BCRE - BRACK CAPITAL REAL ESTATE INVESTMENTS N.V.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF 30 JUNE, 2014

EURO IN THOUSANDS

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Building a better working world

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

to the Board of Directors of -

BCRE - BRACK CAPITAL REAL ESTATE INVESTMENTS N.V.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of BCRE – Brack Capital Real Estate Investments BV and its subsidiaries (the Group) as of 30 June 2014 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 Interim Financial Reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. 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 International Standards on Auditing 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union.

Kost Forer Gabbay & Kasierer

Tel-Aviv, Israel
August 27 , 2014

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2014	31 December 2013
	Unaudited	Audited
	Euros in thousands	
ASSETS		
Non-current assets:		
Investment property	1,095,208	*) 960,423
Investments and loans to associates and joint ventures	248,687	256,303
Property, plant and equipment	749	635
Inventory of land	52,857	48,937
Other investments and loans	33,613	28,838
Restricted deposits on investment property	2,973	-
Deferred tax assets	8,251	*) 7,217
Embedded derivatives	146	-
Total non-current assets	1,442,484	1,302,353
Current assets:		
Inventory of apartments under construction	87,228	92,306
Trade and other receivables	21,651	17,264
Other short term loans and current maturities of long term loans	14,222	10,274
Restricted bank accounts	5,237	3,875
Marketable securities and other short-term investments	4,910	4,499
Cash and cash equivalents	91,470	76,923
Total current assets	224,718	205,141
Assets classified as held for sale	15,739	15,608
Total assets	1,682,941	1,523,102

*) Restated. See Note 2d.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2014	31 December 2013
	Unaudited	Audited
	Euros in thousands	
EQUITY:		
Share capital and premium	151,922	68,726
Convertible shareholders' capital notes	-	59,585
Reserves	(37,873)	(37,183)
Retained earnings	141,768	*) 141,180
	255,817	232,308
Non-controlling interests	414,692	*) 405,034
Total equity	670,509	637,342
LIABILITIES:		
Non-current liabilities:		
Derivative financial instruments	891	2,651
Interest-bearing loans and borrowings	820,523	697,807
Other long-term liabilities	3,158	3,158
Deferred tax liabilities	47,375	*) 41,520
Total non-current liabilities	871,947	745,136
Current liabilities:		
Tax provision	1,810	1,752
Trade and other payables	33,547	36,463
Interest-bearing loans and borrowings	56,160	57,843
Advances from buyers	48,771	43,542
Derivative financial instruments	198	1,024
Total current liabilities	140,486	140,624
Total liabilities	1,012,433	885,760
Total equity and liabilities	1,682,941	1,523,102

*) Restated. See Note 2d.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

	Six months ended 30 June		Year ended 31 December
	2014	2013	2013
	Unaudited		Audited
	Euros in thousands		
Gross rental income	32,832	21,930	50,080
Income from sales of residential units	28,263	-	-
Service charge, management and other income	1,188	2,461	4,839
Property operating expenses	(9,887)	(7,943)	(15,633)
Cost of sales of residential units	(23,032)	-	-
Gross profit	29,364	16,448	39,286
Revaluation of investment property, net	24,565	*) 45,122	*) 64,589
Gains from bargain purchase and loss from realization of investments	-	7,935	6,099
Administrative expenses	(5,747)	(5,067)	(9,229)
Administrative expenses relating to inventory under development, sales and marketing in Germany	(1,095)	(855)	(2,462)
Other income (expenses), net	538	(2,715)	(1,341)
Share based payments compensation	(1,535)	(1,528)	(2,403)
Share in profit of entities accounted for using equity method, net	3,938	24,087	48,918
Operating profit	50,028	83,427	143,457
Financial income	1,934	7,666	10,569
Financial expenses	(24,359)	(18,318)	(28,961)
Exchange rate differences, net	(4,676)	(5,171)	(10,032)
Financial expenses, net	(27,101)	(15,823)	(28,424)
Income before tax	22,927	67,604	115,033
Taxes on income	(5,649)	*) (8,465)	*) (9,664)
Net income	17,278	59,139	105,369
Profit for the period/year attributable to:			
Equity holders of the Company	588	*) 23,168	*) 30,543
Non-controlling interests	16,690	*) 35,971	*) 74,826
	17,278	59,139	105,369
Earnings per share attributed to equity holders of the parent			
Basic	***)	**) 0.16	**) 0.21
Diluted	***)	**) 0.14	**) 0.18

*) Restated. See Note 2d.

