BCRE
BRACK CAPITAL REAL ESTATE

ANNUAL REPORT IN RESPECT OF THE YEAR ENDED 31 DECEMBER 2014

1 DIRECTORS' REPORT

Please read the following directors' report in conjunction with the audited Consolidated financial statements and the notes to those statements, included elsewhere in this annual report. In addition to historical facts, this annual report contains forward-looking statements.

1.1 CHAIRMAN'S STATEMENT

Harin Thaker, Chairman, said:

"I am pleased to present the full year result of the Group post listing on the London Stock Exchange. We are glad to see BCRE progressing in the right direction with expansion of our existing portfolio and making new investments during the period."

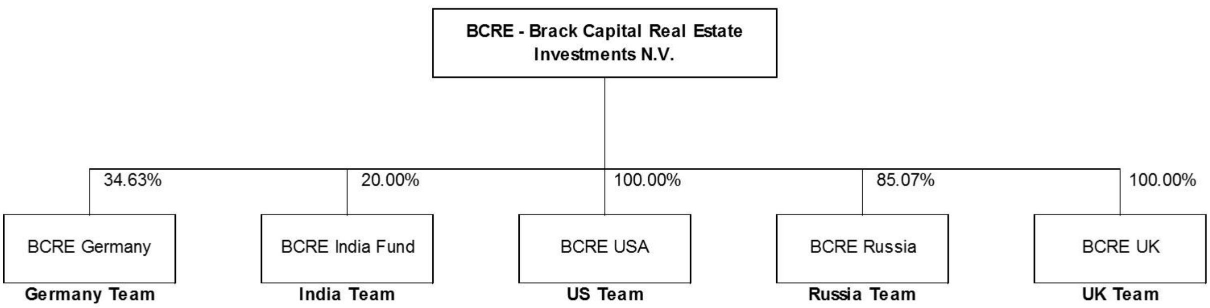
1.2 OVERVIEW

1.2.1 About us

BCRE-Brack Capital Real Estate Investments N.V. ("BCRE" or the "Company") is a public limited liability company incorporated under the laws of the Netherlands. BCRE, its subsidiaries (as defined in section 2:24a of the Dutch Civil Code) and other affiliates which are controlled by BCRE (as meant in section 2:24b of the Dutch Civil Code) shall be collectively referred to as the "Group". BCRE was converted from a private limited liability company into a public limited liability company on 28 May 2014, prior to the listing of the Company on the London Stock Exchange.

BCRE is an internationally active real estate investment, development and management group. The Group is part of the group of BCH – Brack Capital Holdings Ltd, established in 1992. The Group's investment and management philosophy is based on the combination of local expertise and high professional standards.

The Group's simplified corporate structure as at 31 December 2014 is shown in the chart below.



As at 31 December 2014, the portfolio of properties in which the Group is interested comprises income-producing residential and commercial properties with a total built area of 1,044,000 sq.m. (831,000 sq.m in December 2013). In addition, the Group has an interest in development projects currently under construction with a total combined lettable and saleable area of approximately 190,000 sq.m (221,000 sq.m in December 2013). The Group holds an interest in approximately 350,000 sq.m of land available for sale as plotted development (same as in December 2013), and approximately 186,000m² of lettable and saleable area available for development (180,000 sq.m in December 2013), where development has not yet started. In addition, the Group has as an interest in approximately 450 hectares of land available for future development (300 hectares in December 2013).

1.2.2 2014 Key highlights

- The Group generated revenues of EUR 68.04 million from rental income during the period (31 December 2013: EUR 50.08 million).

- The net asset value ("NAV") of the Group amounted to EUR 267.3 million as at 31 December 2014 (31 December 2013: EUR 232.3 million).

- As at 31 December 2014, the aggregate value of assets in which the Company is interested (in different percentages) was approximately EUR 1.9 billion (31 December 2013: EUR 1.5 billion).

- The Company successfully raised around EUR 87.7 million net of expenses during the period from the listing on the London Stock Exchange in May 2014, the issuance of bonds (series 'C') in November 2014 and the private placement in December 2014.

- Following a capital reduction in December 2014, the Company distributed around EUR 4.82 million (EUR 0.03 per share) in January 2015, in line with our dividend policy.

- The Group completed the acquisition of a major asset on 627 Greenwich Street in the West Village and is nearing the closing for the acquisition of another property in the Upper West Side, both in Manhattan, New York.

- Increased the income producing activities in the US with the acquisition of two multifamily residential properties in Cincinnati Ohio (one completed in April 2015) taking the number of units under management in the region to over 500, and increased our lending business in the Greater New York area.

- The Group increased its exposure to the German market with new acquisitions as well as through the purchase of additional shares in Brack Capital Properties N.V. ("BCRE Germany"), our subsidiary, bringing our shareholding in BCRE Germany to approximately 34.63%.

- BCRE Germany acquired over 2,100 multifamily residential units totalling approximately 134,000 sq. m. and commercial assets totalling approximately 16,000 sq. m., through four transactions during the period.

- BCRE Germany's income producing portfolio now includes around 9,200 multifamily residential units totalling approximately 524,000 sq. m. (31 December 2013: 7,040 units totalling approximately 390,000 sq. m.) and commercial assets totalling approximately 381,000 sq. m. (31 December 2013: approximately 365,000 sq. m.).

- In addition to an excellent year from an operational point of view for its income producing multifamily residential and commercial portfolios, BCRE Germany has continued to create value also through its development arm. It recently reached a preliminary agreement with the

Dusseldorf municipality for the rezoning of the land designated for office use in the Grafental project from office to residential use. This will add approximately 650 units to the project.

- BCRE Germany also reached an in principle agreement with the Dusseldorf municipality to change the zoning of the land spanning over 20,000 sq. m. in Grafenberg (near the Grafental project) on which there is a portfolio comprising several residential and office buildings, acquired in 2014.
- Increased our stake in the income producing wholesale and retail centre in Kazan and the shopping centre development in Lyubertsy.

1.2.3 Investment philosophy

The Group's overall objective is to identify and execute opportunities in our local markets by leveraging off its global investment, development and management experience and to generate exceptional returns by employing expert local management teams.

BCRE's investment policy includes an analytical approach to the investment decisions throughout the life cycle of a project. The Group's financial approach to portfolio allocation is focused on the continuous monitoring and adjustment of its portfolio, ensuring diversification by country, asset class, currency, specification and development to income-producing properties.

As part of our business model, we control and manage our deals by establishing our own proprietary local teams. We focus on value addition to our properties through proactive asset and property management. Rigorous research & analysis and risk management are cornerstones to our business philosophy.

