcel of land under the change of zoning from offices to residence in Grafental[29] and the land in Grafenberg	470,671	191,848	86,467

The information described above in connection with stages C and D in progress and stage E of the Grafental project (which is included in the approved urban scheme) which their performance was not yet commenced and in connection with the betterment of the lands in Dusseldorf 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.

[27]For additional information regarding the above transaction see immediate report dated August 31, 2014 (reference 146337-01-2016) which is brought in this report by way of reference.
[28]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 Grafental and/or the land in Grafenberg including the development of which of the parcels of land. The decision to develop the above lands or any of them 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 in the said lands, 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 land complexes 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 28% - 32% and cash flows of 35% - 40% of the scope of sales).
[29]The corporation's effective portion in said parcel of land is 83%.

The information is based on information possessed by the Company as of the report date, regarding: 1) demand for residential spaces in Dusseldorf; 2) market prices of residential spaces in Dusseldorf generally and in the area of the projects (including competing projects comparable with the Company's projects); 3) accumulated know how and experience of the Company's management and project managers in the segment; 4) the Company's forecasts and estimates regarding the costs of construction, development, marketing of projects based on the costs of the stages that as of the report date are in progress; and other estimates of the Company.

It is uncertain whether the change of zoning will take place and/or consummated, if any, since its consummation is subject to the planning and construction procedures required under German law, the consummation of which is not controlled by the Company.

In addition ,even if the approvals are received and the Company will resolve to establish the projects independently and the performance of the projects will be executed, change in circumstances (including without derogating from the generality of the foregoing – decrease in demand for flats in Dusseldorf and/or decrease in market prices of flats in Dusseldorf) or increase in construction costs (and other costs) and/or the formation of special conditions that may significantly change the Company's estimates detailed above and have a material impact on the expected revenues from the projects ,including their overall profitability.

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	September 30		December 31,	Explanation for the change
	2017	2016	2016	
	EUR in thousands			
Current assets				
Cash and cash equivalents	107,241	68,567	89,278	See details in the statement of cash flows
Balances receivable from banks	1,340	1,157	2,221	
Restricted deposits, financial assets and other receivables	20,012	11,508	10,088	
Tenants and trade receivables, net	4,521	4,954	3,545	
Inventory of buildings under construction	60,938	57,968	45,754	On one hand, increase in inventory in respect of progress in constructing Stages C and D and on the other hand, decrease in inventory for handover of apartments in Stage B3.
Total current assets	**194,052**	**144,154**	**150,886**	
Asset held for sale	-	61,830	-	

Non-current assets:				
Investments measured at equity	8,318	8,318	8,318	
Inventory of real estate	14,106	26,471	13,820	
Investment property – real estate rights	131,908	101,939	101,939	The increase in the reported period derives from revaluations profits
Investment property – income producing assets	1,217,144	1,051,783	1,089,943	The increase in the reported period derived from the purchase of assets and revaluation profits on one hand and from selling an asset on the other hand
Restricted deposits for investments in assets	2,616	1,742	2,227	
Other accounts receivable, fixed assets and other financial assets	462	1,593	3,027	
Deferred taxes	1,604	5,513	3,608	
Total non-current assets	**1,376,158**	**1,197,359**	**1,222,882**	
Total assets	**1,570,210**	**1,403,343**	**1,373,768**	

Liabilities	September 30		December 31,	Explanation for the change
	2017	2016	2016	
	EUR in thousands			
Current liabilities:				
Current maturities of loans from banks	98,257	12,753	16,164	The increase in the reported period derives from classification of short term loans according to the original amortization schedules of the loans
Current maturities of debentures	17,341	17,107	17,750	
Loans for financing inventory of buildings under construction	5,500	3,000	7,000	
Current maturities of other financial liabilities	773	739	456	
Accounts payable	21,800	12,906	26,270	
Advances from apartment purchasers	52,944	54,747	16,073	
	196,615	**101,252**	**83,713**	
Liabilities held for sale	-	54,056		
Non-current liabilities:				
Loans from banks and others	483,230	554,505	568,157	
Debentures	112,310	127,791	130,169	The decrease in the reported period derives from current repayments and exchange rate differences
Other liabilities	3,133	3,148	3,133	
Other financial liabilities	2,970	580	434	
Deferred taxes	88,764	65,024	68,099	The increase in the reported period mainly derives from revaluation profits
	690,407	**751,048**	**769,992**	
Total liabilities	**887,022**	**906,356**	**853,705**	
Equity				
Equity attributable to equity holders of the company	573,309	392,758	419,173	The increase in the reported period mainly derives from issuance of capital, exercise of warrants and profit in the period.
Non controlling interests	109,879	104,229	100,890	
Total equity	**683,188**	**496,987**	**520,063**	
Total liabilities and equity	**1,570,210**	**1,403,343**	**1,373,768**	

(2) Activity Results

	For the Nine months Ended September 30		For the Three months ended September 30		For the Year ended December 31,	Explanation for the change
	2017	2016	2017	2016	2016	
	EUR in thousands					
Revenues from rental of properties	54,898	53,576	18,536	18,473	72,111	Purchase of new assets and increase in rental fees in identical assets on one hand and sale of assets in the last quarter of 2016 and the second quarter of 2017 on the other hand.
Revenues from property management and others	21,110	20,090	6,944	7,103	25,539	
Property management expenses	(20,361)	(19,293)	(6,728)	(6,866)	(25,064)	
Cost of maintenance of rental properties	(7,265)	(6,708)	(2,466)	(2,757)	(8,803)	
Rental and management revenues, net	**48,382**	**47,665**	**16,286**	**15,953**	**63,783**	
Revenues from sale of apartments	11,564	21,095	2,336	-	73,935	In the third quarter mainly recognition from sale of apartments in the privatization project (see above) and in addition the timing of handover of apartments in Stage B3 of the residential project and updating the provision for completion
Cost of sale of apartments	(10,870)	(16,729)	(1,564)	-	(58,537)	
Income from the sale of apartments	**694**	**4,366**	**772**	**-**	**15,398**	
other income	2,008	-	-	-	-	
General and administrative expenses	(7,852)	(9,024)	(2,604)	(2,758)	(12,594)	
General and administrative expenses attributed to inventory of apartments under construction and inventory of real estate	(1,686)	(1,787)	(502)	(516)	(2,222)	
selling and marketing expenses	(327)	(377)	(30)	(110)	(422)	

Cost of share based payment	(871)	(1,024)	-	(232)	(1,227)	
Increase (decrease) in the value of investment property, net	101,804	56,941	8,807	26,325	80,459	Revaluation profits in the quarter derive from mainly from updating the value of Grafenberg
Operating profit	**142,152**	**96,760**	**22,729**	**38,662**	**143,175**	
Financing income	39	-	-	-	25	
Financing expenses excluding the effect of exchange rate differences, CPI and hedging transactions, net	(15,016)	(15,588)	(5,116)	(5,332)	(20,716)	Increase in bank loans for financing the purchase of new assets offset by current repayments of loans and bonds
Effect of exchange rate differences, CPI and currency hedging transactions, net	(1,885)	(1,527)	3,635	(3,327)	(3,399)	
Change in the value of loans and interest rate swap transactions, net	274	(3,320)	128	(2,454)	(3,793)	Changes in interest curve in Europe and hedging transactions
Income before taxes on income	**125,564**	**76,325**	**21,376**	**27,549**	**115,292**	
Taxes on income	(24,300)	(17,381)	(3,931)	(2,824)	(26,586)	
Reported net income	**101,264**	**58,944**	**17,445**	**24,725**	**88,706**	
Net income attributed to:						
Company shareholders	83,329	51,647	15,908	23,856	76,276	
Non-controlling interests	17,935	7,297	1,537	869	12,430	