**) Retrospectively adjusted. See Note 3(l).

***) Represented amounts lower than € 0.01.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June		Year ended 31 December
	Unaudited		Audited
	2014	*) 2013	*) 2013
	Euros in thousands		
Net income	17,278	59,139	105,369
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations, net	767	(1,396)	(13,969)
Group's share of other comprehensive income (loss) of entities accounted for using equity method	(3,551)	(5,459)	(20,198)
Total other comprehensive loss	(2,784)	(6,855)	(34,167)
Total comprehensive income for the period	14,494	52,284	71,202
Total comprehensive income (loss) attributable to:			
Equity holders of the Company	(1,061)	16,652	8,915
Non-controlling interests	15,555	35,632	62,287
	14,494	52,284	71,202

*) Restated. See Note 2d.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital and premium	Convertible shareholders' capital notes	Foreign currency translation reserve	Share-based payment reserve	Reserves from transactions with non-controlling interest	Retained earnings *)	Total equity attributable to equity holders of the Company	Non-controlling interests *)	Total equity
	Euros in thousands								
Balance as at 1 January 2013 (audited)	65,766	63,567	(3,463)	2,665	(7,972)	110,637	231,200	332,522	563,722
Net income	-	-	-	-	-	30,543	30,543	74,826	105,369
Other comprehensive loss	-	-	(21,628)	-	-	-	(21,628)	(12,539)	(34,167)
Total comprehensive income (loss)	-	-	(21,628)	-	-	30,543	8,915	62,287	71,202
Issuance of shares and capital notes	2,960	1,106	-	-	-	-	4,066	-	4,066
Partial repayment of capital notes	-	(5,088)	-	-	-	-	(5,088)	-	(5,088)
Share based payments	-	-	-	(1,148)	-	-	(1,148)	3,551	2,403
Transactions with non-controlling interests, net	-	-	-	-	(5,637)	-	(5,637)	(5,603)	(11,240)
Newly consolidated subsidiaries	-	-	-	-	-	-	-	6,055	6,055
Receipts from non-controlling interests, net	-	-	-	-	-	-	-	9,934	9,934
Distribution to non-controlling interests	-	-	-	-	-	-	-	(3,712)	(3,712)
Balance as at 31 December 2013 (audited)	68,726	59,585	(25,091)	1,517	(13,609)	141,180	232,308	405,034	637,342
Net income	-	-	-	-	-	588	588	16,690	17,278
Other comprehensive loss			(1,649)	-	-	-	(1,649)	(1,135)	(2,784)
Total comprehensive income (loss)	-	-	(1,649)	-	-	588	(1,061)	15,555	14,494
Issuance of shares, net	23,611	-	-	-	-	-	23,611	-	23,611
Capital notes conversion	59,585	(59,585)	-	-	-	-	-	-	-
Share based payments	-	-	-	764	-	-	764	771	1,535
Transactions with non-controlling interests, net	-	-	-	-	195	-	195	(2,812)	(2,617)
Receipts from non-controlling interest , net	-	-	-	-	-	-	-	6,055	6,055
Distribution to non-controlling interest	-	-	-	-	-	-	-	(9,911)	(9,911)
Balance as at 30 June 2014 (unaudited)	151,922	-	(26,740)	2,281	(13,414)	141,768	255,817	414,692	670,509

*) Restated. See Note 2d.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital and premium	Convertible shareholders' capital notes	Foreign currency translation reserve	Share-based payment reserve	Reserves from transactions with non-controlling interest	Retained earnings *)	Total equity attributable to the equity holders of the Company	Non-controlling interests *)	Total equity
	Euros in thousands								
Balance as at 1 January 2013 (audited)	65,766	63,567	(3,463)	2,665	(7,972)	110,637	231,200	332,522	563,722
Net income	-	-	-	-	-	23,168	23,168	35,971	59,139
Other comprehensive loss	-	-	(6,516)	-	-	-	(6,516)	(339)	(6,855)
Total comprehensive income (loss)	-	-	(6,516)	-	-	23,168	16,652	35,632	52,284
Shareholders contribution, net	2,960	1,133	-	-	-	-	4,093	-	4,093
Share based payments	-	-	-	(1,148)	-	-	(1,148)	2,676	1,528
Transactions with non-controlling interests, net	-	-	-	-	(5,008)	-	(5,008)	5,008	-
Receipts from non-controlling interests, net	-	-	-	-	-	-	-	9,154	9,154
Balance as at 30 June 2013 (unaudited)	68,726	64,700	(9,979)	1,517	(12,980)	133,805	245,789	384,992	630,781

