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 twelve months ending on December 31, 2018 (hereinafter: "the Reported Period" or "the Report Period in accordance with the Securities Regulations (Periodic and Immediate Reports – 1970 (the Reports' Regulations).

The financial statements attached in Chapter C 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" – December 31, 2018.

"Report signing date" or "the date of signing the report" – March 12, 2019.

"The reported period" – the year of 2018.

Preamble

Below are the Company's principal results for the year ended December 31, 2018.

1. **Profitability** – in 2018, the Company's net income attributed to the Company's shareholders amounted to approximately EUR 100.9 million compared to income of EUR 101.2 million in 2017.

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

   - **Income producing real estate** – in 2018, the FFO amounted to EUR 37.1 million compared to EUR 34.5 million in 2017.

   - **Residential development activity**- In 2018, the contribution to the profit of the Grafental project amounted to EUR 15 million (consolidated) following the adoption of Accounting Standard No. 15. In the reported period, the Company recognized the cumulative sale of 119 residential units the construction of which was completed compared to 90 residential units according to a weighted performance rate of 37.2% recognized until January 1, 2018, the date of initial adoption of the standard. In addition, the Company recognized a profit from the sale of 74 residential units from Stage E according to average performance rate of 27%. For further details in connection with the Grafental project and the development stages mentioned above, see Chapter A of this period report.

2. **Operating segments – key operational data**[1].

2.1 Residential development – Grafental project[2]

Stage	Number of flats	Expected revenues (EUR in millions)	Expected income (EUR in millions)	Entrepreneurial profit (in percentage)	Sales (in percentage)	Revenue recognition % as of the report date
D	119	67.6	16.2	32%	100%	100%
E	89	49.6	12.0	32%	31%	22.7%
G*	89	53.7	12.2	30%	79%	0%
Total	**297**	**170.9**	**40.5**	**31%**	**100%**	**47%**

2.2 Income producing real estate[3]

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	704	5.4%	6.7%	4.5%	5.8%	94%
Commercial**	313	6.3%	6.2%	5.6%	5.5%	97%
Total	1,017	5.7%	6.5%	4.9%	5.7%	95%

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

- **Residential**: in the fourth quarter of 2018, rental fees increased by 3.2 % from identical assets and 1.4% in rental fees an increase of 4.1% in rental fees from identical assets after occupancy rate adjustment per square meter in new rentals compared to the corresponding quarter of 2017. The rental fees in new rentals in the residential market are higher by 19% of the average rental fees.

- **Commercial**: in the fourth quarter of 2018, rental fees have increased by 1.59% compared to the corresponding quarter in 2017. Half of the increase derives from development of construction rights in these assets.

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

3.1 **Equity and NAV**: The equity attributed to the Company's shareholders amounted to approximately EUR 694.6 million and the NAV [9]amounted to EUR 806.4 million as of the report date .

*) The marketing of Stage G has commenced in November. It should be indicated that Stage F includes apartments for rental intended to be held by the Company.

** excluding an asset in associate with an area of 7,000 square meters.

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[1] As of the report date

[2] Data according to 100%, the effective corporation's share in the project,) is 84.98%;

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

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

[6] ERV - estimated rental value – the expected annual return provided that all of the assets are leased in full occupancy in return for the rental fees prevailing in the market.

[7] Actual NOI plus the difference between actual rental fees and the ERV divided by the carrying values

[9] EPRA NAV – for details regarding the index and the calculation manner see section 5 of part A.

3.2 **Debt ratios**: the LTV ratio[10] is 48.3% as of the report date. The EBITDA ratio to interest expenses (only from the income producing portfolio, excluding operating income from development activity) is 3.94 in the fourth quarter of 2018.

3.3 **Liquidity**: cash balances (consolidated) amounted to approximately EUR 27.1 million as of the report date.

4. 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, (collectively: income producing segment) development residential real estate in Dusseldorf and betterment of land in Dusseldorf.

Further to what is stated in the specification of the special tender offer published by ADLER Real Estate AG ("ADLER"), on February 19, 2018, the Company's controlling shareholder, and as amended by it on March 20, 2018 (Ref. 2018-09-016558 and 2018-09-026776, respectively) under which, among others upon the purchase of the control in the Company, ADLER intends to use its influence as the controlling shareholder, subject to the provisions of any law, in order to examine the possibility of re-focusing the Company's strategy, including the possibility of selling a certain share of the Company's assets and business. Further to what is stated in the Company's financial statements for the third quarter of 2018, as of the report publication date, the Company is continuing to examine the possibilities for focusing its business strategy, including the commencement of actions to sell part of its business.

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:

4.1 Residential income-producing real-estate – as of the report signing date, the Group owns 11,956 apartments, with a total leasing area of approximately 704,000 m^2**.**

4.2 Commercial income-producing real-estate – as of the report signing date, the Group owns 26 commercial income-producing properties in the commercial segment (commerce and offices) with an overall leasing area of approximately 312,000 m^2 (excluding an asset in associate with an area of 7,000 square meters).