3) Cash flows

	For the Nine months Ended September 30		For the Three months ended September 30		For the Year ended December 31,	Explanation for the change
	2017	2016	2017	2016	2016	
EUR in thousands						
Cash flows provided by operating activities (Cash flows used in operating activities)	54,193	54,544	24,967	15,579	71,086	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)	(65,062)	(58,980)	(18,030)	(14,831)	(62,275)	Purchase of new assets
Cash flows provided by financing activities (Cash flows used in financing activities)	28,832	17,183	(8,971)	1,677	24,647	

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

  It is indicated that for the period of nine months ended September 30, 2017 ,the Company has in its solo reports (but not in its consolidated reports negative cash flows from operating activity amounting to EUR 1.34 million and for the period ended December 31, 2016, the Company has in its solo reports negative (but not in the consolidated statements) cash flows from operating activity amounting to EUR 1.58 million. 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 75 million compared to its current liabilities amounting EUR 19 million so as of the report signing date, the Company (solo) has a working capital surplus of EUR 57 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 2016 and in the reported period.

  In addition, it is indicated that during the reported period, the Company classified four non-recourse loans taken by the Company's sub-subsidiaries in the amount of € 84.2 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 September 30, 2017, the Company has a working capital deficiency of approximately € 2.5 million. The Company's Board of Directors stated at its meeting on November 16, 2017, that the aforesaid does not indicate a liquidity problem in the corporation, as it is a non-recourse loan in subsidiaries that are repayable in accordance with their repayment schedule within a period of 6-12 months 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, the Company is in advanced negotiations with a number of German banking corporations in connection with the refinancing of these loans, and the Company anticipates that during the fourth quarter of 2017 2 loans (of said loans) in a total amount of € 52.8 million (as of the report signing date) will be refinanced.

(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 of expenses for management and marketing of the Düsseldorf project (since the revenues in respect of this project are not taken into account in the FFO), changes in fair value recognized for financial instruments, deferred taxes and non controlling interests for the above items.

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

The Company clarifies that the FFO index does not represent cash flows from operating activity according to generally accepted accounting principles, does not 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:

	For the Three months ended September 30, 2017	For the Three months ended September 30, 2016	For the Year ended December 31, 2016
Net profit attributed to the Company's shareholders	15,908	23,856	76,276
Adjustments for net profit:			
A. Adjustments for revaluations			
Increase in the value of investment property and adjustments of liability value relating to investment property	(9,335)	(26,800)	(72,261)
Revaluation of loans and interest swap transactions at fair value	108	2,499	3,867
B. Adjustments for non cash flow items			
Cost of share-based payment and changes in capital reserves	15	206	1,327
Amortization of financing costs, indexing and non cash exchange rate differences and hedging transactions	(2,455)	3,794	5,367
Interest component in hedging transactions	228	294	1,059
Deferred tax expenses and taxes for prior years	4,105	2,881	24,308
C. Unique items / new activities / ceased activities / other			
Depreciation and contributions, professional services and onetime expenses	(70)	(51)	1,553
Adjustments related to associates and non controlling interests	-	(7)	(2,665)
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	836	841	3,236
Adjustments for sale of apartments	(557)	-	(12,781)
Total of adjustments to net profit	(7,125)	(16,343)	(46,990)
F.F.O	**8,783**	**7,513**	**29,286**

As aforesaid, the FFO in the three months ended September 30, 2017 amounted to approximately EUR 8.8 million, grossing up an annual FFO rate of EUR 35.2 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 C and D).

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 September 30, 2017 EUR in millions	**As of September 30, 2016 EUR in millions**	**As of December 31, 2016 EUR in millions**
Equity attributed to the Company's shareholders	573.3	392.8	419.2
Plus deferred taxes for EPRA adjustments (net of non controlling interest)	82	60.7	65.9
Net of fair value of derivative financial instruments, net (net of non controlling interest)	0.2	0.4	0.3
Plus profits that were not yet recognized in respect of apartments that were sold and are under construction in stages C and D of the residential project	12.4	10.4	5.8
EPRA NAV –Net Asset Value	**667.9**	**464.3**	**491.2**

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 2.02% 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.

September 30, 2017:

	10%	**5%**	**Fair Value**	**-5%**	**-10%**
Bonds *)	465	78	(143,659)	(700)	(1,094)
Fixed-interest loans	545	272	(415,487)	(272)	(545)
Interest rate swap transactions which are not recognized as accounting hedging	26	13	(571)	(13)	(26)
Total	1,036	363	(559,717)	(985)	(1,665)

*) The fair value of the bonds is presented at its quoted value in the Tel Aviv stock exchange. 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):

September 30, 2017:

	10%	5%	Fair Value	-5%	-10%
Bonds (net of cash held in NIS)	11,466	5,733	(114,662)	(5,733)	(11,466)

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):

September 30, 2017:

	10%	5%	Fair Value	-5%	-10%
Currency hedging transactions	(7,000)	(3,500)	(3,172)	3,500	7,000

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

September 30, 2017:

	4%	3%	Fair Value	-3%	-4%
Bonds	(5,746)	(4,310)	(143,659)	4,310	5,746

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[30] 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;

[30]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, Willem Van Hassel and Mrs. Ljudmila Popova 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>

On March 23, 2017, the Board of Directors approved a donations budget of EUR 85 thousand for 2017. In the reported period, the Company donated EUR 47 thousand.

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

For information regarding the skills, education and experience of the Messers, Lambertus Van Den Heuvel (external director), Willem Van Hassel (external director), Ulrich Tappe (director and manager of the development division of the Company) 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 2016 periodic report and for details regarding the qualifications, education and experience of Ms. Ljudmila Popova, who is considered by the Company to be as a director with accounting and financial expertise in the Company, see the immediate report dated July 26, 2017 and November 5, 2017 [Reference No. 2017-01-077070 and 2017-01-104055.

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 2016 which are attached in Chapter C in the periodic report for 2016.

- Disclosure on material and very material valuations – there were no material or very material valuations in the third quarter of 2017.

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 30.9.2017(thousands NIS)	171,520	210,000	153,642
Linked par value as at 30.9.2017 (thousands NIS)	178,811	210,368	153,642
Sum of cumulative interest plus linkage differentials (thousands NIS) as at 30.9.2017	1,819	1,759	1,000
Value in financial statements as at 30.9.2017 including interest payable (thousands NIS)	178,580	211,263	153,467

Value at the stock exchange as at 30.9.2017 (thousands NIS)	193,372	232,617	171,188
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 Fax: 03-6389222 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 Fax: 03-6389222 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 Fax: 03-6389222 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)[31]	
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

[31]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[32], 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%[33]:

The Company's equity, which is attributed to the majority shareholders as at the Report Period, namely, as of September 30, 2017, is EUR 573,309 thousand.

The financial debt, net, according to solo reports of the Company as of the same date is EUR 75,652 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 September 30, 2017, is approximately 758%**.**

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

With respect to the bond holders (Series A):

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

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

The number of charged shares of Brack Capital German Properties B.V., a subsidiary (100%) of the Company (hereinafter: "**BGP**") as of September 30, 2017– 943,804.

The total issued share capital of BGP as of September 30, 2017 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 September 30, 2017– 47.7%.

BGP's equity which is attributed to its shareholders, as appears in the Company's financial statements as of September 30, 2017 – EUR 651,867 thousand.