*) Restated. See Note 2d.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December
	Unaudited		Audited
	2014	2013	2013
	Euros in thousands		
Cash flows from operating activities:			
Net Income	17,279	59,139	105,369
Adjustments for:			
Depreciation	88	212	110
Gain from bargain purchase and other income, net	-	(7,935)	(4,758)
Revaluation of investment property, net	(24,565)	*) (45,122)	*) (64,589)
Share in profit of entities accounted for using equity method	(3,938)	(24,087)	(48,918)
Deferred taxes, net	4,822	*) 8,803	*) 3,222
Tax provision	335	33	385
Share based payment compensation	1,535	1,528	2,403
Financial expenses, net	27,101	15,823	28,424
Cash flow from operating activities before changes in working capital and provisions	22,657	8,394	21,648
Increase in advances from buyers	5,228	9,267	36,333
Changes in inventories of apartments under construction	1,000	(12,746)	(32,230)
Decrease (increase) in trade and other receivables	210	1,023	(5,503)
Increase (decrease) in trade and other payables	(3,782)	(7,916)	(10,729)
	2,656	(10,372)	(12,129)
Cash flows provided by (used in) operating activities	25,313	(1,978)	9,519
Income tax paid	(276)	-	-
Net cash provided by (used in) operating activities	25,037	(1,978)	9,519
Cash flows from investing activities:			
Payment of liability for purchase of investment property	-	-	(1,981)
Acquisition of newly consolidated subsidiaries, net (a)	-	(100,626)	(101,934)
Investment and loans to associates, net	7,999	2,717	365
Changes in investments, net	(11,586)	12,970	9,679
Acquisition and additions to property, plant and equipment	(202)	(47)	(47)
Acquisitions of investment property	(87,135)	(5,847)	(49,774)
Additions to investment property	(19,178)	(13,253)	(35,459)
Placement of restricted deposits, prepaid transaction costs and placement of long-term deposits in banks, net	(4,335)	558	5,736
Proceeds from realization of investments	-	13,312	41,222
Purchase of rights from non-controlling interests of subsidiaries	-	-	(1,172)
Loans to related parties, net	(2,900)	3,294	4,085
Cash flows used in investing activities	(117,337)	(86,922)	(129,280)

*) Restated. See Note 2d.

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December
	Unaudited		Audited
	2014	2013	2013
	Euros in thousands		
Cash flows from financing activities:			
Share capital issuance, net	24,205	2,960	2,960
Convertible notes issued to shareholders	-	1,133	1,133
Repayment of capital note	(2,294)	-	(2,874)
Receipt of loans, net	234,207	159,207	208,112
Issuance of debentures, net	15,221	36,447	54,608
Repayment of long-term loans and debentures	(137,891)	(92,492)	(124,098)
Financial expenses paid and foreign exchange currency differences, net	(14,930)	(7,335)	(22,983)
Transactions with non-controlling interests, net	6,055	10,392	9,934
Loans from associates	-	-	4,457
Repayment of loans from associates	(5,657)	-	-
Distribution to non-controlling interests	(9,911)	-	(3,712)
Repayment of SWAP transactions, transaction costs and realization of derivatives, net	(3,418)	(67)	84
Exercise of stock options	1,579	-	-
Cash flows provided by financing activities	107,166	110,245	127,619
Increase in cash and cash equivalents	14,866	21,345	7,860
Foreign exchange differences, net	(319)	138	339
Cash and cash equivalents at the beginning of the period	76,923	68,724	68,724
Cash and cash equivalents at the end of the period	91,470	90,207	76,923