4.3 Residential Real Estate Under Development - for details regarding the marketing, sales, handovers and performance of Stage D (119 units) Stage E (89 units) and Stage F (112 units) and stage G (89 units) in the Grafental project in Dusseldorf as well as the Company's residential project in Aachen, see "Material events and others during the reported period".

[10]Net debt to total real estate assets

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

	Stage E	Stage F	Stage G
Total expected revenues	49,654	28,925[12]	53,689
Advances from apartment purchasers as of the report date	11,657	-	-
Advances from apartment purchasers as of the date of signing the report	13,726	-	
Total cumulative costs invested	16,930	10,773	15,713
Total costs remaining for investment	20,630	14,672	25,744
Total expected cost (including land (EUR in thousands)	37,560	25,445	41,457
Completion rate (engineering/monetary) (excluding land) (%)[13]	26.1%	33.1%	16.8%
Total expected entrepreneurial profit	12,004	3,480	12,232
Total entrepreneurial profit recognized in the Company's financial statements (consolidated) cumulatively as of the report date	2,725	-	
Rate of expected entrepreneurial profit (%)	32%	13.7%	29.5%
Expected completion date*	Q1 2020	Q1 2020	Q2 2020

In accordance with accounting principles, the Company recognizes revenues, costs and gross profit deriving from the stages in progress upon the performance completion and handing over the apartments to the tenants. It should be stressed that the expected entrepreneurial profitability in respect of Stage F is the expected profitability assuming that the asset (subsidized rental apartments and affordable housing under controlled rental) will be sold as an income producing property upon the completion of its construction and therefore cannot be compared to entrepreneurial profitability in stages in which Condo apartments are being built for free sale in the market.

[12] The construction of stage f commenced in April 2018 upon receiving the building permit.
[13] Represents the expected value of the stage, which is designated for rental, as an income producing asset after its completion.

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

From sold apartments (EUR in thousands)

Data according to 100%. The corporation's effective portion in the project – 84.98%	Revenue not yet recognized	Cash flow not yet recognized	Entrepreneurial profit not yet recognized
Stages in progress (stage E and G)	**51,130**	**21,961**	**13,459**

From apartments not yet sold (EUR in thousands)

Data according to 100%. The corporation's effective portion in the project – 84.98%	Revenue not yet recognized	Cash flow not yet recognized	Entrepreneurial profit not yet recognized
Stage E	1,603	636	427
Stage G	39,389	12,870	7,693
Total	**40,992**	**13,506**	**8,120**

4.4 Betterment of land in Dusseldorf to development real estate - the Company owns 3 land complexes in Dusseldorf, Germany, undergoing advanced procedures for changing the zoning from offices/industry to residential. For details regarding the Company's progress in the zoning changes of the lands in Dusseldorf and for details on the major developments regarding the betterment of lands in Dusseldorf in the report period until the report signing date see Chapter A of this periodic report.

4.4.1 The following is a tabular summary of expected revenue, cash flow and entrepreneurial profit expected from the betterment of the land in Dusseldorf [14]real estate inventory in Dusseldorf and inventory of buildings under construction without the asset in an associate in Aachen and without a parcel of land in Gerresheim neighborhood:

Data according to 100% (EUR in thousands)	Revenue not yet recognized	Cash flow not yet recognized	Entrepreneurial profit not yet recognized
Apartments for rental under rent control in planning stages under urban schemes of Grafental Mitte / Ost	124,913	35,890	15,410
Condo apartments for free sale in planning stages under the urban schemes Grafental Mitte/Ost and Grafenberg	320,993	141,373	70,301
Total	**445,906**	**177,263**	**85,712**

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

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

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.

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

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

(5) Financial Position

Assets	December 31, 2018	December 31, 2017	Explanation for the change
	EUR in thousands		
Current assets			
Cash and cash equivalents	27,138	113,129	See details in the statement of cash flows in Chapter C of this periodic report
Balances receivable from banks	414	932	
Restricted deposits, financial assets and other receivables	21,249	10,727	The increase mainly derives from classifying deposits from tenants to restricted cash
Income receivable from the sale of apartments	4,474	-	The increase in the report period derives from initial adoption of IFRS 15.
Tenants and trade receivables, net	1,523	3,735	
Inventory of buildings under construction	25,496	48,756	Continued development on one hand and recognition of inventory cost of sale on the other hand
Total current assets	**80,294**	**177,279**	
Assets held for sale	-	11,622	
Non-current assets:			
Investments measured at equity	7,698	8,318	
Marketable financial asset	37,019	-	
Inventory of real estate	216,061	72,659	The increase in the reported period mainly derives from the completion of the transaction for purchasing the land in Gerresheim
Investment property – real	64,683	67,094	

estate rights			
Investment property – income producing assets	1,410,282	1,283,549	The increase in the reported period derived mainly from capex investments in existing assets and revaluation profits
Restricted deposits for investments in assets	5,381	7,297	
Other accounts receivable, fixed assets and other financial assets	426	18,023	The decrease in the reported period derives from the realization of advances for the purchase of the land in Gerresheim.
Deferred taxes	1,231	1,438	
Total non-current assets	1,742,781	**1,458,378**	
Total assets	1,823,075	**1,647,279**	