1.2.4 Strategy

The following are key components of the Group's strategy:

a) maintaining independently managed local teams in each of its key markets;

b) focusing investment primarily on the Group's key markets;

c) benefiting from organic return growth at project level;

d) accessing quality deal flow in each local market through the strength and depth of its local platforms and their connections;

e) retaining staff with a substantial aggregate knowledge base and diversified experiences who have remained with the Group over a long period of time;

f) taking a global view on investment based on detailed knowledge of the drivers in its key markets which allows for diverse risk analysis and efficient funds allocation;

g) developing and retaining in-house research and finance capabilities;

h) developing and retaining in-house development capabilities such as design coordination, procurement and property management; and

i) developing and retaining in-house construction, management, supervision and estimation capabilities by employing internal construction and engineering experts, and maintaining financial flexibility through reasonable leverage and debt duration and maturity.

The key objectives of the Group include:

With the various global developments, movement in currencies and oil prices and the geopolitical situation, a key objective of the Group is to maintain a diversified balanced portfolio across its key markets as well as between income producing properties and development assets. In addition, we aim to:

a) Continue balancing our global portfolio with increased exposure in the US market towards exceptional investment opportunities in Manhattan (in line with our recent deals) and income producing activities, mainly multifamily residential, leveraging our experience in Germany.

b) Continue growing our German portfolio through the operational improvement and strong cash flows of our income producing properties and continue value creation by the development arm.

c) Maintain liquidity at the corporate level with the objective of being prepared, among others, for the potential impact of different global events.

d) Continue to closely monitor with a cautious approach the developments in Russia and maintain our local teams close to our assets. New acquisitions or increased stake where the current situation presents attractive opportunity with low immediate investment requirements.

1.2.5 Key strengths

Combination of local market presence and international transactional expertise

The Group combines local knowledge of, and contacts within, its key markets with international experience of research, due diligence, structuring, financing, developing and delivering large scale real estate projects to international standards. We consider this combination uncommon.

Focus on known markets and sectors

The Group has been active in its key markets for many years – in Manhattan since 1994 (initially, as Brack Capital Group), in Germany since 2005, in Russia since 2006 and in India since 2005. The Group focuses its attention mostly on specific sectors in these markets which it knows and understands – in Germany commercial (mainly retail) and multifamily residential income producing, in Russia development for commercial (mainly retail) and other income producing assets, in the US on Manhattan conversion, renovation and development (recently mainly in the residential and hospitality sectors) and multifamily residential outside Manhattan. We believe this enables the Group to understand its markets and to analyse the real risks and opportunities of each project in the context of those markets.

Substantial "on the ground" platforms

We believe that real estate is fundamentally a local business and that the foundation of our strength is real, local experience and expertise. The Group's local teams in each market are managed by dedicated, specialised, experienced and incentivised professionals with a local knowledge and an understanding of the business they are carrying out. Their capabilities and expertise are full service and include sourcing off-market deals, in-house research and analysis, underwriting budgets, timetables, sales and leases, raising finance from local and international lenders, maintaining close working relationships with local authorities, detailed, hands on, property management, development capabilities, experience of refurbishment works and improvements and lease negotiations. We believe this depth of knowledge, experience and contacts gives the Group a competitive advantage over other international investors in its key markets and that this enables the Group to identify and deliver transactions that other international investors are often unable or unwilling to source or deliver.

Experienced management team

Most of the senior executives of the Group's platforms are very experienced in real estate transactions in their local market and most of them have been with the Group for over 5 years. In addition, in most of the Group's platforms the Group has experienced management below these senior executives who also have been with the Group for a number of years. The Group believes the depth of its management expertise in its key markets gives it a competitive advantage over its competitors.

Significant large scale development expertise

The Group has significant expertise of delivering large scale development projects and is able to use and transfer that experience to develop large scale projects in each of its key markets. Since its establishment, the Group has developed projects with a significant lettable area, including the Group's three major developments currently underway in Kazan, Lyubertsy and Düsseldorf.

Strong transaction structuring skills

The Group is experienced in structuring transactions so as to seek to mitigate risk. It occasionally seeks to do this as early as practicable in the transaction through co-investing with international investors or its Co-investment Club[1], seeking pre-lets or other contractual protections wherever practicable prior to development, adopting phased development when possible in large developments and only commencing a next phase when the previous phase is significantly underwritten by sales or leases. The Group adopts an analytical approach to identify the risks in its projects in accordance with international standards before acquiring a property and continues throughout the project to seek ways to reduce risk and realise value as early as possible through sales or refinancing.

Access to co-investors

The Group is able to leverage its operational platform by co-investing with international investors and its Co-investment Club. This often enables it to share the risk and in many cases earn management fees and potential promote fees in addition to its equity interest in the project. The Group's relationship with its co-investors enables it to react quickly and flexibly to investment opportunities.

Good access to debt financing

[1] The co-investment pool was established by the Group in 2011. The obligations on the Company to offer transactions to the members of the Co-investment Club expired in April 2014 but the Group intends to continue to offer co-investment opportunities to members of the Co-investor Club and others where appropriate.

We believe that the Group's deep connections with local and international banks enable it to secure finance for its projects either internationally or locally on favourable terms. For instance, the Group has been able to achieve financing and refinancing for its projects in Russia in the past with local banks at a time when bank lending has been difficult or almost impossible to obtain from the international financial markets. We believe that the depth of our relationships with both international and local banks enables us to source debt financing even when availability is relatively limited.

1.3 BUSINESS OVERVIEW

1.3.1 CEO's statement

Ariel Podrojski, Chief Executive Officer, said

"2014 has been a defining year for the Group both from a corporate and a business point of view. During the period, BCRE successfully joined the London Stock Exchange raising funds upon listing and through the subsequent private placement and the bonds issuance to support our existing investments and the expansion of our portfolio.

A big step towards global portfolio balancing was achieved during the period with the new acquisitions in the US and Germany, and increasing of our holding in BCRE Germany.

The geopolitical environment in Russia continues to be challenging. Although, the situation in Russia seems to have recently stabilized to a certain extent, we continue to monitor it closely and remain cautious as it can still develop in various directions and magnitudes. However, we believe that our team in Russia with its hands-on approach is well equipped to monitor and react to the various challenges on the ground."

1.3.2 Our key markets

Set up below are the highlights for the period in relation to the Company's main regional platforms:

USA

The Group's portfolio in the US includes conversions to residential use and hotel developments in Manhattan, income producing activities comprising multifamily residential properties and lending to smaller residential real estate developers within the greater New York area.

Capitalizing on its success and experience in the multifamily business in Germany and in light of the successful acquisition and integration of Cobblestone Grove last year, our dedicated, experienced and skilful management team is well positioned to expand the multifamily business in the US. We have recently acquired Century Lakes Apartments, our second multifamily property in Cincinnati Ohio bringing the total number of units under management in the region to over 500.