The EUR/NIS representative exchange rate known, as of the signing date of the report as published by the Bank of Israel - NIS 4.1462

[32] as to the issue of the existence of grounds for calling for immediate repayment of the bonds (series A B and C) for change in control in the Company and the resolution of the bondholders (series A B and C) to grant a waiver regarding such grounds which was established see section 5 below.

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

The value of the charged shares – NIS 1,289,460 thousand.

Net debt – NIS 180,630 thousand.

Accordingly ,the ratio between the charged share value to net debt, as of the end of the Report Period, is approximately 714% 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 September 30, 2017– 640,027.

The total issued share capital of BGP as of September 30, 2017 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 September 30, 2017 - 32.4%.

BGP's equity which is attributed to its shareholders, as appears in the Company's financial statements as of September 30, 2017 – EUR 651,867 thousand.

The EUR/NIS representative exchange rate known, as of the signing date of the report, as published by the Bank of Israel – NIS 4.1462

The value of the charged shares – NIS 874,429 thousand.

Net debt – NIS 212,127 thousand.

Accordingly ,the ratio between the charged share value to net debt, as of the end of the Report Period, is approximately 412% 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 September 30, 2017 – 394,430.

The total issued share capital of BGP as of September 30, 2017 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 September 30, 2017 - 19.9%.

BGP's equity which is attributed to its shareholders, as appears in the Company's financial statements as of September 30, 2017 – EUR 651,867 thousand.

The EUR/NIS representative exchange rate known, as of the signing date of the report, as published by the Bank of Israel - NIS 4.1462

The value of the charged shares – NIS 538,885 thousand.

Net debt – NIS 154,642 thousand.

Accordingly ,the ratio between the charged share value to net debt, as at the end of the Report Period, is approximately 348% 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 573.3 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 573.3 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 573.3 million and the debt ratio to CAP is 46.9% (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	129,651
Financial liabilities of the subsidiaries	586,987
Net of cash, cash equivalents and deposits	(108,576)
Net of debt in respect of inventory of apartments under construction	(5,500)
Net financial debt – consolidated	602,562
CAP[34]	
Equity including non controlling interests	683,188
Net financial debt, consolidated	602,562
CAP	1,285,750

Therefore, **this ratio is 46.9** % 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.

[34]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) Convening meetings of bondholders following the change in control in the Company and amending the deeds of trust

a) On June 18, 2017, Reznik Paz Nevo Trusts Ltd., the trustee for the bonds (Series A, B and C), summoned meetings for reporting and consultation of the bond holders Company's reports of May 23, 2017 regarding a signed transaction resulting in a change in control of the Company and from June 15, 2017 regarding changes in the holdings the Company's shares, including a report that Mr. Teddy Sagi purchased 43.93% of the Company's shares (39.67% fully diluted) ("Change of Control). The reporting and consultation issues on the agenda of the meetings were discussed regarding the grounds for immediate repayment due to the change in control as detaile the options available to the bondholders, including the amendment of the deeds of trust following a change of control and discussing other issues as raised by the meeting by the trustee and/or the bondholders.

b) On June 26, 2017, the trustee for bonds (Series A, B and C) summoned voting meetings of the bondholders as aforesaid (without actual convening) to June 29, 2017, on the agenda - granting a waiver in connection with the cause for immediate repayment which was established for the bondholders for transferring the control (the majority required for the approval of the resolution is a majority of at least 75% of the participants in the vote, except abstainers). At the voting meetings, the resolution was passed by the required majority .

   For the avoidance of doubt, it was clarified that this decision means granting a one-time waiver to the Company in respect of the transfer of control and that this decision does not constitute any waiver in connection with future transfers of control, if any .For further details on this matter, see the immediate reports dated July 2, 2017 (Reference No. 2017-10-055801, 2017-10-055828 and 2017-10-055837).

c) Further to what is stated in sub section (b) above, regarding the results of the meetings of the bondholders (Series B and C) which were held on June 29, 2017 and in accordance with said results, on July 3, 2017, the Company and the trustee as a trustee for the bondholders B and C of the Company, entered into amendments for the deeds of trust signed between the Company and the trustee on May 9, 2013 (amended on January 29, 2017) (Deed of Trust for B Bonds) and on July 14, 2014 (amended on January 29, 2017) (Deed of trust for C bonds) For additional details (including the amendments), see immediate report from that date [Ref. 2017-01-069039.[

6) 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 corporate 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[35].

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 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 A), see, *inter alia*, Section 2.7.12.12(D) of the shelf prospectus.

[35]It is indicated that as of September 30, 2017, 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 308% 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 276% 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**

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.

7) 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 September 30, 2017 and December 31, 2016 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 September 30, 2017 (EUR in thousands)	**The Company Consolidated**	**Assets/liabilities In the pledged investee company**	**Assets/liabilities In unpledged companies**
Total assets	1,570,210	1,514,752	55,458
Current assets	194,052	138,594	* 55,458
Noncurrent assets	1,376,158	1,376,158	-
Total liabilities	887,022	753,006	134,016
Current liabilities	196,615	177,758	** 18,857
Noncurrent liabilities	690,407	575,248	*** 115,159
Non- controlling interests	109,879	109,879	-
Total equity	573,309	651,867	(78,558)
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%	85%	15%
Rate of equity out of the total equity in the balance sheet	100%	114%	(14%)

*) 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 and liabilities payable for capital distribution;

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

Data as of December 31, 2016 (EUR in thousands)	The Company Consolidated	Assets/liabilities In the pledged company	Assets/liabilities In unpledged companies
Total assets	1,373,768	1,362,608	11,160
Current assets	150,886	141,872	* 9,014
Noncurrent assets	1,222,882	1,220,736	2,146
Total liabilities	853,705	703,759	149,947
Current liabilities	83,713	63,936	** 19,778
Noncurrent liabilities	769,992	639,823	*** 130,169
Non- controlling interests	100,890	100,890	0
Total equity	419,173	557,960	(138,787)
Rate of assets out of the total assets in the balance sheet	100%	99%	1%
Rate of liabilities out of the total liabilities in the balance sheet	100%	82%	18%
Rate of equity out of the total equity in the balance sheet	100%	133%	(33%)

*) 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

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

November 16, 2017

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 2016; the following are data on the Company's compliance with the financial covenants as determined in its loans[36].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[37]

Serial number out of loan table	Date of extending the loan	The original loan amount EURO in thousands	Principal balance as of September 30, 2017 EURO in thousands	Financial liabilities/other liabilities	Financial covenants - actual ICR/DSCR, as of September 30, 2017 and as of the report signing date	Financial covenants – actual LTV, as of September 30, 2017 and as of the report signing date
					As of September 30, 2017	**As of September 30, 2017**
4	August 31, 2015	49,480	45,744	LTV smaller than 75% DSCR greater than 130%	DSCR = 184%	LTV – 62%
					As of the report signing date	**As of the report signing date**
					DSCR = 184%	LTV – 62%

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

[37]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 September 30, 2017 EURO in thousands	Financial liabilities/other liabilities	Financial covenants - actual ICR/DSCR, as of September 30, 2017 and as of the report signing date	Financial covenants – actual LTV, as of September 30, 2017 and as of the report signing date
5	August 31, 2015	13,031	11,832	LTV smaller than 70% DSCR greater than 130%	**As of September 30, 2017** DSCR = 171% **As of the report signing date** DSCR = 171%	**As of September 30, 2017** LTV= 57% **As of the report signing date** LTV = 57%
6	September 30, 2016	110,000	107,806	LTV smaller than 75% DSCR greater than 135%	**As of September 30, 2017** DSCR = 280% **As of the report signing date** DSCR = 280%	**As of September 30, 2017** LTV= 58% **As of the report signing date** LTV = 58%