Liabilities	December 31, 2018	December 31, 2017	Explanation for the change
	EUR in thousands		
Current liabilities:			
Current maturities of loans from banks	101,485	161,731	The decrease in the reported period derives from classification of long term loans following refinancing according to the original amortization schedules of the loans
Current maturities of debentures	17,066	17,399	
Loans for financing inventory of buildings under construction	2,098	4,000	
Current maturities of other financial liabilities	439	941	
Accounts payable	29,627	25,424	
Advances from apartment purchasers	841	23,119	The decrease in the reporting period derives from the adoption of IFRS 15.
Total current liabilities	**151,556**	**232,614**	
Liabilities held for sale	-	6,710	
Non-current liabilities:			
Loans from banks and others	659,614	495,006	The increase in the reported period mainly derives from a loan taken to finance the purchase of the land in Gerresheim.
Debentures	90,349	110,072	The decrease in the reported period derives from principal payment
Other liabilities	3,041	3,095	
Other financial liabilities	384	3,779	
Deferred taxes	117,671	97,373	The increase in the reported period mainly

			derives from revaluation profits
Total noncurrent liabilities	871,059	**709,385**	
Total liabilities	1,022,615	**948,709**	
Equity			
Equity attributable to equity holders of the company	694,644	591,168	The increase in the reported period is mainly due to profit in the period and initial adoption of IFRS 15.
Non controlling interests	105,816	107,402	
Total equity	800,460	**698,570**	
Total liabilities and equity	1,823,075	**1,647,279**	

(6) Activity Results

	Year Ended December 31	Year Ended December 31	Year ended December 31,	Explanation for the change
	2018	2017	2016	
EUR in thousands				
Revenues from rental of properties	79,168	74,124	72,111	Purchase of new assets and increase in rental fees in identical assets
Revenues from property management and others	26,980	27,022	25,539	
Property management expenses	(27,870)	(26,513)	(25,064)	
Cost of maintenance of rental properties	(12,717)	(9,689)	(8,803)	
Rental and management revenues, net	**65,561**	**64,944**	**63,783**	
Revenues from sale of apartments	62,753	58,958	73,935	Timing of recognition in the handover of apartments
Cost of sale of apartments	(47,771)	(47,203)	(58,537)	
Income from the sale of apartments	**14,982**	**11,755**	**15,398**	
other income	-	2,008	-	
General and administrative expenses	(12,520)	(11,499)	(12,594)	
General and administrative expenses attributed to inventory of apartments under construction and inventory of real estate	(2,329)	(2,141)	(2,222)	
selling and marketing expenses	(365)	(389)	(422)	
Cost of share based payment	-	(871)	(1,227)	
Increase in the value of investment property, net	95,499	108,736	80,459	Updating the value of the Company's assets
Operating profit	160,828	172,543	143,175	
Financing income	-	39	25	
Financing expenses excluding the effect of exchange rate differences, CPI and hedging transactions, net	(19,646)	(19,529)	(20,716)	
Effect of exchange rate differences, CPI and currency hedging transactions, net	6,509	(3,005)	(3,399)	
Change in the value of loans and interest rate swap transactions, net	1,580	685	(3,793)	
Equity in losses of	(723)	-	-	

companies accounted at equity				
Income before taxes on income	148,548	**150,733**	**115,292**	
Taxes on income	(29,505)	(31,689)	(26,586)	
Reported net income	119,043	**119,044**	**88,706**	
Net income attributed to:				
Company shareholders	100,919	**101,124**	**76,276**	
Non-controlling interests	18,124	17,920	12,430	

3) Financing sources, liquidity and Cash flows

	Year ended December 31	Year ended December 31	Year ended December 31,	Explanation for the change
	2018	**2017**	**2016**	
		EUR in thousands		
Cash flows provided by operating activities (Cash flows used in operating activities)	(68,059)	74,076	71,086	Onetime adjustment of EUR 128,560 thousand for the completion of the purchase of the land in Dusseldorf that was classified as a long term inventory in the Company's financial statements and on the other hand, expansion of the Company's activity and the timing of receipts from the residential development project
Cash flows provided by investing activities (Cash flows used in investing activities)	(56,394)	(114,264)	(62,275)	Purchase of new assets
Cash flows provided by financing activities (Cash flows used in financing activities)	38,462	64,039	24,647	

7.1 Access to financing sources – as of the report date, the Company finances its current operations mainly from cash flows received from the Company's subsidiaries from their current activities and from bank financing and debentures raised by the Company. For further details regarding the Group's financing sources, see Note 11 to the Group's consolidated financial statements for 2018. 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.