Performance of the Cobblestone Grove Apartments continues to improve with c.97% occupancy vs. c.91% occupancy at the time of purchase in January 2014. The new rents achieved have increased over the same period by approximately 6%. The acquisition of Century Lakes Apartments located in a suburb of Cincinnati Ohio was completed in April 2015 and consists of 224 apartments with 94% occupancy.

These investments are building on our strategy to balance our global portfolio, expand our income producing activities and increase our exposure to the US market in general and particularly to the multifamily sector while we continue to look for unique investment opportunities in Manhattan similar to our recent deals.

Our lending business is performing well and expanding. Following the successful deployment of the initially committed funds, we have recently added fresh capital for the purposes of originating additional loans and supporting the operations and activities of the lending business. The Group has an experienced and skilful team in place that is leveraging its experience to expand the lending business.

The 230 room CitizenM Hotel in Times Square opened in April 2014 and has outperformed the operator’s budget for the period. The development of the 300 room CitizenM hotel in Bowery, Manhattan is scheduled to commence during mid-2015 and completion is expected in 2017.

The development of the 295 room Indigo Hotel on 180 Orchard Street, Manhattan is progressing well and is scheduled for opening in mid-2015. The Group has recently completed the sale of the retail and garage component of 180 Orchard Street for USD 21 million.

The acquisition of a major property at 627 Greenwich Street in West Village Manhattan was completed in the second half of 2014 and is currently under the planning stage. Benefitting from its local expertise, prior experience with the planning authorities and quick response, the Group recently solved some zoning issues with the property adding significant value to the project. Once the relevant permits are obtained, the Group will assess whether to sell or develop the property.

Progress has been achieved towards the acquisition of a major property in the Upper West Side in Manhattan, New York. Once the transaction is approved by the court, the Group will proceed towards closing.

BCRE USA has successfully undertaken these types of Manhattan condominium conversion projects many times in the past. With BCRE’s approach of creating value while at the same time reducing investment risk, these two Manhattan projects are expected to contribute significant value to the Group.

Overall, it has been an active year with the closing of the new deals, and continuing with our objective of increasing BCRE’s exposure to the US market, thereby getting closer to achieving our goals in relation to balancing the portfolio.

Germany

The Group continues to view Germany as a highly attractive market. The Company increased its exposure to the German market during the period through the investment in new deals as well as through the purchase of additional shares in BCRE Germany, bringing our holding to 34.63% as of 31 December 2014.

During the period, BCRE Germany performed exceptionally well with the rental income growing by 22% to EUR 60.51 million (31 December 2013: EUR 49.54 million), net profit attributable to equity holders growing by 47% to EUR 37.95 million (31 December 2013: EUR 25.84 million) and funds from operations (“FFO”) increasing by 26% to EUR 21.86 million (31 December 2013: EUR 17.38 million).

Through four acquisitions during the period, BCRE Germany acquired over 2,100 multifamily residential units totalling approximately 134,000 sq. m. and commercial assets totalling approximately 16,000 sq. m.

With the new acquisitions, the income producing portfolio of BCRE Germany now includes approximately 381,000 sq. m. of commercial assets with around 97% overall occupancy and 9,200 multifamily units with a total area of around 524,000 sq. m. and around 96% overall occupancy.

During the period, BCRE Germany's income producing portfolio witnessed a healthy growth with a further potential to grow organically. The residential portfolio witnessed around 4% annual increase in the rental income from the same assets during the last quarter where the current rents are about 15% below the market rents, reflecting significant growth potential.

BCRE Germany's development projects that are expected to drive high growth and generate attractive cash flows and profitability are progressing well.

Recently, BCRE Germany reached a preliminary agreement with the Dusseldorf municipality for the rezoning of the land designated for office use in the Grafental project from office to residential use. The rezoning will add approx. 650 residential units to the project. BCRE Germany also reached an in principle agreement with the Dusseldorf municipality to change the zoning of the land spanning over 20,000 sq. m. on which there is a portfolio comprising several residential and office buildings. This portfolio was acquired in 2014 in Grafenberg close to the Grafental project.

Once the rezoning is fully approved, the number of apartments to be developed in the next few years in the Grafental project and in the new project in the Grafenberg neighbourhood in Dusseldorf will be approximately 1,230 units. Based on the current selling prices, the sale of the units can generate approx. EUR 620 million and a development profit and cash flows (pre-tax) of approx. EUR 140 million and EUR 230 million, respectively. With the residential units currently under development and to be developed in the next few years, the Grafental project and the project in Grafenberg totals approximately 1,600 units.

Russia

The geopolitical situation in Russia continues to be challenging with the steep drop in oil prices, a weakening of the Rouble and a combination of negative growth coupled with a rise in inflation. Though the situation seems to have stabilized to a certain extent, the Group continues to monitor it closely and remains cautious as the events in Russia can still develop in various directions and magnitudes.

The Group, with around 85.07% interest in the platform, is continuing with its hands-on management approach and focus on the execution of its projects. The current volatile economic scenario affecting its tenants has resulted in a negative impact at the property level as well. Undertaking lease terms adjustments with tenants where necessary is also likely to have an effect on the operational parameters. It is difficult to gauge the full impact of these events on the Group's projects until the situation stabilizes. We believe that our team in Russia with its proactive approach is well equipped to monitor and react to the various challenges on the ground.

The Group's wholesale and retail complex in Kazan continues to witness healthy footfall with two fully operational modules. The latest module became operational in the second half of 2014. The master tenant for these modules was replaced owing to non-performance issues and the Group's willingness to obtain better understanding of the businesses operating in the property. Since the tenant replacement, we have witnessed a substantial increase in the leasing activity of the second module which is now approximately 60% leased. We are in the process of turning the third module into an off-the truck sales format semi-agro business (a format that exists in several Russian cities) and expect it to be operational shortly. This will generate additional income without any major investment as the major infrastructure works of this module have been already completed. During the period, the Group increased its stake in Kazan to approximately 35%.

The development of the shopping centre in Lyubertsy is on track with the scheduled completion expected in Q3 2015. The leasing activity for the property has been challenging and below initial estimates due to the current situation. During the period, the Group increased its stake in Lyubertsy to approximately 64%.

At the corporate level, the crisis has presented a few attractive opportunities with no or minimal cash outlay and attractive potential upside. The Group intends to capitalize on its experience in Kazan and undertake activities with similar attributes. Towards the end of 2014, the Group entered into a deal requiring limited equity for investment in Novosibirsk to develop an agro-industrial wholesale market and distribution centre, in a format similar to Kazan and in phase wise manner over a very large parcel of land of 155 hectare.