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June 2014	Six months ended 30 June 2013	Year ended 31 December 2013
	Euros in thousands		
(a) Acquisition of newly consolidated subsidiaries:			
Assets and liabilities of subsidiaries on the purchase date:			
Working capital (excluding cash and cash equivalents), net	-	248	(4,847)
Investment property	-	(108,719)	(145,372)
Investments in associates	-	-	9,646
Interest bearing loans and borrowings	-	8,119	34,215
Other non-current liabilities	-	(274)	-
Non-controlling interests		-	4,424
	-	(100,626)	(101,934)
(b) Significant non-cash transactions:			
Payables in respect of purchase of investment property	3,637	-	-
Payables in respect of inventory of apartments under construction	1,932	-	-

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

NOTE 1:- GENERAL

a. These financial statements have been prepared in a condensed format as of 30 June2014 and for the six months then ended ("interim condensed consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of 31 December2013 and for the year then ended and the accompanying notes ("annual financial statements") as included in the prospectus in connection to its admission for trading on thr London Stock Exchange

b. On 28 May 2014, the Company's entire issued ordinary share capital was admitted to the standard listing segment of the Official List of the UK Listing Authority and for trading on the main market of listed securities of London Stock Exchange plc. The Company also raised € 23 million net of issuance expenses of the € 2.6 million, through the placing of 16,097,883 new Ordinary shares at €1.62 per share. The number of issued ordinary shares after the admission is 160,689,583.

c. The consolidated financial statements were authorized in accordance with a resolution of the board of directors on August 27, 2014.

NOTE 2:- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the interim financial statements:

The interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with the International Financial Reporting Standard IAS 34 ("Interim Financial Reporting") as adopted by the European Union.

b. New standards, interpretations and amendments adopted by the Company:

The significant accounting policies and methods of computation followed in the preparation of the interim condensed consolidated financial statements are identical to those followed in the preparation of the latest annual financial statements except as noted below:

<u>Early adoption of IFRIC 21, "Levies":</u>

In May 2013, the IASB issued IFRIC 21, "Levies" ("IFRIC 21") regarding levies imposed by governments through legislation. According to IFRIC 21, the liability to pay a levy will only be recognized when the activity that triggers payment occurs. IFRIC 21 is applied retrospectively.

The initial adoption of IFRIC 21 did not have a material impact on the financial statements.

NOTE 2:- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Amendments to IAS 32, "Financial Instruments: Presentation", regarding offsetting financial assets and financial liabilities:

The IASB issued amendments to IAS 32 ("the amendments to IAS 32") regarding the offsetting of financial assets and financial liabilities. The amendments to IAS 32 clarify, among others, the meaning of "currently has a legally enforceable right of set-off" ("the right of set-off").
The effect of the adoption of the amendments to IAS 32 on the Company's financial statements was immaterial.

c. Disclosure of new standards in the period prior to their adoption:

IFRS 15, "Revenue from Contracts with Customers":

IFRS 15 ("the Standard") was issued by the IASB in May 2014.
The Standard introduces the following five-step model that applies to revenue from contracts with customers:

Step 1: Identify the contract(s) with a customer, including reference to contract consolidation and accounting for contract modifications.
Step 2: Identify the distinct performance obligations in the contract
Step 3: Determine the transaction price, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.
Step 4: Allocate the transaction price to the separate performance obligations on a relative stand-alone selling price basis using observable information, if it is available, or by making estimates and assessments.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation over time or at a point in time.

IFRS 15 also establishes the accounting treatment of incremental costs involving obtaining a contract and the costs directly related to fulfilling a contract.
The Standard will apply retrospectively to annual periods beginning on or after 1 January 2017. Early adoption is permitted.
The Company is evaluating the possible impact of the adoption of IFRS 15 but is presently unable to assess its effect, if any, on the financial statements.
EU has not yet endorsed this Standard.

IFRS 9, " Financial instruments: Classification and Measurement":

In July 2014, the IASB issued the final and complete version of IFRS 9.
IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. This standard replaces IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost.

NOTE 2:- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements.

The main change is that, in cases where the fair value option is elected for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings, unless this creates an accounting mismatch. The effective date of this standard is for annual periods beginning on or after 1 January 2018, with early application permitted.
EU has not yet endorsed this Standard.

d. Changes in accounting policy:

In July 2014, the IFRIC issued a decision regarding the recognition of deferred taxes in respect of temporary differences relating to single asset entity ("SAE") when an entity expects the reversal of the temporary difference to be in the form of sale of shares in the SAE rather than the sale of the asset itself. Based on the IFRIC decision, the Company is required to recognize deferred taxes both with respect to "inside" differences in the SAE between the tax base of the asset and its carrying amount and with respect to outside differences between the tax base of the shares of the SAE and the carrying amount of the investor's share of the net assets of the SAE in the consolidated financial statements.