7.2 Examining the existence of warning signs -

In view of the financial structure of the Group and the financial data specified in the Company's consolidated financial statements as reviewed by the Company's management, while taking into account the fact that if the Company needed cash flows, the Company could have withdrawn management fees or dividends from its subsidiaries, the Company's Board of Directors determined that there is nothing in the fact that the Company's solo reports indicate a continuing negative cash flow from current operations so as to indicate a liquidity problem, and therefore, as of the report date, there are no warning signs in the corporation in this regard[15].

The main considerations underlying the decision of the Board of Directors were, among other things: The fact that the Company's Board of Directors estimates, to the extent required that the Company has high access to additional sources of financing, including the ability to expand credit lines and use unutilized credit lines, raise capital (given the Company's high level of accessibility to capital markets) as well as refinancing options on favorable terms, sale of assets (including in the framework of the actions taken by the Company for the sale of certain part of its business as part of the re-focus the Company's business, as described in Section 4) release of collaterals, and more. In addition, and as detailed under Section 19 to Chapter A of the Company's annual report, the Company holds shares in a public company incorporated in Germany, whose shares are traded on the unofficial Frankfurt stock exchange and is one of the leading companies in the German residential real estate development market, which at the date of publication of the report is approximately € 37 million, and the Company estimates that can be sold or utilized to the extent required by the Company.

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

It should also be noted that in the course of the reported period, the Company classified a number of non-recourse portfolio loans taken by the Company's sub-subsidiaries in the total amount of approximately € 87 million as current maturities, in accordance with the original amortization schedule of the aforesaid loan and as part of the Company's ordinary course of business. As a result, as of December 31, 2018, the Company has a working capital deficit (consolidated) of € 68 million. In addition, as of December 31, 2018, the Company has a working capital deficiency (solo) amounting to € 5.5 million, mainly due to the continued injection of capital into the Company's development activities.

In addition, the Company's Board of Directors has determined at its meeting of March 12, 2019, that working capital deficiency (consolidated) does not indicate a liquidity problem in the corporation since working capital deficiency (consolidated) derives from non-recourse loans taken by sub-subsidiaries the repayment date of which is according to their amortization schedule and/or the repayment date of which was extended, where as of the report date ,the sub-subsidiaries are in compliance with all the covenants stipulated in the loan agreements. The Company intends to refinance most of the debt[16]as it usually does with respect to debts that have reached their maturity date. regarding working capital deficiency, at the solo level, the Company's Board of Directors also considered the following matters:

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

[16]It should be noted that under the examination of refocusing the Company's activity as indicated in section 4, the Company examines the reduction of leverage rate and as a result it is feasible that the finance of the Company's liabilities will be suspended among others, from selling assets.

(1) As part of a recourse loan agreement to finance the purchase of the Gerresheim property, the Company undertook that if no infrastructure development agreement is signed with the town as well as development plan is published by March 31, 2019, the Company will be required to deposit EUR 24 million in favor of the lending bank. To the date of the report, the Company obtained the financing bank principle consent to postpone such deposit in few months (subject to obtaining the appropriate approvals at the bank). In addition, the Company estimates that id such approval will not be obtained, and insofar the said agreement will not signed with the Company to this date, the Company will be able to finance the required deposit, by obtaining a loan or by one of the other means specified in this Section; For additional details regarding the acquisition of said asset, including the Company's engagement in the loan agreement to finance its acquisition, see the Company's report dated March 1, 2018 (reference no .: 2018-01-020404), which is included herein by way of reference.

(2) As part of exercising the right of offer to acquire the rights from non-controlling interests, the Company and the holders of rights commenced negotiations for the acquisition of the rights, the total consideration is expected to amount to approximately € 91 million. The Board of directors of the Company was presented with the Company's financing option in this regard, including the possibility to obtain addition funding from a related party in terms the solely benefits the Company (subject to the approval of the competent organs of the Company). For further details, see the Company's immediate report dated January 29, 2019 (Ref. No. 2019-01-010509), which is included herein by way of reference.

(3) Partial redemption of the Company's bonds, in the amount of approximately € 20 million, which is expected towards the end of the second quarter and during the third quarter of 2019; and

(4) The aforesaid with respect to the Company's various financing options, including the contents of Section 4 of this report, according to which as of the report publication date, the Company is continuing to examine the possibilities of focusing its business strategy, including the commencement of actions to sell part of its business;

(5) After considering all matters specified above, the Board of Directors of the Company determined that taking into account the various financing options detailed above and the actions to re-focus the Company's business, as described in Section 4, the existence of negative working capital (solo and consolidated) does not indicate a liquidity problem in the corporation.