Despite the need to make the necessary adjustments to address the concerns of the tenants in light of the overall economic situation, the Group’s other income producing properties in Russia continue to perform relatively well.

Overall it has been a challenging period in Russia, especially the latter part of the year with significant changes in economic and geopolitical situations. With the Group’s local team and hands-on approach, BCRE believes that it is well equipped to address the challenges and capitalize on the opportunities the situation presents.

1.4 FINANCIAL OVERVIEW

1.4.1 CFO's statement

Nansia Koutsou, Chief Financial Officer, said:

"The successful raising of funds during the period from the listing on the London Stock Exchange, the issuance of bonds and the private placement continues to strengthen the overall financial position of the Group. The utilisation of these funds for general corporate purposes, working capital and the funding of current and new projects is expected to further drive the overall growth of the Group."

1.4.2 Financial review

Particulars	**Year ended 31 December**	
	2014	**2013**
	EUR 000	**EUR 000**
Gross rental income	68,040	50,080
Gross profit/(loss) from the sale of residential units	9,799	(461)
Revaluation of investment property	112,118	64,589
Net profit for the year	84,352	105,369
Profit attributable to equity holders of the Company	30,042	30,543
Particulars	**31 December**	
	2014	**2013**
	EUR 000	**EUR 000**
Investment property	1,293,358	960,423
Cash and cash equivalents	96,359	76,923
Total assets	1,877,127	1,523,102
Interest bearing loans and other borrowings	1,038,491	755,650
NAV attributable to equity holders of the Company	267,347	232,308
Capital investments	294,608	264,026

The Group prepared its Consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU).

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 temporary difference to be in the form of sale of shares in the SAE rather than the sale of the asset itself. Prior to the issuance of this decision, the Group'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. As a result, (part of) the Group's Consolidated financial statements for the year ended 31 December 2013 have been restated. For further details, please refer to Note 2ad to the Consolidated financial statements.

The gross rental income of the Group increased by approximately 36% to EUR 68.04 million (31 December 2013: EUR 50.08 million) mainly due to the newly acquired income producing properties and growth from our existing properties. In addition, the Group generated a gross profit of EUR 9.79

million (31 December 2013: loss of EUR 0.46 million) from the sale of residential units primarily from the Grafental project in Dusseldorf, Germany. The overall administrative expenses were EUR 12.02 million, similar to the administrative expenses for the year 2013 (31 December 2013: EUR 11.69 million).

The profit attributable to the equity holders of the Company amounted to EUR 30 million (31 December 2013: EUR 30.5 million restated).

Investment property of the Group increased by EUR 333 million to EUR 1,293.4 million (31 December 2013: EUR 960.4 million restated) primarily from the eight new acquisitions made during the year with a total value of EUR 219.5 million and from the revaluation gains of EUR 113.1 million, excluding the valuation of the asset held for sale (31 December 2013: gain of EUR 66.9 million restated, excluding the valuation of the asset held for sale). In addition to our properties in Germany and Russia, the investment property now also includes properties in the US and the UK acquired during the period.

Interest-bearing loans and other borrowings of the Group increased by EUR 282.8 million to EUR 1,038.5 (31 December 2013: EUR 755.7 million) primarily for financing the acquisition of new projects. The Group continues to manage its financial liabilities and its exposure to interest rate changes. As of 31 December 2014, approximately 70% of the Group’s loans and debentures are hedged.

The consolidated cash position (including restricted bank accounts and deposits) of the Group increased by over 50% to EUR 121.4 million at the year-end (31 December 2013: EUR 80.8 million) and the NAV attributable to the equity holders increased to EUR 267.3 million during the period, including the new funds raised and net of capital reduction (as referred to in paragraph 1.4.4 below) (31 December 2013: EUR 232.3 million).

1.4.3 Fund raising

The Company successfully listed on the London Stock Exchange in May 2014, raising funds of around EUR 24 million net of expenses.

In November 2014, BCRE successfully raised around USD 55.5 million net of expenses through the issuance of bonds (series ‘C’). The proceeds are to be used to partly repay existing debt and partly for general corporate purposes, working capital and the funding of current and new developments.

The bond issuance was undertaken within the A2 rating on a local Israeli scale, by Midroog (a subsidiary of Moody’s), wherein the Company could raise up to USD 60 million.

In December 2014, the Company also raised additional funds through a private placement totalling around EUR 18.1 million net of expenses partially through the issuance of new shares and partially through the issuance of convertible loan notes. The net proceeds are to be used for the financing of general corporate purposes and/or the direct or indirect financing of real estate.

1.4.4 Distribution

Following a capital reduction in December 2014, the Company distributed around EUR 4.82 million (EUR 0.03 per share) to its shareholders in January 2015, in line with its dividend policy. The capital reduction is recognised in the financial statements for the year ended 31 December 2014 and became legally effective through an amendment of the Articles on 2 January 2015. This follows the distribution of EUR 5.09 million made by the Company for the year 2013.

1.4.5 Rating

Following a rating upgrade in 2014, Midroog (a subsidiary of Moody's) continues to maintain the rating of BCRE's bonds (Series A, B and C) at A2 with a review on a local Israeli scale and examine the impact of the recent events in Russia on the Company's risk profile.

1.5 CORPORATE GOVERNANCE STATEMENT

1.5.1 Directors and senior managers

Directors of the Company (the "Directors")

Harin Thaker (60) **Chairman** **Non-executive Director (non-independent)** **Member of Audit, Remuneration, Nomination and Investment Advisory Committees**	Harin Thaker has been with the Group since April 2013 and is currently the Chairman of the Company. Harin has also been serving as the Chief Executive of Aeriance Investments S. A. since 2013 and as a non-executive director of Secure Property Development & Investment since 2012. Prior these appointments, Harin was Head of International Real Estate Finance at PBB Deutsche Pfandbriefbank, a specialised lender in real estate finance and public sector finance from 2008 until 2012. Harin also served as a General Manager at Hypo Real Estate Bank International, before becoming a member of its management board in 2007 (prior to its merger with Hypo Real Estate Bank in 2009). Between 2005 and 2008, he was Chief Executive – EMEA at Hypo Real Estate Bank International. In 1992, Harin joined Hypo Property holdings, a principal finance activity of the bank.
Jan van der Meer (76) **Non-executive Director (non-independent)** **Member of Remuneration Committee**	In addition to being non-executive director of the Company, Jan van der Meer is the current chairman of BCRE Germany. Previously, between 1998 and 2008, Jan was chairman of the supervisory board of Woonstad Rotterdam, a housing corporation with 50,000 apartments, and chairman of the supervisory board of Kuiper Compagnons, an office for urban development, architecture and landscaping. Between 1998 and 2002, Jan van der Meer was a member of the supervisory board at Rodamco UK and was CEO of the Rodamco Continental Europe division from 1991 to 1998, which had a number of investments across Western Europe. Prior to this, Jan was also the CEO of area West / South of Hollandsche Beton Maatschappij and has worked with Ballast Nedam Group.
Daniel Aalsvel (43) **Non-executive Director (independent)** **Member of Audit, Remuneration and Nomination Committees**	In addition to being non-executive Director of the Company, Daniel is associated with Coast Capital Partners ("CCP"), a real estate investment and development company, and is currently leading CCP's office in the Czech Republic. Daniel is currently also part of the investment committee of Florida Opportunity Fund, a Czech regulated real estate fund investing in Florida through CCP. Previously, between 1995 and 2006, Daniel was overseeing several partnerships and multiple portfolios in the UK. Daniel has several years of experience in the real estate industry including in