Prior to issuance of the abovementioned decision, the Company's accounting policy was to record deferred taxes in respect of temporary differences based solely on the tax implications and tax rate applicable to the sale of the shares in the SAE and not to the sale of the asset itself.

The effects of the change in accounting policy in view of the above IFRIC decision on the Company's financial statements are as follows:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In the consolidated statement of financial position as of December 31, 2013:

	As previously reported	Restatement	As currently presented
		Audited	
		Euros in thousands	
Non-current assets:			
Investment property	945,915	14,508	960,423
Deferred tax assets	9,510	(2,293)	7,217
Total assets	1,510,887	12,215	1,523,102
Non-current liabilities:			
Deferred taxes	24,598	16,922	41,520
Equity:			
Retained earnings	142,732	(1,552)	141,180
Non-controlling interests	408,189	(3,155)	405,034
Total equity	642,049	(4,707)	637,342

In the consolidated statement of profit or loss for the year ended December 31, 2013:

	As previously reported	Restatement	As currently presented
		Audited	
		Euros in thousands	
Revaluation of investment property, net	61,203	3,386	64,589
Taxes on income	(3,279)	(6,385)	(9,664)
Net income	108,368	(2,999)	105,369
Profit for the year attributable to:			
Equity holders of the Company	31,265	(722)	30,543
Non-controlling interests	77,103	(2,277)	74,826
	108,368	(2,999)	105,369
Total comprehensive income for the year attributable to:			
Equity holders of the Company	9,610	(695)	8,915
Non-controlling interests	64,564	(2,277)	62,287
	74,174	(2,972)	71,202

The effect of restatement on earning per share is immaterial.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In the consolidated statement of profit or loss for the six months ended June 30, 2013:

	As previously reported	Restatement	As currently presented
		Unaudited	
		Euros in thousands	
Revaluation of investment property, net	43,130	1,992	45,122
Taxes on income	(4,386)	(4,079)	(8,465)
Net income	61,226	(2,087)	59,139
Profit for the year attributable to:			
Equity holders of the Company	23,587	(419)	23,168
Non-controlling interests	37,639	(1,668)	35,971
	61,226	(2,087)	59,139
Total comprehensive income for the year attributable to:			
Equity holders of the Company	17,071	(419)	16,652
Non-controlling interests	37,300	(1,668)	35,632
	54,371	(2,087)	52,284

The effect of restatement on earning per share is immaterial.

In the consolidated statement of changes in equity as of June 30, 2013:

	As previously reported	Restatement	As currently presented
		Unaudited	
		Euros in thousands	
Equity:			
Retained earnings	135,054	(1,249)	133,805
Non-controlling interests	387,538	(2,546)	384,992
Total equity	634,576	(3,795)	630,781

In the consolidated statement of changes in equity as of January 1, 2013:

	As previously reported	Restatement	As currently presented
		Audited	
		Euros in thousands	
Equity:			
Retained earnings	111,467	(830)	110,637
Non-controlling interests	333,400	(878)	332,522
Total equity	565,430	(1,708)	563,722

NOTE 3: - FINANCIAL INSTRUMENTS

a. Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments other than those with carrying amounts are reasonable approximations of fair values:

	Carrying amount		Fair value	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
	Euros in thousands			
Financial liabilities:				
Debentures	241,122	219,184	257,681	236,067

b. The following table provides the fair value measurement hierarchy of the Group's financial instruments:

	As of 30 June 2014		
	Fair value measurement using		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Euros in thousands		
ASSETS:			
Embedded derivatives	-	146	-
LIABILITIES:			
Derivative financial instruments	-	1,089	-
Interest-bearing loans	-	-	319,244

	As of 30 June 2013		
	Fair value measurement using		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Euros in thousands		
ASSETS:			
Embedded derivatives	333	46	-
LIABILITIES:			
Derivative financial instruments	1,081	2,594	-
Interest-bearing loans	-	-	437,249

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
	Euros in thousands
As of 1 January 2014	437,249
Total loss recognized in profit or loss	7,710
Repayment of long term loans, net	(125,715)
Balance as of 30 June, 2014	319,244

d. Valuation techniques

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

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

- The fair value of interest swap contracts and CAP agreements is based on calculating the present value of the estimated future cash flows using observable return curves.