The Company's estimates regarding the extension of the repayment date of the aforementioned non-recourse loan and the alternatives available to the Company in connection with the financing of the required deposit, and financing the purchase of rights from non controlling interests as described in this section, constitute forward-looking information, as this term is defined in the Securities Law, based on the Company's estimates. The factors which may affect the fact that these estimates may not materialize, in whole or in part, or may materialize differently from what is expected, are many and include, inter alia, changes in the relevant markets and the absence of agreements with third parties whose consent is required to extend the repayment date of the loan or for additional alternatives in connection with the required deposit or regarding the manner of its financing and the realization of some of the above risk factors included in this report.

7.3 **FFO (Funds from Operations)**

Calculating FFO – the FFO index is calculated as the net profit (loss) attributed to Company's shareholders **from the income generating activity only excluding the income from sale apartments in Grafental project** (for further details on this project, see section ----_ 1.9of Chapter A of this periodic report) with certain adjustments for non-operating items, which are affected from the revaluation of the fair value of assets and liabilities. It deals mainly with adjustments of the fair value of investment property, miscellaneous capital profits and losses, miscellaneous amortizations, adjustment of expenses for management and marketing of the residential project in Grafental (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 December 31, 2018	For the Three months ended December 31, 2017	For the Year ended December 31, 2018	For the Year ended December 31, 2017
Net profit attributed to the Company's shareholders	54,786	17,795	100,919	101,124
Adjustments for net profit:				
A. Adjustments for revaluations				
Increase in the value of investment property and adjustments of liability value relating to investment property	(54,274)	(13,963)	(81,055)	(101,649)
Transaction costs as part of purchasing new assets recognized in profit or loss	-	5,423	-	5,423
Revaluation of loans and interest swap transactions at fair value	3,095	(141)	(1,438)	(313)
b. adjustments for non cash items				
Cost of share-based payment and changes in capital reserves	-	79	-	1,303
Amortization of financing costs, indexing and non cash exchange rate differences and hedging transactions	(2,618)	1,453	(4,640)	5,699
Interest component in hedging transactions	138	361	1,055	1,091
Deferred tax expenses and taxes for prior years	10,284	5,951	23,895	27,133
B. Unique items / new activities / ceased activities / other				
Professional services onetime expenses and others	2,931	838	5,119	534
Adjustments related to associates and non controlling interests	(1,792)	-	1,292	-
Expenses relating to project management and marketing in connection with the establishment of residential project in Düsseldorf and adjustments in respect of current leasing activity in the project	1,095	188	4,651	3,908
Adjustments for sale of apartments	(4,416)	(9,263)	(12,731)	(9,756)
Total of adjustments to net profit	(45,557)	(8,444)	(63,852)	(66,627)
F.F.O	9,229	9,351	37,067	**34,497**

As aforesaid, the FFO in the three months ended December 31, 2018 amounted to approximately EUR 9.2 million, grossing up an annual FFO rate of EUR 36.9 million.

7.4 **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 E and G).

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 December 31, 2018 EUR in millions	**As of December 31, 2017 EUR in millions**
Equity attributed to the Company's shareholders	694.6	591.2
Plus deferred taxes for EPRA adjustments (net of non controlling interest)	104.9	89.7
Net of fair value of derivative financial instruments, net (net of non controlling interest)	0.2	0.2
Plus profits that were not yet recognized in respect of apartments that were sold and are under construction in stages E and F of the residential project	7.1	8.2
EPRA NAV –Net Asset Value	806.8	**689.3**

(8) Material events in the reporting period and thereafter until the publication date of this report

For details regarding material events in the reporting period and thereafter see Chapter A of this periodic report.

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

9. 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 2.6 %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.

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

As of 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.

December 31, 2018:

	10%	5%	Fair Value	-5%	-10%
Bonds *)	710	356	(115,940)	(356)	(710)
Fixed-interest loans	1,016	507	(455,186)	(507)	(1,016)
Interest rate swap transactions which are not recognized as accounting hedging	36	18	(460)	(18)	(36)
Total	1,762	881	(571,586)	(881)	(1,762)

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

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

December 31, 2018:

	10%	5%	Fair Value	-5%	-10%
Bonds ()net of cash held in NIS)	11,593	5,797	(115,935)	(5,797)	(11,593)

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):

December 31, 2018:

	10%	5%	Fair Value	-5%	-10%
Currency hedging transactions	(5,000)	(2,500)	(363)	2,500	5,000

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

December 31, 2018:

	4%	3%	Fair Value	-3%	-4%
Bonds	(4,672)	(3,512)	(115,940)	1,641	1,942

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.

9.3 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 301-311 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.**

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 the Company acted so as to formally prescribe the provisions of the Companies Law in the Company's articles to reflect the fourth addendum.

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 first offered to the public in Israel and listed for trading on the Tel Aviv Stock Exchange Ltd., under Israeli law, the provisions of section 39a of the Securities Law apply to the Company, and therefore, some of the provisions of the Israeli Companies Law apply to the Company, in addition to the Company's articles of association and Dutch law. In addition, the shareholders approved the revised articles accordingly.