	fund raisings, investments, asset management and team management.
Michiel Olland (55) **Executive Director** **Member of Audit and Nomination Committees**	Next to his position as executive Director of the Company, Michiel is also the principal of MO Real Estate B.V., an investment, capital and finance services firm. Between 2006 and 2011, Michiel was a Managing Director International at SNS Property Finance, formerly known as Bouwfonds Property Finance, an ABN Amro subsidiary. Previously, Michiel was Executive Vice President and Fund manager Real Estate Europe and Asia/Pacific at Dutch pension fund ABP and was also Chief Financial Officer at KFN, ABP's Dutch office fund. Between 1992 and 2001, Michiel was a real estate banker at ING Group. Michiel has been a founding member and chairman of the board of INREV, the European association for Investors in Non-listed Real Estate Vehicles. Michiel's experience includes real estate fund management, finance and investment, capital markets, private equity, risk analysis and governance.

Senior managers

Ariel Podrojski (46) **CEO** **Member of Investment Advisory Committee**	Ariel Podrojski has been with the Group for over a decade (since 2004) and is currently the CEO of the Company. His key experience includes investments, financing, development and asset management and has over 19 years of professional experience predominantly in the real estate sector. Within the Group, he has been in charge, among others, for establishing the Group's operations in India and the UK, setting up and running the BCRE India Fund, which is mainly comprised of institutional investors and invested in the US and India. Prior to joining the Group, Ariel worked with Doughty Hanson & Co European Real Estate Fund where he headed the Central and Eastern European operations. Before this, Ariel worked as a lawyer where he specialised in corporate law focusing on capital markets and large-scale property transactions.
Nansia Koutsou (34) **CFO & COO** **Member of Investment Advisory Committee**	Nansia Koutsou has been working with the Group since 2007 and is currently the CFO and COO of the Company. Her key experience includes financial reporting, budgeting, control, corporate finance, audit and international accounting and has over nine years of professional experience. At the Company, Nansia is responsible for the preparation of the Group's financial reports, budgets and cash flows, leading the secretarial and legal work of the Amsterdam and Cyprus offices and

	facilitating payments. She is also responsible for supervising the financial operations of the Company's regional activities. Previously, Nansia worked as a Senior Associate with PricewaterhouseCoopers in Cyprus in the International Business Unit.
Eyal Gutman (53) **Member of Investment Advisory Committee**	Eyal Gutman is a member of the Investment Advisory Committee of the Company. Eyal has been with the Brack Capital Group for over 14 years and also worked on the acquisition of Haslemere in 2002 on behalf of the consortium. His key areas of expertise include finance, economics and real estate. During the 1990s, Eyal was a consultant to a number of real estate companies and was a regular visitor to several universities and colleges as a lecturer in the area of finance, economics and real estate.
Issac Hera (44) **CEO, US Operations**	Issac Hera has been with the Group since 2000 and is responsible for the Group's operations in the US. In his 15 years with the Group, he has participated in transactions with an aggregate value of USD 4 billion and has been key to the overall business and its operations in the US. In his real estate career of over 16 years, Issac has been involved in a wide variety of real estate acquisitions, sales, development, private debt financing, and asset and property management of a portfolio of over 7 million ft^2 in the US across all asset classes.
Gal Tennboum (41) **Co-CEO, Germany Operations**	Gal has been with the Group since 2003 and is currently the Co-CEO of BCRE Germany. He was involved in setting up BCRE Germany and is currently involved with the operation of the business with the aim of successfully implementing the long-term strategy and business plan of BCRE Germany. Gal has significant experience in real estate transactions worth over EUR 1 billion, and a good understanding of the banking system in Germany, having performed asset purchase financing transactions and the refinancing of existing assets. Gal, along with his other team members, was instrumental in the listing of BCRE Germany on the Israeli stock exchange and its transformation into a public company, raising capital and debt (public and private).
Ofir Rahamim (45) **Co-CEO, Germany Operations**	Ofir joined BCRE in 2004 and is currently the Co-CEO of BCRE Germany. Ofir was involved in setting up BCRE Germany and is currently involved with the day-to-day management of BCRE Germany. Ofir has significant knowledge and experience having supervised a number of asset purchases and the financing and refinancing of properties worth

	over EUR1 billion. Ofir also supervises the legal, accounting, tax and other regulatory-related business management activities in Germany. Ofir, along with his other team members, was also instrumental in the listing of BCRE Germany on the Israeli stock exchange and its transformation into a public company, raising capital and debt (public and private).
Yosef Levin (66) **CEO, Russia Operations**	Yosef Levin has been with the Group since 2006 and is currently heading the Russian operations for the Group. He has over 38 years of real estate experience including over 18 years of experience in Russia. Yosef, together with his Russian team, is currently involved with the Group's Russian portfolio which comprises of income producing properties across the retail and warehouse sectors and large development projects. Prior to joining the Group, Yosef held several senior positions at the Africa Israel Group, including latterly the Head of the Income-producing Properties Division and Chief Engineer. In 1998, Yosef established Africa Israel's development and investment operations in Russia and was responsible for the development of a large and versatile Russian property portfolio across various real estate sectors – more than one million m² over a 10-year period. Prior to this, Yosef has also held various positions in other companies such as Solel Boneh and Even Ziv.
Lior Shmuel (40) **CEO, India Operations**	Lior Shmuel joined the Group in 2008 with over 14 years of professional experience and is currently the CEO of BCRE India. At BCRE India, Lior is involved with the development of projects in India. Besides this, he is also involved with financial planning, reporting, taxation and the budgeting aspects of the business. Prior to joining the Group, Lior worked with Gmul Investment Company Ltd, an Israel-based listed firm dealing with investments in real estate and other asset classes with interests in the United States and Eastern Europe. Previously, Lior also worked with Deloitte & Touche LLP for four years. Lior holds a BA in Business Management from the College of Management (Rishon Lezion), a LLM from Bar Ilan University and is a CPA.