- The fair value of short term bank credit is based on calculating the discounted cash flows using the observed rate of the euribor 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
Financial liabilities:				
Loans	DCF	Margin on interest rate	Euribor for 3 months plus 2.38-2.9	2% increase/decrease in discount rate will result in increase/decrease of up to € 15 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 € 6.9 million in fair value

NOTE 4:- MATERIAL EVENTS DURING REPORTING PERIOD

a. On 2 January 2014, a subsidiary of the Company purchased for £2.4 million (including acquisition cost of £0.15 million) the Fountain Court, a prime city center vacant office building in Manchester CBD. The property has a grade II listed façade and has approximately 26,000 sqft. of gross leasable area and 10 parking places. The refurbishment is planned to start during second half of 2014.

b. On 10 January 2014, a subsidiary of the Company purchased the Cobblestone Grove Apartments, a 292 unit class B multifamily property located in a suburb of Cincinnati Ohio, for $19.05 million (€ 13.9 million). The Subsidiary financed approximately 68% of the acquisition cost with a bank loan in the amount of $12.8 million. The loan is a 10 year, interest only loan with a fixed interest rate of 4.9%. The Company provided a guaranty in favor of the bank as follows: (1) Standard "bad-boy" carve-outs, (2) Standard Environmental Indemnity (3) the company must maintain $12.8 million (€ 9.3 million) of Net Worth and $1.28 million (€ 0.9 million) of liquid assets.

c. On 4 February, 2014, Brack Capital Properties NV ("BCP") issued 72,000,000 debentures (Series B) of NIS 1 par value, listed for trade, to 10 institutional investors by expanding the existing debenture series of BCP listed for trade. The debentures bear annual interest of 3.29% (subject to adjustments in the event of a change in the rating of debentures (Series B) (the effective interest was 3.595 %).

d. On 31 January, 2014, two subsidiaries of BCP (the asset companies) entered into a loan agreement with a German bank in a total amount of € 30 million, in respect of which a lien was placed on two income generating real estate properties in Germany. The new loan will be used to repay existing loans of € 20 million, against which a lien was placed on one of the assets. The bank financing includes the following principle terms: a non-recourse loan with final repayment date of 31 December, 2018. The loan bears Euribor interest rate for three months plus a margin of 2.35%. Interest payments are payable quarterly. The loan principal will be paid quarterly at an annual rate of 2.7% until the final repayment date on which the unsettled principal balance is paid. Pursuant to the financial covenants set forth in the loan agreement, the LTV ratio over the life of the loan will not exceed the range of 67% - 75% and the DSCR will be greater than 120%.
As of 30 June 2014 the Company is in compliance with the above financial covenants.

e. On 4 February 2014, 13 subsidiaries of BCP entered into a loan agreement with a German bank in a total amount € 125 million, in respect of which a lien was placed on 13 income generating real estate properties in Germany spanning over a total area of 158 thousand sqm. ("the agreement" and "the new loan"). The new loan will be used to repay existing loan from another bank in the amount of € 100 million, in respect of which a lien was placed on the same assets. The bank financing includes the following principle terms: a non-recourse loan with final repayment date of 30 December 2018. The loan bears Euribor interest rate for three months plus a margin of 2.3%. Interest payments are payable quarterly. The loan will be paid quarterly at an annual rate of 3% until the final repayment date on which the unsettled principal balance is paid. Pursuant to the financial covenants set forth in the loan agreement, the LTV ratio will not exceed 77% and the DSCR will be greater than 130%.