Serial number out of loan table	Date of extending the loan	The original loan amount EURO in thousands	Principal balance as of September 30, 2017 EURO in thousands	Financial liabilities/other liabilities	Financial covenants - actual ICR/DSCR, as of September 30, 2017 and as of the report signing date	Financial covenants – actual LTV, as of September 30, 2017 and as of the report signing date
8	June 20, 2013	51,500	44,833	LTV smaller than 70% DSCR greater than 140%	**As of September 30, 2017** DSCR = 211% **As of the report signing date** DSCR = 212%	**As of September 30, 2017** LTV= 41% **As of the report signing date** LTV = 41%
9	July 31, 2013	24,200	22,213	LTV smaller than 75% DSCR greater than 145%	**As of September 30, 2017** DSCR = 260% **As of the report signing date** DSCR = 260%	**As of September 30, 2017** LTV= 39% **As of the report signing date** LTV = 39%

Serial number out of loan table	Date of extending the loan	The original loan amount EURO in thousands	Principal balance as of September 30, 2017 EURO in thousands	Financial liabilities/other liabilities	Financial covenants - actual ICR/DSCR, as of September 30, 2017 and as of the report signing date	Financial covenants – actual LTV, as of September 30, 2017 and as of the report signing date
11	February 28, 2014	125,000	58,487[38]	LTV smaller than 77% DSCR greater than 130%	**As of September 30, 2017**	**As of September 30, 2017**
					DSCR = 157%	LTV= 46%
					As of the report signing date	**As of the report signing date**
					DSCR = 157%	LTV = 46%

[38]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 September 30, 2017 EURO in thousands	Financial liabilities/other liabilities	Financial covenants - actual ICR/DSCR, as of September 30, 2017 and as of the report signing date	Financial covenants – actual LTV, as of September 30, 2017 and as of the report signing date
12.13.14	August 30, 2017-refinance	32,583	32,583	LTV smaller than 65% DSCR greater than 160%	**As of September 30, 2017** DSCR = 377% **As of the report signing date** DSCR = 377%	**As of September 30, 2017** LTV= 42% **As of the report signing date** LTV = 42%
18,24	December 31, 2014	10,000	14,045[39]	LTV smaller than 80% DSCR greater than 145%	**As of September 30, 2017** DSCR = 219% **As of the report signing date** DSCR = 219%	**As of September 30, 2017** LTV= 47% **As of the report signing date** LTV = 47%

[39] 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 September 30, 2017 EURO in thousands	Financial liabilities/other liabilities	Financial covenants - actual ICR/DSCR, as of September 30, 2017 and as of the report signing date	Financial covenants – actual LTV, as of September 30, 2017 and as of the report signing date
22	May 30, 2016	25,000	24,333	LTV smaller than 75.5% DSCR greater than 130%	**As of September 30, 2017** DSCR = 182% **As of the report signing date** DSCR = 182%	**As of September 30, 2017** LTV= 66% **As of the report signing date** LTV= 66%
29	December 31, 2016	55,800	54,544	LTV smaller than 75% DSCR greater than 160%	**As of September 30, 2017** DSCR = 196% **As of the report signing date** DSCR = 196%	**As of September 30, 2017** LTV= 61% **As of the report signing date** LTV = 61%

It is noted that in addition, the Company has loans from banks (against real estate collaterals) with no financial covenants in a total amount of EUR 172 million at an average LTV rate of 35%.

BRACK CAPITAL PROPERTIES NV

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2017

UNAUDITED

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Auditor Review Report to the Shareholders of Brack Capital Properties NV

Introduction

We have reviewed the accompanying financial information of Brack Capital Properties NV and its subsidiaries (hereinafter – "the Group") comprising of the condensed consolidated interim statement of financial position as of September 30, 2017 and the condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the periods of nine and three months then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial information for the interim periods in accordance with IAS 34 "Financial reporting for interim periods", and they are responsible for the preparation and presentation of the financial information for the interim periods in accordance with Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports) - 1970. Our responsibility is to express a conclusion on the financial information for the interim periods, based on our review.

Scope of the Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

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

In addition to the remarks in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information does not meet, in all material respects, the provisions of Disclosure under Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports) - 1970.

Amit, Halfon
Certified Public Accountants (Israel)

Ramat Gan,
November 16, 2017

16 Aba Hillel Silver St. Ramat-Gan 52506 Israel Tel: +972-3-6123939 Fax: +972-3-6125030 e-mail: office@ahcpa.co.il

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of September 30,		As of December 31,
	2017	2016	2016
	Unaudited		Audited
	€ in thousands		
Current Assets			
Cash and cash equivalents	107,241	68,567	89,278
Balances receivable from banks	1,340	1,157	2,221
Restricted deposits, financial assets and other receivables	20,012	11,508	10,088
Tenants and trade receivables, net	4,521	4,954	3,545
Inventory of buildings under construction	60,938	57,968	45,754
	194,052	144,154	150,886
Asset held for sale	-	61,830	-
Non-Current Assets			
Investments in companies measured at equity	8,318	8,318	8,318
Inventory of real estate	14,106	26,471	13,820
Investment property - land	131,908	101,939	101,939
Investment property – income generating assets	1,217,144	1,051,783	1,089,943
Restricted deposits for investments in properties	2,616	1,742	2,227
Other accounts receivable, fixed assets and other financial assets	462	1,593	3,027
Deferred taxes	1,604	5,513	3,608
	1,376,158	1,197,359	1,222,882
	1,570,210	1,403,343	1,373,768

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of September 30,		As of December 31,
	2017	2016	2016
	Unaudited		Audited
	€ in thousands		
Current Liabilities			
Current maturities of loans from banks	98,257	12,753	16,164
Current maturities of debentures	17,341	17,107	17,750
Loans for financing inventory of buildings under construction	5,500	3,000	7,000
Current maturities of other financial liabilities	773	739	456
Accounts payable	21,800	12,906	26,270
Advances from apartment purchasers	52,944	54,747	16,073
	196,615	101,252	83,713
Liabilities held for sale	-	54,056	-
Non-Current Liabilities			
Loans from banks and others	483,230	554,505	568,157
Debentures	112,310	127,791	130,169
Other liabilities	3,133	3,148	3,133
Other financial liabilities	2,970	580	434
Deferred taxes	88,764	65,024	68,099
	690,407	751,048	769,992
Equity Attributable to Company Shareholders			
Share capital	75	67	67
Premium on shares	140,025	69,221	69,221
Treasury shares	(746)	(883)	(883)
Other capital reserves	6,472	4,828	6,614
Statutory capital reserve	305,779	247,041	233,463
Retained earnings	121,704	72,484	110,691
Total equity attributable to Company shareholders	573,309	392,758	419,173
Non-controlling interests	109,879	104,229	100,890
Total equity	683,188	496,987	520,063
	1,570,210	1,403,343	1,373,768

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

November 16, 2017			
Date of approval of the financial statements	Alexander Dexne Chairman of the Board of Directors	Ofir Rahamim Joint CEO	Guy Priel CFO