It is further indicated 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 as approved by 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 ISA. It should also be noted that on August 16, 2018, the Company's shareholders meeting approved an additional amendment to the Company's articles of association, which is a clearer distinction between "Executive Director" and "Non-Executive Director" (reference no .: 2017-01-069852 and - 2018-01-076657, respectively).

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[18] 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**).

[18]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.

(11) Details regarding the Corporation's internal auditor

Name of auditor	Irena Ben Yakar, CPA
Term commencement date	May 25, 2011
Meeting the internal audit conditions	The Internal Auditor meets the conditions prescribed in Sections 3A of the Internal Audit Law (5752-1992)(the Internal Audit Law)
Designation of activities	The Internal Auditor does not hold any other position in the company other than serving as an internal auditor. The internal auditor does not hold any other position out of the company that results or may result in conflict of interests with her position as an Internal Auditor of the company.
Personal matter	The internal auditor is not a related party in the company does not hold a position in the company and is not related to any of the above and does not serve as an auditor or anyone on his behalf and does not provide external services to the company, except for internal auditing services.
Holding the company's securities	The internal auditor, as per its notice, does not hold the Company's securities nor it holds securities of an entity related to the Company as defined by this term in the fourth addition to securities regulations (periodic and immediate reports) – 1970 (the reports' regulations)
Business/material relations with the company	The Internal Auditor does not have any material business relations with the company or other material relations with the company nor does it have such relations with an entity related to the Company as defined by this term in the fourth addendum to reports regulations
Appointment of the internal auditor	The internal auditor's appointment was approved by the company's board of directors on May 25, 2011 based on the recommendation of the company's audit committee and based on its professional experience as internal auditor in the area of internal audit.
The auditor's qualifications	The auditor holds CPA license from 2003 and is a partner in the CPA firm of Deloitte, Brightman, Almagor Zohar. She possesses an extensive experience in risk management and internal audit alongside rich experience in preparing internal audit in public companies.
The auditor as an external party	The auditor provides internal audit services as an external party, by her team from Brightman *Almagor* Zohar & Co.
	The company's audit committee approved an audit plan in a scope of 450 hours for 2018. Under this plan, processes were examined in the Company including: protection of privacy (GDPR), management of cash in the company and the process of initiating and managing property renovations. In 2018, the

Scope of transaction	scope of the audit plan amounted to 450 hours. The audit plan is multi-annual and its cost is based on a rate of NIS 250 per hour (on average) and to the Company's best understanding, the scope of remuneration does not affect the discretion of the auditor.
The audit plan	The audit plan is part of a multi-annual plan. The planning of the audit tasks, setting priorities and audit frequency are affected by the following: The likelihood of managerial and administrative flaws, the exposure to risks of activities, issues requiring an audit by the managing bodies, issues required by law, pursuant to internal or external procedures, the need to maintain cyclicality in issues that were tested previously. Setting the annual work plan of the internal audit in the corporation was done in collaboration with the chairman of the audit committee the internal auditor and her team. The annual work plan is approved by the Company's audit committee at the beginning of each fiscal year. The plan is determined in accordance with the recommendation of the internal auditor, after consultation with management and the audit committee. The plan is subject to change and encompasses the entire group, including corporations held outside of Israel.
Professional standards	The internal auditor, by her notice, prepares the audit according to International Audit Standards of the International Institute of Auditors (IIA)
Scope, nature and continuity of the activity and work plan of the internal auditor	To the best knowledge of the board of directors ,the nature and continuity of the activity and work plan of the internal auditor are reasonable in the circumstances and they are serving the purpose of fulfilling the internal audit objectives in the company.
Free access for the internal auditor	The internal auditor shall have free access as aforesaid in the above section 9 of the internal audit law, including continuous and direct access to the company's information systems including financial data.
The internal auditor report	The internal auditor shall submit her reports in writing to the audit committee and the Company's management. The findings of the audit for 2018 were delivered to the Company's management and the audit committee on various dates during 2018 and the first quarter of 2019. On such dates discussions were held in the audit committee and the internal auditor shared the findings of the audit.
Remuneration	Professional fees for internal audit services were determined to the amount equivalent to NIS 250 per hour on average amounting to NIS 112 thousand in total. In the Company's estimation, such remuneration does not affect the professional discretion of the internal auditor.

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

For details regarding the qualifications, education and experience of Meir Jacobson (external director), Friedrich Munsberg (external director), Burke Patrick, Dorenbos Jeroen, Van Ommen Nicolaas, and Noah Shaham as directors possessing accounting and financial expertise in the Company, see regulation 26 in chapter D "additional details regarding the corporation" which is attached to this periodic report.

The Company did not adopt in its articles a provision on the number of independent directors.