1.5.2 Introduction

As a company, whose shares are admitted to the standard listing segment of the Official List of the UK Listing Authority, the Company is not required to comply with the requirements of the UK Corporate Governance Code published by the Financial Reporting Council ("FRC") in 2012 (the

“Corporate Governance Code"). However, the board of Directors of the Company (the “Board”) acknowledges the importance of good corporate governance and has put in place a framework which enables the Company to voluntarily comply with some aspects of the Corporate Governance Code as described below and which, in the opinion of the Directors, is appropriate for the Group.

The Directors are committed to maintaining a high standard of corporate governance and intend to continue to comply with those aspects of the Corporate Governance Code which they consider appropriate, taking into account the size of the Company and the nature of its business.

The Company is also subject to the Dutch Corporate Governance Code, which applies, among others, to all companies whose registered offices are in the Netherlands and whose shares have been admitted to listing on a stock exchange or to trading on a regulated market, whether in the Netherlands or elsewhere.

The Corporate Governance Code and the Dutch Corporate Governance Code are mainly based upon the same or at least comparable principles of good corporate governance. However, as the Company has decided to voluntarily comply with the Corporate Governance Code, it shall not comply with the Dutch Corporate Governance Code.

The Corporate Governance Code can be found on the FRC website at: www.frc.org.uk and the Dutch Corporate Governance Code can be found at: www.commissiecorporategovernance.nl.

1.5.3 Board composition, roles and independence

The Corporate Governance Code recommends that the board of directors of a listed company should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision making. The Corporate Governance Code also recommends that the chairman should, on appointment, be independent. The Company currently has four Directors (biographies are set out in section 1.5.1), three of whom are non-executive Directors: Harin Thaker, Jan van der Meer and Daniel Aalsvel and one executive Director: Michiel Olland. One non-executive Director, Daniel Aalsvel, is regarded by the Company as being independent of management and free from any business or other relationship that could materially interfere with the exercise of his independent judgement. Harin Thaker (non-executive Chairman) is not technically independent given that he has been appointed as a Director of the Company since October 2013, was a director of BCRE UK Limited (in relation to which he has been granted co-investment rights) and is a member of the Investment Advisory Committee. Harin Thaker also has co-investment rights in the Group's lending business. However, the Board considers that his extensive experience of European real estate makes him appropriate to be Chairman notwithstanding his other involvement in the Group's business. This and the number of independent non-executive Directors does not comply with the recommendation of the Corporate Governance Code that the chairman should be independent and that smaller companies have at least two independent non-executive Directors. The Board has nominated Luca Tomesani Melotti to be appointed as an executive Director at the Company’s next annual general meeting of shareholders (the general meeting of shareholders of the Company; the “General Meeting”).

Michiel Olland, Harin Thaker, Jan van der Meer and Daniel Aalsvel, the Directors of the Company, have entered into letters of appointment with the Company for an initial period ending the first day following the annual General Meeting to be held in 2015, after which their agreements are renewable. The agreements may be terminated by either the applicable Director or the Company by giving the other party three months' notice in writing. These are available for inspection at the Company's registered office during the normal business hours and are also available at annual General Meetings.

The independence of non-executive Directors is based on criteria suggested in the Corporate Governance Code. The Corporate Governance Code recommends that the Board should appoint one of its independent non-executive Directors as Senior Independent Director. At present, the Company does not intend to appoint any Director to fulfil this role (given the limited size of the Board) but may decide to do so in the future.

Pursuant to the articles of association of the Company ("Articles"), a Board member shall be appointed or re-appointed for a period ending on the first day following the annual General Meeting held in the year after his appointment, unless the resolution provides for a longer or shorter term. This is consistent with the Corporate Governance Code which recommends that all directors should be subject to re-election by shareholders at intervals of no more than three years after the first annual General Meeting after their appointment.

The Board has responsibility for the Group's strategic, financial policies and general business activities and meets regularly. All the Directors have access to the advice and services of the Company Secretary and are able to gain access to external independent advice at the Company's expense should they wish to do so in relation to their duties. Further details of the Board's powers and function are described in section 1.5.13.

An appropriate balance of executive and non-executive members of the Board is maintained and the Board is supplied with regular and timely information concerning the activities of the Group in order to enable it to exercise its responsibilities and control functions in a proper and effective manner. The Board has a breadth of experience relevant to the Company, and the Directors believe that any changes to the Board's composition can be managed without undue disruption. As mentioned above, on 6 March 2015 the Board nominated Luca Tomesani Melotti to be appointed as a Board member at the next annual General Meeting.

1.5.4 Board meetings and Committees attendance

Name	Role	Board Meetings	Audit Committee	Remuneration Committee	Nominations Committee
Harin Thaker[1]	Non-executive Chairman	7/7	2/2	2/2	2/2
Michiel Olland[2,4]	Executive Director	6/6	2/2	N/A	2/2
Jan van der Meer	Non-executive Director	7/7	N/A	2/2	N/A
Daniel Aalsvel[3,5]	Non-executive Director	6/6	2/2	2/2	2/2

Name	Role	Board Meetings	Audit Committee	Remuneration Committee	Nominations Committee
	(independent)				
Michael Frain[6]		1/1	N/A	N/A	N/A
Rotem Nir[7]		1/1	N/A	N/A	N/A
Total meetings held		7	2	2	2

1. Chairman of the Remuneration Committee.
2. Chairman of the Nomination Committee.
3. Chairman of the Audit Committee.
4. Michiel Olland was appointed to the Board and to the Audit and Nomination Committees on 15 May 2014. He was eligible to attend six of the seven meetings of the Board and two meetings of the Audit and Nomination committees.
5. Daniel Aalsvel was appointed to the Board and to the Audit, Remuneration and Nomination Committees on 15 May 2014. He was eligible to attend six of the seven meetings of the Board and two meetings of each of the Committees.
6. Michael Frain retired from the Board on 15 May 2014. He was eligible to attend one of the seven meetings of the Board.
7. Rotem Nir retired from the Board on 15 May 2014. She was eligible to attend one of the seven meetings of the Board.

The Board considers agenda items laid out in the notice of Board meetings and agendas which are formally circulated to the Board in advance of the Board meetings as part of the Board papers and therefore Directors may request any agenda items to be added that they consider appropriate for Board discussion. In instances when the Chairman is not present, the members of the Board present shall appoint a Director from among them to chair that meeting. Each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussion. Each Director contributes positively to Board and where relevant Committee meeting deliberations. The primary focus at Board meetings is a review of the Company's strategy and management, regular business activities and other matters such as financing arrangements, risk management, general administration and compliance.