NOTE 4:- MATERIAL EVENTS DURING REPORTING PERIOD

As of 30 June 2014 the Company is in compliance with the above financial covenants.

f. On 14 February 2014, a wholly owned and controlled subsidiary of BCP (the purchasers) entered into a notarized sale agreement to purchase the entire rights of the seller in 1,567 residential units spanning over a total area of 91.2 thousand square meters in several cities in northern Germany. The transfer of ownership and the payment of the full consideration of € 54.43 million (excluding related transaction costs) were carried out on 1 May 2014. For the purpose of financing the purchase, BCP entered into an agreement with a German bank pursuant to the following terms: a non-recourse loan with final repayment date of 1 May 2019. The loan bears Euribor interest rate for six months plus a margin of 1.7% payable every quarter. The loan will be paid quarterly at an annual rate of 2.5% until the final repayment date on which the unsettled principal balance is paid.

g. On 17 February 2014, a subsidiary of the Company provided a loan in the amount of NIS 5 million to the Company's parent company, Brack Capital Holdings Ltd ("BCH"), with an interest rate of 4.5% and a repayment date of 16 February 2017, secured by 24,630 shares of BCP. In addition, the subsidiary has the option to acquire the 24,630 pledged shares of BCP instead of a repayment of the loan and the interest.

   On 17 of February 2014, the subsidiary provided an additional loan for the amount of NIS 1 million to a subsidiary of BCH with an interest rate of 4.5% and a repayment date of 16 February, 2017 secured by 4,926 shares of BCP. In addition, the subsidiary has the option to acquire the 4,926 pledged shares of BCP instead of a repayment of the loan and interest.

   The fair value of the option at the day the loans were provided is immaterial.

h. On 7 March 2014, wholly owned and controlled subsidiary of BCP (the purchasers) entered into a notarized sale agreement with a receiver, a third party who is not related to the Company and/or to its controlling shareholder (the receiver) to purchase the entire rights of the receiver in a shopping center in North Rhine Westphalia spanning over a total area of 12.9 thousand square meters. The transfer of ownership and the payment of the full consideration of € 13.5 million (excluding related transaction costs and renovating the building's roof) were carried out on 1 May 2014. For the purpose of financing the purchase, BCP entered into an agreement with a German bank pursuant to the following terms: a non-recourse loan with final repayment date of 1 May 2019. The loan bears annual Euribor interest rate for three months plus a margin of 1.8% payable every quarter. The loan will be paid quarterly at an annual rate of 2.5% until the final repayment date on which the unsettled principal balance is paid.

i. In May 2014, the total amount of € 59 million of capital notes was converted to share premium.

j. On 17 June 2014, the Company deposited the amount of $ 5.5 million to purchase a building in Manhattan, New York with an area of approximately 240,000 sq.f.

NOTE 4:- MATERIAL EVENTS DURING REPORTING PERIOD (Cont.)

k. On 19 June 2014, the subsidiary of the Company provided an additional loan for the amount of NIS 6.9 million to a subsidiary of BCH with an interest rate of 4.5% and a repayment date of 18 June, 2017 secured by 28,193 shares of BCP. In addition, the subsidiary has the option, instead of a repayment of the loan and interest to acquire 28,193 pledged shares of BCP. The fair value of the option at the day the loans were provided is immaterial.

l. In 2014, the nominal value of each share in the Company's share capital was first increased from € 0.10 to € 1 and subsequently each share (with a nominal value of € 1) was converted into 100 shares with a nominal value of € 0.01.

m. The escalation of the conflict with Ukraine and introduction of the economic sanctions against Russia may significantly affect the Russia economy and resulting in increase of country risk. Currently Russia credit rating had been decreased and as a result Russia Central Bank had raised its benchmark interest rate. In addition, the Russian Ruble had devalued by approximately 7% against the Euro since the beginning of 2014 (based on average exchange rate for 1H 2014), which is pushing the expectation of inflation to exceed 7%. While the scale of sanctions is still unclear and the exchange rate has not stabilized yet, the market situation is uncertain. Based on the market uncertainty and considering all available information, the Company's management is of opinion that no change is currently required to its fair value estimations.

NOTE 5:- SEGMENT INFORMATION

Six months ended 30 June 2014	Income producing commercial real estate	Income producing residential real estate	Land held for appreciation	Residential development	Other	Total
Income from sales of residential units	-	-	-	28,263	-	28,263
Gross rental income	19,808	12,891	133	-	-	32,832
Service charge, management and other income	34	694	15	-	445	1,188
Cost of sales of residential units	-	-	-	(23,032)	-	(23,032)
Property operating expenses	(4,827)	(2,894)	(1,891)	-	(275)	(9,887)
Gross profit (loss)	15,015	10,691	(1,743)	5,231	170	29,364
Revaluation of investment propertynet	5,622	10,840	8,103	-	-	24,565
Share in profit (loss) of entities accounted for using equity method, net	4,324	-	206	-	(592)	3,938
Administrative and other expenses, net						(7,839)
Financial expenses, net						(27,101)
Income before tax						22,927

NOTE 5:- SEGMENT INFORMATION (Cont.)