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

	For the Nine months ended September 30,		For the Three months ended September 30		For the Year ended December 31
	2017	2016	2017	2016	2016
	Unaudited				Audited
	€ in thousands (except for net earnings per share data)				
Revenues from rental of properties	54,898	53,576	18,536	18,473	72,111
Revenues from property management and others	21,110	20,090	6,944	7,103	25,539
Property management expenses	(20,361)	(19,293)	(6,728)	(6,866)	(25,064)
Cost of maintenance of rental properties	(7,265)	(6,708)	(2,466)	(2,757)	(8,803)
Rental and management revenues, net	48,382	47,665	16,286	15,953	63,783
Revenues from sale of apartments	11,564	21,095	2,336	-	73,935
Cost of sale of apartments and completion cost estimate adjustment	(10,870)	(16,729)	(1,564)	-	(58,537)
Income from sale of apartments	694	4,366	772	-	15,398
Other income	2,008	-	-	-	-
Administrative and general expenses	(7,852)	(9,024)	(2,604)	(2,758)	(12,594)
Administrative and general expenses attributed to inventory of apartments under construction and real estate inventory	(1,686)	(1,787)	(502)	(516)	(2,222)
Selling and marketing expenses	(327)	(377)	(30)	(110)	(422)
Cost of share based payment (administrative and general expenses)	(871)	(1,024)	-	(232)	(1,227)
Operating profit before change in value of investment property	40,348	39,819	13,922	12,337	62,716
Increase in value of investment property, net	101,804	56,941	8,807	26,325	80,459
Operating income	142,152	96,760	22,729	38,662	143,175
Financial income	39	-	-	-	25
Financial expenses excluding the effect of exchange differences index and currency hedging transactions	(15,016)	(15,588)	(5,116)	(5,332)	(20,716)
Effect of exchange differences, index and currency hedging transactions, net	(1,885)	(1,527)	3,635	(3,327)	(3,399)
Change in value of loans, interest rate swap transactions, and refinancing costs, net	274	(3,320)	128	(2,454)	(3,793)
Income before taxes on income	125,564	76,325	21,376	27,549	115,292
Tax expenses	(24,300)	(17,381)	(3,931)	(2,824)	(26,586)
Net income	101,264	58,944	17,445	24,725	88,706
Other comprehensive income	-	-	-	-	-
Total comprehensive income	101,264	58,944	17,445	24,725	88,706
Net income and comprehensive income attributable to:					
Company shareholders	83,329	51,647	15,908	23,856	76,276
Non-controlling interests	17,935	7,297	1,537	869	12,430
	101,264	58,944	17,445	24,725	88,706
Net earnings per share attributable to the Company's shareholders (in Euro)					
Basic net income	11.53	7.82	2.20	3.62	11.55
Diluted net income	11.18	7.62	2.13	3.50	11.22

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
	€ 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	-	-	-	-	-	83,329	83,329	17,935	101,264
Total comprehensive income	-	-	-	-	-	83,329	83,329	17,935	101,264
Classification as per provisions of Dutch law	-	-	-	-	72,316	(72,316)	-	-	-
Cost of share-based payment	-	-	-	871	-	-	871	-	871
Capital reserve adjustment in respect of transactions with controlling shareholder	-	-	-	373	-	-	373	-	373
Issuance of share capital, net	5	46,369	-	-	-	-	46,374	-	46,374
Exercise of stock options into shares	3	24,435	137	(1,386)	-	-	23,189	-	23,189
Distribution and payment to non controlling interests	-	-	-	-	-	-	-	(8,946)	(8,946)
Balance as of September 30, 2017 (Unaudited)	75	140,025	(746)	6,472	305,779	121,704	573,309	109,879	683,188

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
	€ in thousands								
Balance as of January 1, 2016 (audited)	66	74,689	(951)	3,841	267,878	-	345,523	108,577	454,100
Net income and comprehensive income	-	-	-	-	-	51,647	51,647	7,297	58,944
Total comprehensive income	-	-	-	-	-	51,647	51,647	7,297	58,944
Classification as per provisions of Dutch law	-	-	-	-	(20,837)	20,837	-	-	-
Cost of share-based payment	-	-	-	1,024	-	-	1,024	-	1,024
Exercise of stock options into shares	1	544	68	(556)	-	-	57	-	57
Capital reserve adjustment in respect of transactions with controlling shareholder	-	-	-	98	-	-	98	-	98
Distribution to non-controlling interests	-	-	-	-	-	-	-	(2,647)	(2,647)
Purchase of rights from non-controlling interests	-	-	-	421	-	-	421	(8,998)	(8,577)
Increase of share capital	6,049	(6,049)	-	-	-	-	-	-	-
Capital distribution to the Company's shareholders and adjustment in respect of treasury shares	(6,049)	37	-	-	-	-	(6,012)	-	(6,012)
Balance as of September 30, 2016 (unaudited)	67	69,221	(883)	4,828	247,041	72,484	392,758	104,229	496,987

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
	€ in thousands								
Balance as of July 1, 2017 (Unaudited)	73	117,007	(883)	7,823	297,978	113,597	535,595	108,944	644,539
Net income and comprehensive income	-	-	-	-	-	15,908	15,908	1,537	17,445
Total comprehensive income	-	-	-	-	-	15,908	15,908	1,537	17,445
Classification as per provisions of Dutch law	-	-	-	-	7,801	(7,801)	-	-	-
Capital reserve adjustment in respect of transactions with controlling shareholder	-	-	-	35	-	-	35	-	35
Exercise of stock options into shares	2	23,018	137	(1,386)	-	-	21,771	-	21,771
Distribution to non-controlling interests	-	-	-	-	-	-	-	(602)	(602)
Balance as of September 30, 2017 (unaudited)	75	140,025	(746)	6,472	305,779	121,704	573,309	109,879	683,188

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
	€ in thousands								
Balance as of July 1, 2016 (Unaudited)	66	68,677	(951)	5,141	226,389	69,280	368,602	103,360	471,962
Net income and comprehensive income	-	-	-	-	-	23,856	23,856	869	24,725
Total comprehensive income	-	-	-	-	-	23,856	23,856	869	24,725
Classification as per provisions of Dutch law	-	-	-	-	20,652	(20,652)	-	-	-
Cost of share-based payment	-	-	-	232	-	-	232	-	232
Exercise of stock options into shares	1	544	68	(556)	-	-	57	-	57
Capital reserve adjustment in respect of transactions with controlling shareholder	-	-	-	11	-	-	11	-	11
Balance as of September 30, 2016 (unaudited)	67	69,221	(883)	4,828	247,041	72,484	392,758	104,229	496,987

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
	€ in thousands								
Balance as of January 1, 2016 (audited)	66	74,689	(951)	3,841	267,878	-	345,523	108,577	454,100
Net income and comprehensive income	-	-	-	-	-	76,276	76,276	12,430	88,706
Total comprehensive income	-	-	-	-	-	76,276	76,276	12,430	88,706
Classification as per provisions of Dutch law, net	-	-	-	-	(34,415)	34,415	-	-	-
Exercise of stock options into shares	1	544	68	(466)	-	-	147	-	147
Cost of share-based payment	-	-	-	1,227	-	-	1,227	-	1,227
Capital reserve adjustment in respect of transactions with controlling shareholder	-	-	-	80	-	-	80	-	80
Purchase of rights from non-controlling interests	-	-	-	1,932	-	-	1,932	(16,920)	(14,988)
Increase of share capital	6,049	(6,049)	-	-	-	-	-	-	-
Capital distribution to the Company's shareholders and adjustment in respect of treasury shares	(6,049)	37	-	-	-	-	(6,012)	-	(6,012)
Distribution and payment to non-controlling interests	-	-	-	-	-	-	-	(3,197)	(3,197)
Balance as of December 31, 2016 (audited)	67	69,221	(883)	6,614	233,463	110,691	419,173	100,890	520,063