1.5.5 Board effectiveness

The Corporate Governance Code recommends that the board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The current Board and Committees were established in May 2014 and as a consequence a formal evaluation process was not undertaken during 2014. Performance evaluation of the Board was undertaken in April 2015.

The roles of the Chairman and the Chief Executive Officer are separate and clearly defined. The scope of these roles is approved and kept under review by the Board so that no individual has unfettered decision-making powers.

The Chairman is responsible for the leadership and governance of the Board and the Chief Executive Officer, for the management of the Group and the implementation of the Board strategy and policy on the Board's behalf. In discharging his responsibilities, the Chief Executive Officer is advised and assisted by the other members of the senior management. Biographies of the Chief Executive Officer and the other members of the senior management team are set out in section 1.5.1.

During the financial year, the Board held seven Board meetings. In addition, the Board held discussions with the senior management team on a regular basis during 2014.

1.5.6 Directors' duties

The Directors have adopted a set of reserved powers, which establish the key purpose of the Board and detail its major duties. Full details are set out in the Regulations for the Board of Directors, available on the BCRE website at: www.brack-capital.com

These duties cover the following areas of responsibility:

- statutory obligations and public disclosure;
- strategic matters and policy designed to achieve the Company's objectives;
- financial reporting process;
- annual budget and important capital investments;
- financing of the Company;
- oversight of management;
- risk assessment and management, including reporting;
- monitoring, governance and control; and
- corporate social responsibility issues.

These reserved powers of the Board have been adopted by the Directors to clearly demonstrate the seriousness with which the Board takes its fiduciary responsibilities and as an ongoing means of measuring and monitoring the effectiveness of its actions.

1.5.7 External appointment of Directors

Directors may hold directorships or other significant interests with companies outside of the Group which may have business relationships with the Group. Executive Directors may not be a member of a supervisory board or act as a non-executive board member of more than one other large Dutch company or FTSE 100 company. Such appointment requires approval of the Board. Nor can an executive Director be chairman of a supervisory board or one-tier board of another large Dutch company or FTSE 100 company. Other positions held by the executive Directors must be notified to the Board. A non-executive Director may not be a member of a supervisory board or non-executive director of more than four other large Dutch companies. Being chairman of a supervisory board or a one-tier board counts as double. Such membership requires approval of the Board. Other positions held by a non-executive Director must be notified to the Board.

1.5.8 Directors' indemnities and protections

The Company has arranged appropriate insurance cover in respect of any legal action against Directors and senior members of companies within the Group. In addition, according to the Articles of the Company, the Company indemnifies the Directors and officers of the Company in respect of liabilities incurred as a result of their office.

1.5.9 Board Committees

In accordance with the Corporate Governance Code, the Company has established the following Committees in order to carry out work on behalf of the Board: an Audit Committee, a Remuneration Committee and a Nomination Committee. Only the chairman and members of each of the Audit, Remuneration and Nomination Committees are entitled to attend meetings, although others may attend by invitation of the relevant committee. In addition, the Company has established an Investment Advisory Committee. Terms of reference for the Audit, Remuneration and Nomination Committees are available on BCRE's website at: www.brack-capital.com.

Audit Committee

The Audit Committee is comprised of Harin Thaker (non-executive Chairman), Michiel Olland (executive Director) and Daniel Aalsvel (independent non-executive Director). Daniel Aalsvel chairs this committee.

The Board considers that the members' substantial experience of dealing with financial matters is more than adequate to enable the Audit Committee to properly discharge its duties in light of the nature of the Company's business. Michiel Olland has recent and relevant financial experience. There have been two Audit Committee meetings during 2014.

For further details in respect of the Audit Committee's role, function and responsibilities, please refer to the Audit Committee Report in section 1.8.

Remuneration Committee

A Remuneration Committee has been established and comprises Harin Thaker (non-executive Chairman), Daniel Aalsvel (independent non-executive Director) and Jan van der Meer (non-executive Director). Harin Thaker chairs this committee, contrary to the recommendation of the Corporate Governance Code that recommends the chairman of the Board may be a member of, but not chair, this committee provided he was independent on appointment as chairman.

The Remuneration Committee advises the Board on an overall remuneration policy. The Remuneration Committee also proposes individual remuneration of the Chief Executive Officer, Chief Financial Officer, the Chairman of the Board (if the Chairman is an executive Director), the executive Director, the Company secretary, and such other members of the senior management of the Company to whom the Board has extended the remit of the Remuneration Committee. The remuneration of all Directors (including non-executive Directors and members of the Remuneration Committee) shall be determined by the Board within the limits set in the Articles and within the scope of the remuneration policy of the Board adopted by the annual General Meeting, provided that no Director or senior manager shall be involved in any decisions as to his or her own remuneration. The Remuneration Committee advises the Board on an overall remuneration policy and meets as and when required. The Remuneration Committee also determines, on behalf of the Board, the remuneration packages of the executive Directors.

There have been two Remuneration Committee meetings during 2014.

Further details in respect of the remuneration of the Directors are contained in the Remuneration Report in section 1.7 and in Note 30(g) in the explanatory notes to the Consolidated financial statements.

Nomination Committee

A Nomination Committee has been established and comprises Harin Thaker (non-executive Chairman), Michiel Olland (executive Director) and Daniel Aalsvel (independent non-executive Director). Michiel Olland chairs this committee, but in accordance with the provisions of the Articles, as an executive Director, he does not take part in the decision-making process on the nomination of Board members. As such, Michiel Olland did not participate in the decision-making process relating to the nomination of Luca Tomesani Melotti to be appointed as a Board member.

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board. The Nomination Committee also reviews the structure, size and composition of the Board and makes recommendations to the Board with regard to any changes. The Nomination Committee also gives consideration to succession planning and keeps under review the leadership needs of the Company.

Under Dutch law, the Company must pursue a policy of having at least 30% of the seats on the Board held by men and at least 30% held by women. This rule is temporary and will cease to have effect on 1 January 2016. The threshold of 30% is currently not met. During 2014, when selecting candidates for vacant seats on the Board, female candidates of the desired profile were not found. However, when filling future vacancies, the Board will continue to strive to identify female candidates and nominate them for appointment at a General Meeting.

The Company primarily considers skills, experience and background for internal appointments, ensuring that appropriate candidates are appointed.

There have been two Nomination Committee meetings during 2014.