(13) Information on the external auditor

Name: PKF Amit, Halfon

Professional fees of the auditor:

Year	**For audit services**	
	Amount (EUR in thousands)	**Hours**
2017	281	4,510
2018	285	4,650

The principles for determining the fees and the approving parties: The fees of the auditors were determined in negotiations between the Company's management and the external auditor, and in the opinion of the Company's management it is reasonable and acceptable according to the nature of the Company and the scope of its activity. The remuneration of the auditor was approved by the Company's Board of Directors. The principles for determining the auditor's remuneration are based on the estimated work hours required for the audit of the Company, based on the scope and complexity of the audited activity.

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

(14) Disclosure on material and very material valuations and material appraisers

The valuation of a very material investment property (a residential portfolio in Leipzig) is attached to this periodic report as a very material valuation. The valuations of a "material" real estate property (income generating property in Rostock) were not attached to this report since they are "material" valuations but are not "very material". The following is a summary of the data regarding these valuations:

dentification of the valuation subject	Valuation timing (validation date)	The value of the valuation subject before the valuation date (assuming the accepted accounting principles, including depreciation and amortizations would not have required the change of its value according to the valuation) (EUR in thousands)	Value of the valuation subject as determined according to its value (Euro in thousands)	Identification of the appraiser and its characteristics including education, experience in performing valuations for accounting purposes in reporting corporations in scopes similar to the reported valuation or exceeding these scopes and the dependency upon the party who ordered the valuation including reference to indemnification agreements with the appraiser	The valuation model used by the appraiser	The assumptions under which the appraiser performed the valuation according to the valuation model				
						Capitalization rate – Exit Cap rate	long term inflation rate	Terminal rate	Prices used as a basis for comparison	Number of comparison bases.
Residential portfolio in Leipzig [19]	Signing date – March 12, 2019 Validation date – December 31, 2018	205,557	211,670	Savills Drazenco Grahovac (MRICS) Klaus Trautner (MRICS/CIS HypZert) Independent appraisers with experience in appraising assets with a similar scope. No indemnification agreement other than an indemnification regarding liabilities deriving from incorrect or inaccurate information delivered to him by the Company	DCF	4.78%	2.0%	248,593	Comparable transactions with price per square meter to assets with similar characteristics	Various databases mainly: database online Emprica database online RIWIS Savills research

[19] It should be noted that the Company's share in the property is 68%, prior to Promote mechanism adjustment

ommercial asset Rostock[19]	Signing date – March 12, 2019 Validation date – December 31, 2018	110,580	113,100	Savills Independent appraisers with experience in appraising assets with a similar scope. No indemnification agreement other than an indemnification regarding liabilities deriving from incorrect or inaccurate information delivered to him by the Company.	DCF	5.0%	Inflation rate of 1.8%. In 5-10 years inflation rate was 2%	114,674	sale transactions of assets with similar characteristics at the vicinity of the asset.	database online Emprica database online RIWIS Savills research and 47 indications for rental prices for similar uses characteristics at the vicinity of the asset.

[19]It should be noted that the Company's share in the property is 73.7%, prior to Promote mechanism adjustment

Part E – Specific Disclosure for Bond Holders

15. 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 of the reports' regulations:

	Bonds (Series A)	Bonds (Series B)	Bonds (Series C)
Is the series material (as this term is defined in Regulation 10(B)(13)(a) of the Reports' Regulations ?	Yes	Yes	Yes
Date of issue	March 1, 2011	May 21, 2013	July 22, 2014
Date of expanding series	June 19, 2012, November 6, 2012	February 4, 2014	April 4, 2016
Par value on the date of issue (thousands NIS)	200,000	175,000	102,165
Par value on the date of expanding series (thousands NIS)	240,000; 400,000	240,000	160,180
Par value as at 31.12.2018(thousands NIS)	114,400	190,000	150,372
Linked par value as at 31.12.2018 (thousands NIS)	120,810	192,802	150,507
Sum of cumulative interest plus linkage differentials (thousands NIS) as at 31.12.2018	2,679	-	2,213
Value in financial statements as at 31.12.2018 including interest payable (thousands NIS)	122,681	191,373	151,820

Value at the stock exchange as at 31.12.2018 (thousands NIS)	128,952	208,620	159,977
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

16. 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

17. <u>Rating</u>

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)	
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

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

18. 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[20], 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%[21]:

The Company's equity, which is attributed to the majority shareholders as at the Report Period, namely, as of December 31, 2018, is EUR 694.6 thousand.

The financial debt, net, according to solo reports of the Company as of the same date is EUR 99.8 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 December 31, 2018, is approximately 696%.

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 December 31, 2018– 943,804.

The total issued share capital of BGP as of December 31, 2018 and as of the signing date of the report – .1,978,261

The rate of charged shares out of the issued capital share of BGP as of December 31, 2018– .47.7%

BGP's equity which is attributed to its shareholders, as appears in the Company's financial statements as of December 31, 2018– EUR 755,917 thousand.

The EUR/NIS representative exchange rate known, as of the signing date of the report as published by the Bank of Israel - NIS 4.0809

[20]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.

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

The value of the charged shares – NIS ,1,471730 thousand.