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine months ended September 30,		For the Three months ended September 30,		For the Year ended December 31,
	2017	2016	2017	2016	2016
	Unaudited				Audited
	€ in thousands				
Cash flows from operating activities					
Net income	101,264	58,944	17,445	24,725	88,706
Adjustments to reconcile net income to net cash provided by operating activities:					
Adjustments to profit and loss:					
Depreciation	176	129	30	36	281
Financial expenses, net	15,658	18,786	504	9,512	25,121
Increase in value of investment property, net	(101,804)	(56,941)	(8,807)	(26,325)	(80,459)
Deferred taxes, net	22,696	17,017	3,075	2,542	25,944
Cost of share-based payment	871	1,024	-	232	1,227
Capital reserve adjustment in respect of transactions with controlling shareholders	373	98	35	11	80
	(62,030)	(19,887)	(5,163)	(13,992)	(27,806)
Cash flows from operating activities before changes in asset and liability items	39,234	39,057	12,282	10,733	60,900
Changes in asset and liability items:					
Decrease (increase) in tenants, restricted deposits and other receivables and related parties	(649)	1,872	2,999	453	1,772
Increase (decrease) in accounts payable	(2,973)	(1,067)	(776)	(91)	4,077
	(3,622)	805	2,223	362	5,849
Net cash deriving from operating activities before decrease (increase) in inventory of real estate, inventory of buildings under construction and advances from apartment purchasers	35,612	39,862	14,505	11,095	66,749
Increase (decrease) in advances from apartment purchasers	36,871	19,060	18,920	11,382	(19,614)
Decrease (increase) in inventory of buildings under construction	(18,004)	(3,498)	(8,462)	(6,552)	12,180
Decrease (increase) in inventory of real estate	(286)	(880)	4	(346)	11,771
Net cash provided by operating activities	54,193	54,544	24,967	15,579	71,086

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

	For the Nine months ended September 30, 2017	For the Nine months ended September 30, 2016	For the Three months ended September 30, 2017	For the Three months ended September 30, 2016	For the Year ended December 31, 2016
	Unaudited				Audited
	€ in thousands				
Cash Flows from investing activities					
Investment in investment property	(69,638)	(89,915)	(10,045)	(22,413)	(106,420)
Investment in companies measured at equity	-	(3,313)	-	(183)	(3,313)
Proceeds from sale of investment property	14,272	10,963	-	10,963	10,963
Proceeds from sale of subsidiaries, net (a)	-	-	-	-	10,708
Increase in long term accounts receivable	-	(84)	-	-	(84)
Withdrawal (depositing) of restricted deposits, prepaid transaction costs and withdrawal (depositing) of long-term bank deposits, net	(10,388)	(1,805)	(8,241)	(3,408)	697
Interest received and realization of derivatives	692	25,174	256	210	25,174
Net cash used in investing activities	(65,062)	(58,980)	(18,030)	(14,831)	(62,275)
Cash flows from financing activities					
Interest paid	(12,888)	(15,028)	(4,614)	(5,306)	(18,567)
Exercise of stock options	22,645	57	21,680	57	147
Distribution and payment to non-controlling interests	(7,165)	(2,647)	(601)	-	(3,197)
Receipt of long-term loans, net	58,144	69,871	32,498	29,699	93,195
Issuance of debentures, net	-	14,127	-	-	14,127
Repayment of debentures	(15,621)	(14,644)	(15,621)	(14,644)	(17,117)
Repayment of long-term loans	(63,199)	(19,964)	(42,313)	(8,129)	(22,941)
Issuance of shares and stock options, net	46,916	-	-	-	-
Purchase of rights from non controlling interests	-	(8,577)	-	-	(14,988)
Capital distribution to the Company's shareholders	-	(6,012)	-	-	(6,012)
Net cash provided by (used in) financing activities	28,832	17,183	(8,971)	1,677	24,647
Change in cash and cash equivalents	17,963	12,747	(2,034)	2,425	33,458
Balance of cash and cash equivalents at the beginning of the period	89,278	55,820	109,275	66,142	55,820
Balance of cash and cash equivalents at the end of the period	107,241	68,567	107,241	68,567	89,278

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine months ended September 30, 2017	For the Nine months ended September 30, 2016	For the Three months ended September 30, 2017	For the Three months ended September 30, 2016	For the Year ended December 31, 2016
	Unaudited				Audited
	€ in thousands				
(a) Proceeds from sale of previously consolidated subsidiaries :					
Assets and liabilities of consolidated subsidiaries as of date of sale:	-	-	-	-	61,479
Investment property	-	-	-	-	385
Working capital (excluding cash and cash equivalents)	-	-	-	-	(53,697)
Loans from banks, net	-	-	-	-	1,861
Gain from sale of subsidiaries	-	-	-	-	680
Deferred taxes, net					
	-	-	-	-	10,708

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

Note 1: - <u>General</u>

These Financial Statements have been prepared in a condensed format as of September 30, 2017 and for the nine and three month periods then ended that date (hereinafter – the Consolidated Interim Financial Statements). These Statements should be read in accordance with the company's annual financial statements as of December 31, 2016 and for the year then ended and the accompanying notes (hereinafter – the consolidated annual financial statements).

Note 2: - <u>Significant accounting policies</u>

a. <u>Preparation format of the Interim Consolidated Financial Statements</u>

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.

c. <u>New standards in the period prior to their adoption</u>

1. IFRS 15 - Revenue from Contracts with Customers:

For details regarding the anticipated changes in the Company's revenue recognition policy and regarding other expected effects on matters related to the Company's business - see Note 2(ae) to the Company's annual financial statements as of December 31, 2016.

Further to what is stated in Note 2(ae) to the financial statements for 2016, the Company's management estimated the quantitative effect of the implementation of the standard more accurately and in its estimation:

Had the Company implemented the new standard in the current reporting period, the revenues from the sale of apartments for the nine month period ended September 30, 2017 would increase in the amount of approximately EUR 30,526 thousand and the retained earnings as of September 30, 2017 would increase in the amount of approximately EUR 8,257 thousand.

It is stressed that the information presented in this note regarding the effects of the initial implementation of the standard is an estimate of the Company and may be different from the quantitative data that will be included in the financial statements for the initial implementation period.

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

c. New standards in the period prior to their adoption (Cont.)

1. IFRS 15 - Revenue from Contracts with Customers (Cont.):

Upon the elapse of time prior to the effective date of the standard, the Company will improve its understanding of its provisions and will formulate a policy regarding the applicable issues arising from them and will improve its ability to estimate the quantitative impact of its implementation more accurately .When relevant, the Company will update the disclosures regarding the effects of the implementation in the annual report for 2017 accordingly.

2. IFRS 9 – financial instruments:

For details regarding the expected changes in the policy for the classification and measurement of financial assets and for other expected effects on matters related to the Company's business - see Note 2(ae) to the Company's annual financial statements as of December 31, 2016.

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

In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("the Interpretation"). The Interpretation clarifies the rules of recognition and measurement of assets or liabilities in keeping with the provisions of IAS 12, "Taxes on Income", in situations of uncertainty involving taxes on income. The Interpretation provides guidance for determining whether some tax treatments should be considered collectively, addresses the position of the tax authorities, measures the implications of uncertainty involving income taxes on the financial statements and prescribes the accounting treatment of changes in facts and circumstances underlying the uncertainty.

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

1. Full retrospective adoption, without restating comparative figures, by carrying the cumulative effect through the date of initial adoption to the opening balance of retained earnings.

2. Full retrospective adoption with restating comparative figures.

The Company is evaluating the possible impact of the adoption of the Interpretation but is presently unable to assess its effect, if any, on the financial statements.