Six months ended 30 June 2013	Income producing commercial real estate	Income producing residential real estate	Land held for appreciation	Residential development	Other	Total
Gross rental income	12,976	8,449	505	-	-	21,930
Service charge, management and other income	-	-	-	961	1,500	2,461
Property operating expenses	(1,856)	(1,317)	(52)	(961)	(3,757)	(7,943)
Gross profit (loss)	11,120	7,132	453	-	(2,257)	16,448
Revaluation of investment property, gains from bargain purchase and loss from realization of investments, net	29,811	4,659	21,388	-	(2,801)	53,057
Share in profit (loss) of entities accounted for using equity method, net	26,044	(2,172)	(122)	-	337	24,087
Administrative and other expenses, net						(10,165)
Finance expenses						(15,823)
Income before tax						67,604

Year ended 31 December 2013	Income producing commercial real estate	Income producing residential real estate	Land held for appreciation	Residential development	Other	Total
Gross rental income	30,594	18,797	689	-	-	50,080
Service charge, management and other income	-	-	-	1,399	3,440	4,839
Property operating expenses and others	(4,467)	(2,719)	(57)	(3,392)	(4,998)	(15,633)
Gross profit	26,127	16,078	632	(1,993)	(1,558)	39,286
Revaluation of investment property, gains from bargain purchase and loss from realization of investments, net	33,353	9,312	31,068	-	2,602	76,335
Share in profit (loss) of entities accounted for using equity method, net	55,238	-	(5,110)	-	(1,210)	48,918
Administrative and other expenses, net						(15,435)
Finance expenses						(34,071)
Income before tax						115,033

NOTE 6:- SUBSEQUENT EVENTS

a. On 11 July 2014, the Company entered into contracts to purchase a vacant building located in the West Village, Manhattan, New York, which comprises a gross internal area of approximately 115,000 sq. f. The Company deposited the amount of $10 million in escrow with a title insurance company which will be deducted from the Purchase Price upon closing of the deal.

b. In July 2014, BCP completed the issuance to the public in Israel new series (series C) NIS 102,615,000 par value of debentures with duration of 8 years which were offered to the public. The annual interest rate is 3.3%.
The debentures (series C) will be linked to the Israel CPI and payable (principal) in unequal 12 annual installments on July 20 in each of the years 2015 through 2026 (inclusive) such that each payment of the first 9 payments will constitute 2% of the principal of the total par value of the debentures (series C), the tenth payment will constitute 17% of the principal of the total par value of the debentures (series C) and each payment of the last 2 payments will constitute 32.5% of the principal of the total par value of the debentures (series C).

c. On 3 July 2014, Midroog, a credit rating agency accredited by Israel and a subsidiary of Moody's Investors Service Inc. ("Moody's"), has upgraded the rating on the Company's two bond series from A3/Stable to A2/Stable.

d. On 25 August 2014, BCP has exchanged contracts to purchase a portfolio of 308 residential units in Dortmund, Germany (the "Portfolio"). The total leasable area of the Portfolio is 15,100 square meters, the units are let to various tenants and the occupancy rate of the Portfolio is 98%. The purchase price for the Portfolio is approximately €10.8 million (including transaction costs). BCP received a term sheet from a German financing institution (the "Financial Institution") for a non-recourse loan of €7.4 million to finance the acquisition. The term sheet is subject to approval by the Financing Institution's credit committee. Closing of the deal is subject to obtaining all the necessary statutory approvals for the transaction and the removal of all the pledges/ mortgages from the Portfolio.

LIST OF SIGNIFICANT INVESTEES

Significant investees	Country of incorporation	Ownership interest 30 June 2014	Ownership interest 31 December 2013
BCRE Russian Properties Ltd	Cyprus	84.63%	83.9%
Brack Capital First B.V.	The Netherlands	100%	100%
Brack Capital Properties N.V.	The Netherlands	33.98%	34.71%
Brack Capital U.S.A B.V.	The Netherlands	100%	100%
BCRE India B.V.	The Netherlands	100%	100%

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