Net debt – NIS ,123489 thousand.

Accordingly ,the ratio between the charged share value to net debt, as of the end of the Report Period, is approximately 1,192% 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 December 31, 2018.640,027 –

The total issued share capital of BGP as of December 31, 2018 and the signing date of the report.1,978,261 –

The rate of charged shares out of the issued capital share of BGP as of December 31, 2018.32.4% -

BGP's equity which is attributed to its shareholders, as appears in the Company's financial statements as of December 31, 2018 – EUR 755,917 thousand.

The EUR/NIS representative exchange rate known, as of the signing date of the report, as published by the Bank of Israel – NIS 4.0809

The value of the charged shares – NIS 998, 033, thousand.

Net debt – NIS 192,802 thousand.

Accordingly ,the ratio between the charged share value to net debt, as of the end of the Report Period, is approximately 518% 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 December 31, 2018: .394,430 –

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

BGP's equity which is attributed to its shareholders, as appears in the Company's financial statements as of December 31, 2018 – EUR 755,917 thousand.

The EUR/NIS representative exchange rate known, as of the signing date of the report, as published by the Bank of Israel - NIS 4.0809

The value of the charged shares – NIS 615,058 thousand.

Net debt – NIS 153,576 thousand.

Accordingly ,the ratio between the charged share value to net debt, as at the end of the Report Period, is approximately 400% 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 694.6 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 694.6 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 694.6 million and the debt ratio to CAP is 51.088% (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	107,415
Financial liabilities of the subsidiaries	763,197
Net of cash, cash equivalents and deposits	(32,622)
Net of debt in respect of inventory of apartments under construction	(2,098)
Net financial debt – consolidated	835,892
CAP[22]	
Equity including non controlling interests	800,460
Net financial debt, consolidated	835,892
CAP	1,636,352

[22]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.

Therefore ,**this ratio is 51.08**% 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 .

19. <u>Convening meetings of bondholders following the change in control in the Company and amending the deeds of trust</u>

On April 25, 2018, the meetings of the Company's bondholders (Series A and B) decided to approve by a majority required not to place the bonds for immediate repayment in respect of the cause of action contained in the trust deed that was established for the bondholders in respect of the transfer of control and in connection with series B trust deed, also the amendment of the trust deed with respect to such grounds. The meeting of the bondholders (Series C) decided not to approve the following issues: (i) not to put for immediate repayment in respect of the cause of action contained in the trust deed that was established for the bond holders in respect of the transfer of control; and (ii) amend the trust deed (Series C) in respect of such cause of action; For further details, see the trustee's immediate reports dated April 8, 11 and 25, 2018 (Ref. No .: 2018-10-029091, 2018-10-029103,2018-10-029112, 2018-10-030111, 2018-10- 030114, 2018-10-030117, 12018-10-033129, 2018-10-033138, 2018-10-033141, respectively), which are hereby included by way of reference.

Further to the above, it should be noted that on May 21, 2018, the holders of the Series C bonds decided to grant a waiver in connection with the cause for immediate repayment in respect of the transfer of control in the Company and amendment of the trust deed. For further details, see immediate report of the trustee dated May 13, 2018 and May 22, 2018 (Ref. 2018-10-047578 and 2018-10-050419, respectively), which are hereby included by way of reference.

20. <u>Description of the charged properties for securing the Corporation's undertakings according to the liability certificates</u>

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

20.1 <u>Bonds (Series A)</u>

a) <u>Charging BGP shares</u>

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[23].

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.

[23] It is indicated that as of December 31, 2018, all BGP shares are charged in favor of the trustee for the bond holders (Series A – C) and therefore **such condition does not appear to have been met**. Nevertheless, it is clarified and stressed that the number of BGP charged shares in favor of the trustee for the bond holders (Series A) is greater by 581% 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 527% 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**

20.2 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.

20.3 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.

21. Attaching the financial statements of BGP

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

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

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

Data as of December 31, 2018 (EUR in thousands)	The Company Consolidated	Assets/liabilities In the pledged investee company	Assets/liabilities In unpledged companies
Total assets	1,823,075	1,773,142	49,933
Current assets	80,294	67,380	* 12,914
Noncurrent assets	1,742,781	1,705,762	37,019
Total liabilities	1,022,615	911,409	111,206
Current liabilities	151,556	130,866	** 20,690
Noncurrent liabilities	871,059	780,543	*** 90,516
Non- controlling interests	105,816	105,816	-
Total equity	694,644	755,917	(61,273)
Rate of assets out of the total assets in the balance sheet	100%	97%	3%
Rate of liabilities out of the total liabilities in the balance sheet	100%	89%	11%
Rate of equity out of the total equity in the balance sheet	100%	109%	(9%)

*) Mainly cash and liquid balances held by the Company (solo)
**) Mainly current maturity of principal of bonds (Series A – C) issued by the Company and interest payable for said bonds;

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

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

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

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

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

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

March 12, 2019