Note 3: - **Financial instruments**

a. Financial instruments not measured at fair value

The table below presents the balance in the financial statements and the fair value of the financial instruments groups that are presented in the financial statements not according to their fair value:

	As of September 30, 2017		As of September 30, 2016		As of December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	Unaudited				Audited	
	€ in thousands					
Financial liabilities:						
Debentures and interest payable in respect of debentures	130,769	143,659	146,147	157,855	149,794	161,297

Management estimates that the balance of cash, short term deposits, trade receivables, trade payables, overdrafts and other current liabilities and bank loans presented at amortized cost approximates their fair value due to the short repayment dates of these instruments.

b. Financial instruments measured at fair value

Classification of the financial instruments according to fair value hierarchy

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

	As of September 30, 2017		
	Level 1	Level 2	Level 3
	Unaudited		
	€ in thousands		
Liabilities:			
Foreign exchange forward contracts – dollar	3,172	-	-
Interest swap agreements	-	571	-
Loans	-	-	67,356

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

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

Classification of the financial instruments according to fair value hierarchy (Cont.)

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

For	As of September 30, 2016		
	Level 1	**Level 2**	**Level 3**
		Unaudited	
		€ in thousands	
Assets:			
Financial assets in respect of cash flow hedge transactions	-	1	-
Foreign exchange forward contracts – dollar	397	-	-
Liabilities:			
Foreign exchange forward contracts – dollar	(597)	-	-
Financial liabilities in respect of cash flow hedge transactions	-	(1,078)	-
Loans	-	-	(103,964)

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

b. Financial instruments measured at fair value (Cont)

Classification of the financial instruments according to fair value hierarchy (Cont)

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

	As of December 31, 2016		
	Level 1	Level 2	Level 3
		Audited	
		€ in thousands	
Assets:			
Foreign currency forward contracts – dollar	2,146	-	-
CAP transactions	-	1	-
Liabilities:			
Interest swap agreements	-	(875)	-
Loans	-	-	(76,867)

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

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

	Financial instruments	
	2017	**2016**
	€ in thousands	
Balance as of January 1 (audited)	(76,867)	(245,509)
Total income (loss) recognized in profit or loss	68	(3,000)
Repayment of long term loans, net and classification of loans for measurement at amortized cost	9,443	144,545
Balance as of September 30 (unaudited)	(67,356)	(103,964)
Balance as of July 1(unaudited)	(75,566)	(189,501)
Total income (loss) recognized in profit or loss	(501)	(2,468)
Repayment of long term loans, net and classification of loans for measurement at amortized cost	8,711	88,005
Balance as of September 30 (unaudited)	(67,356)	(103,964)

	Financial instruments
	€ in thousands
Balance as of January 1, 2016 (audited)	(245,509)
Total loss recognized in profit or loss	(259)
Repayment/classification of loans	168,901
Balance as of December 31, 2016 (audit)	(76,867)

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 bank credit is based on calculating the discounted cash flows using the credit actually observed of the Euribor rate plus a margin.

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

	Valuation technique	**Unobservable material data**	**Range (weighted average)**	**Sensitivity of fair value to change in data**
Loans	DCF	Discount interest	fixed interest	2% increase/decrease in discount rate will result in increase/decrease of up to € 1 million in fair value
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 € 1.8 million in fair value

Note 4: - Operating Segments

	Income-Generating Commercial Real Estate	Income-Generating Residential Real Estate	Land for Betterment	Residential development	Total
			€ in thousands		
For the nine Months Ended September 30, 2017 (Unaudited)					
Revenues from sale of apartments	-	2,302	-	9,262	11,564
Cost of sale of apartments	-	(1,530)	-	(9,340)	(10,870)
Income (loss) from sale of apartments	-	772	-	(78)	694
Revenues from property rental	23,265	31,485	148	-	54,898
Revenues from property management and others	4,910	16,130	70	-	21,110
Property management expenses	(4,841)	(15,452)	(68)	-	(20,361)
Rental property maintenance expenses	(2,498)	(4,411)	(356)	-	(7,265)
Total rental and management revenues, net	20,836	27,752	(206)	-	48,382
Other income	2,008	-	-	-	2,008
Administrative and general expenses					(7,852)
Selling and marketing expenses and administrative and general expenses attributed to inventory of buildings under construction and inventory of real estate	-	-	-	(2,013)	(2,013)
Cost of share based payment					(871)
Increase in value of investment property, net	12,474	61,503	27,827	-	101,804
Financial expenses, net					(16,588)
Income before taxes on income					125,564

Note 4: - **Operating Segments** (cont.)

	Income-Generating Commercial Real Estate	Income-Generating Residential Real Estate	Land for Betterment	Residential development	Total
			€ in thousands		
For the nine-Months Ended September 30, 2016 (Unaudited)					
Revenues from sale of apartments	-	-	-	21,095	21,095
Cost of sale of apartments	-	-	-	(16,729)	(16,729)
Income from sale of apartments	-	-	-	4,366	4,366
Revenues from property rental	26,420	26,896	260	-	53,576
Revenues from property management and others	5,875	14,154	61	-	20,090
Property management expenses	(5,836)	(13,400)	(57)	-	(19,293)
Rental property maintenance expenses	(2,204)	(4,330)	(174)	-	(6,708)
Total rental and management revenues, net	24,255	23,320	90	-	47,665
Administrative and general expenses					(9,024)
Selling and marketing expenses and administrative and general expenses attributed to inventory of buildings under construction and inventory of real estate	-	-	-	(2,164)	(2,164)
Cost of share based payment	-	-	-	-	(1,024)
Increase in value of investment property, net	9,744	42,288	4,909	-	56,941
Financial expenses, net					(20,435)
Income before taxes on income					76,325

Note 4: - <u>Operating Segments</u> (cont.)

	Income-Generating Commercial Real Estate	Income-Generating Residential Real Estate	Land for Betterment	Residential development	Total
			€ in thousands		
For the Three-Months Ended September 30, 2017 (Unaudited)					
Revenues from sale of apartments	-	2,302	-	34	2,336
Cost of sale of apartments	-	(1,530)	-	(34)	(1,564)
Income from sale of apartments	-	772	-		772
Revenues from property rental	7,570	10,961	5	-	18,536
Revenues from property management and others	1,172	5,732	40	-	6,944
Property management expenses	(1,133)	(5,557)	(38)	-	(6,728)
Rental property maintenance expenses	(1,006)	(1,416)	(44)	-	(2,466)
Total rental and management revenues, net	6,603	9,720	(37)	-	16,286
Administrative and general expenses					(2,604)
Selling and marketing expenses and administrative and general expenses attributed to inventory of buildings under construction and inventory of real estate	-	-	-	(532)	(532)
Cost of share based payment	-	-	-	-	-
Increase in value of investment property, net	972	5,049	2,786	-	8,807
Financial expenses, net					(1,353)
Income before taxes on income					21,376

Note 4: - **Operating Segments** (cont.)

	Income-Generating Commercial Real Estate	Income-Generating Residential Real Estate	Land for Betterment	Residential development	Total
			€ in thousands		
For the Three-Months Ended September 30, 2016 (Unaudited)					
Revenues from sale of apartments	-	-	-	-	-
Cost of sale of apartments	-	-	-	-	-
Income from sale of apartments	-	-	-	-	-
Revenues from property rental	8,883	9,481	109	-	18,473
Revenues from property management and others	1,969	5,145	14	-	7,128
Property management expenses	(1,968)	(4,912)	(11)	-	(6,891)
Rental property maintenance expenses	(1,003)	(1,646)	(108)	-	(2,757)
Total rental and management revenues, net	7,881	8,068	4	-	15,953
Administrative and general expenses					(2,758)
Selling and marketing expenses and administrative and general expenses attributed to inventory of buildings under construction and inventory of real estate	-	-	-	(626)	(626)
Cost of share based payment					(232)
Increase in value of investment property, net	6,746	14,878	4,701	-	26,325
Financial expenses, net					(11,113)
Income before taxes on income					27,549

Note 4: - **Operating Segments** (cont.)

	Income-Generating Commercial Real Estate	Income-Generating Residential Real Estate	Land for Betterment	Residential development	Total
			€ in thousands		
For the year ended December 31, 2016 (Audited)					
Revenues from property rental	35,016	36,800	295	-	72,111
Revenues from property management and others	7,308	18,128	103	-	25,539
Property management expenses	(7,274)	(17,687)	(103)	-	(25,064)
Rental property maintenance expenses	(3,027)	(5,546)	(230)	-	(8,803)
Total rental and management revenues, net	32,023	31,695	65	-	63,783
Revenues from sale of apartments	-	-	-	73,935	73,935
Cost of sale of apartments	-	-	-	(58,537)	(58,537)
Income from sale of apartments	-	-	-	15,398	15,398
General and administrative expenses					(12,594)
Selling and marketing and general and administrative expenses attributed to inventory of buildings under construction and inventory of real estate	-	-	-	(2,644)	(2,644)
Cost of share based payment					(1,227)
Increase in value of investment property, net	17,758	58,445	4,256	-	80,459
Financial expenses, net					(27,883)
Income before taxes on income					115,292

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

1. Capital issuance – on January 31, 2017, the Company completed a public offering of 598,540 shares and 299,270 warrants (Series 1) exercisable into 299,270 shares of the Company at a total monetary scope of EUR 49.5 million (gross) by a uniform offer in the tender on the unit price pursuant to a shelf offering report that was published on January 29, 2017 by virtue of the shelf prospectus bearing the date of May 29, 2015. In the second and third quarters of 2017, 268,130 warrants (Series 1) were exercised into the Company's shares for a total consideration of EUR 22,644 thousand. The remaining 31,140 warrants (Series 1) that were not exercised until the last exercise date (July 31, 2017) have expired.

2. Purchase of residential portfolio in Hannover ,Germany - on February 8, 2017, the Company (through sub subsidiaries) entered into a notarized sale agreement with a third party that is not related to the Company and/or to its controlling shareholder under which the seller will sell the Company 156 residential units in Hannover ,Germany for a total consideration of EUR 18 million) including related transaction costs .(For the purpose of financing the purchase ,the Company) through a sub-subsidiary (negotiates with a German bank to obtain a loan in the amount of EUR 10.4 million under non-recourse terms which its final repayment date is 5 years from the date of receiving the loan. The loan bearing a variable interest based on Euribor plus a margin of 1.20% per annum .On May 31, 2017 ,the full consideration was paid to the seller and all of the rights in the purchased assets have been transferred to the Company.

3. Purchase of residential portfolio in Essen, Germany – in the first quarter of 2017, the Company (through a sub subsidiary) entered into a notarized sale agreement with a third party that is not related to the Company and/or to its controlling shareholder under which the Company will purchase from the seller 320 residential units in Essen, Germany for a total consideration of EUR 23.6 million (including related transaction costs). For the purpose of financing the purchase, the Company negotiates with a German bank to obtain a loan in the amount of EUR 16 million under non-recourse terms which its final repayment date is 5 years from the date of receiving the loan. The loan bearing a fixed interest rate of 1.18% per annum. On May 31, 2017, the full consideration was paid to the seller and all of the rights in the purchased assets have been transferred to the Company.

4. Purchase of residential portfolio in Leipzig, Bremen and Dusseldorf, Germany – in the first quarter of 2017, the Company, through its wholly owned Dutch companies, entered into 4 different transactions for the purchase of 164 flats for leasing in Leipzig, Bremen and Dusseldorf in Germany (the acquired assets) for a total consideration of EUR 15.4 million (including related transaction costs). The acquired assets span over a leasable area of 7.3 thousand sq.m, The transactions will be financed in the first stage by equity. In the second and third quarters of 2017, the full consideration was paid to the sellers and all of the rights in the purchased assets have been transferred to the Company.

Note 5: - <u>Material Events during the Reported Period</u> (Cont.)

5. Dividend policy – on May 18, 2017, the Company's Board of Directors decided on a dividend policy deriving from the Company's annual FFO, according to which each year from 2018 and in respect of 2017 and thereafter, the Company will distribute to its shareholders a dividend and/or distribute to its shareholders capital 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.

6. Sale of an office property to the Chinese Consulate, Düsseldorf, Germany - in June, 2017, a notarized sale agreement was signed between the Company's sub subsidiary (100%) and the Chinese Government for the sale of an office property with a 4,316 sq.m. used as the Chinese Consulate in Dusseldorf for a consideration of € 14.8 million. The entire consideration of the sale and the completion of the transaction have been carried out on June 17, 2017.

7. Acceleration of the vesting period of the Company's employee share option plan (ESOP 3) – as a result of the change in the control of the Company's shares (as defined in the Securities Law 1968) that occurred in June 2017 ,the vesting period of the options ,has ended and all options are available for immediate exercise. Following the acceleration of the vesting period ,the Company recognized a one-time expense of EUR 0.4 million ,as part of the cost of a share-based payment against a capital reserve. See also Note 18(E) to the annual financial statements.

8. Refinancing of loans from German banks - During the third quarter of 2017, the Company (through sub - subsidiaries) refinanced 3 loans from a German bank. The new loans are for a period of 5 years and amount to € 32.6 million plus a credit facility of € 17.4 million (For free use according to the needs of the Company from time to time). The new loans bear fixed annual interest at the rate of 1.06%, with an annual repayment of about 2% of the new loan amount. The total amount of the repaid loans amounted to € 32.6 million.

   These loans bore variable annual interest which as of the repayment date, was 1.7% per annum.
   In addition, on September 27, 2017, the Company's sub subsidiaries (one wholly-owned company and another company held under a joint venture) entered into a loan agreement with a German bank for the purpose of financing the Leipzig properties that were acquired by equity and refinancing an existing loan on a Leipzig property that was acquired in 2013.
   The new loan is for 5 years amounting to €18 million in addition to a credit facility of € 3 million (For free use according to the Company's needs from time to time) and in total of approximately € 21 million. The new loan bears fixed annual interest at the rate of 1.14% with an annual principal repayment of 2% of the new loan amount.

   The scope of the repaid loan (repaid on August 30, 2017 from the Company's own sources) amounted to € 7.2 million. This loan bears fixed interest at the rate of 3.85% per annum. It should be stressed that the new loan was received during the fourth quarter of 2017, and the outstanding loan was repaid during the third quarter of 2017 and therefore these loans are not part of the Company's loan balance as of September 30, 2017.

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

9. Agreement for the purchase of 802 residential units in the cities of Leipzig, Magdeburg and Halle, Germany - On September 4, 2017 and September 11, 2017, the Company entered into 2 notarized sale agreements with third parties not related to the Company and/or its controlling shareholder for the purchase of 802 residential units for rental in a federal capital and two large cities in Germany for a total price of approximately € 65 million. The transaction completion is expected to be carried out in November 2017.

10. Agreements for the purchase for 55 residential units in Leipzig, Germany - During September 2017, the Company entered into a notarized sale agreement with a third party who is unrelated to the Company and/or its controlling shareholder for the purchase of 55 residential units for rental in Leipzig, Germany, at a total price of approximately € 3.9 million. The transaction is expected to be completed in November 2017.