Investment Advisory Committee

An Investment Advisory Committee has been established, (although not required under the Corporate Governance Code), to consider and provide advice only to the Board in respect of new acquisitions, asset management, financing and disposal of the Group's assets or, in relation to the German platform, the acquisition and disposal of shares in BCRE Germany. The committee provides an independent evaluation on market movements, assessing their impact on the Group's portfolio over the medium to long term and make recommendations to the Board concerning potential investments and/or the management of risks associated with the Group's investments.

1.5.10 Communications with shareholders

The Board is accountable to the Company's shareholders and as such it is important for the Board to appreciate the aspirations of the shareholders and equally that the shareholders understand how the actions of the Board and short-term financial performance relate to the achievement of the Company's longer-term goals.

The Board reports to the shareholders on its stewardship of the Company through the publication of interim and final results each year. Regulatory news releases are issued throughout the year and the Company maintains a website: www.brack-capital.com on which regulatory news releases and the Annual Report and Accounts are available to view. Additionally, this Annual Report contains extensive information about the Company's activities. Enquiries from individual shareholders on matters relating to the business of the Company are welcomed. The Board and senior management also discuss with major shareholders the progress of the Company and to understand their issues and concerns, as well as discussing governance and strategy.

The senior management, as necessary, provides periodic feedback to the Board following discussions with shareholders.

The annual General Meeting provides an opportunity for communication with all shareholders and the Board encourages the shareholders to attend and welcomes their participation. Members of the Board attend the annual General Meeting and are available to answer questions.

1.5.11 Internal controls

The Board has overall responsibility for the Group's system of internal control and for reviewing its adequacy and effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and aims to provide reasonable but not absolute assurance against material misstatement. In order to discharge that responsibility in a manner that ensures compliance with laws and regulations and promote effective and efficient operations, the Directors have established an organisational structure with clear operating procedures, lines of responsibility and delegated authority. These are designed to safeguard the assets of the Group and to ensure the reliability of financial information for both internal use and external publication.

The Audit Committee reviews the adequacy and effectiveness of the Group's internal control policies and procedures for the identification, assessment and reporting of risks.

The Group's internal control procedures include Board approval for all significant capital investment projects. All major expenditures require either senior management or Board approval at the appropriate stages of each transaction. A system of regular reporting covering both technical progress of projects and the state of the Group's financial affairs provides appropriate information to management to facilitate control. The Board reviews, identifies, evaluates and manages the significant risks that the Group faces. Section 1.9.1 sets out in detail the key risk factors relating to the strategy of the Company. The Group has in place internal control and risk management systems in relation to the Group's financial reporting process and the Groups' process for preparing financial statements. These systems include policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately and fairly to permit the preparation of financial statements in accordance with the applicable accounting standards.

The Directors, having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, consider that the system of internal control operated effectively throughout the financial year and up to the date the financial statements were signed.

1.5.12 Share dealing code

The Company has adopted a share dealing code which is compliant with the Dutch Financial Supervision Act and is broadly consistent with the provisions of the Model Code on directors' dealings in securities (as set out in the Listing Rules of the UK Listing Authority). The Code will apply to the Directors and other relevant employees of the Group.

1.5.13 Board responsibility and powers

The Articles provide that the number of directors shall be determined by the General Meeting, and shall consist of at least one and no more than four executive directors and at least two and no more than six non-executive directors. The Board members are collectively responsible for the Company's management, the general affairs of the Company's business and the general affairs of the group companies affiliated with the Company. The Board is responsible for complying with all relevant laws and regulations, for managing the risks associated with the Company activities and for financing the Company. The division of tasks and responsibilities in the Board as well as its operating procedures are established in the Articles and the Board's regulations. The Articles and the regulations are available on BCRE's website at www.brack-capital.com.

The Board is entrusted with the management of the Company. Under Dutch law, the Board is collectively responsible for the general affairs of the Company. Pursuant to the Articles, the Board may divide its duties among its members. Tasks that have not been specifically allocated fall within the power of the Board as a whole. The distinction between executive Directors and non-executive Directors implies at least that the executive Directors shall in particular be entrusted with the day-to-day management of the Company and the enterprise connected with it and that the non-executive Directors shall have the duty of supervising the Directors performing their duties. This last duty cannot be deprived from the non-executive Directors by means of an allocation of duties. In addition, both executive Directors and non-executive Directors must perform such duties as are assigned to them pursuant to the Articles and, as applicable, the Company's board regulations. Each Director has a duty towards the Company to properly perform the duties assigned to him or her. Furthermore, each Director has a duty to act in the corporate interest of the Company. Under Dutch law, the corporate interest extends to the interests of all corporate stakeholders, such as shareholders, creditors, employees and other stakeholders.

Pursuant to Dutch law and the Articles, an executive Director may not be allocated the tasks of: (a) serving as chairperson of the Board; (b) fixing the remuneration of the executive Directors; or (c) nominating Directors for appointment. Nor may an executive Director participate in the adoption of resolutions (including any deliberations in respect of such resolutions) related to the remuneration of executive directors. The non-executive Directors appoint a chairperson of the Board from among the non-executive Directors.

The Company may be represented by the Board. In addition, each Director shall also be authorised to represent the Company.

1.5.14 Appointment and dismissal of Directors

Appointment

Pursuant to the Articles, the Directors shall be appointed by the General Meeting from a nomination drawn up by the Board. Pursuant to Dutch law and the Articles, executive Directors may not take part in the decision-making process regarding the nomination of Directors. If and for as long as BCI – Brack Capital Investments Ltd ("BCI") holds at least 25% of the Company's shares or depositary interests representing Company's shares, it is entitled to draw up the nomination of one Board member. During 2014, BCI has not exercised this right.

Upon appointment, the General Meeting may determine whether the Director shall be appointed as an executive Director or as a non-executive Director. A nomination made in time by the Board (or BCI, as applicable) shall be binding. The General Meeting shall be free to make the appointment if the nomination has not been made within three months after the vacancy has arisen. Furthermore, the General Meeting can deprive a nomination of its binding character at any time by a resolution adopted with a majority of at least two-thirds of the votes cast, representing more than half of the issued share capital.

In the following cases, but only if BCI holds at least 25% of the Company's shares or depositary interests representing Company's shares, the binding nomination system as described above does not apply and the General Meeting is free to make the appointment of a Director:

(a) the General Meeting in which the appointment at hand is made was convened by or at the request of BCI; or
(b) the proposal to appoint the Director at hand was placed on the agenda at the request of BCI.

Suspension and dismissal

The Articles stipulate that a Director may be suspended or dismissed by the General Meeting at any time. A resolution of the General Meeting to suspend or dismiss a Board member requires a simple majority in the following cases:

(a) the General Meeting in which the resolution is adopted was convened by or at the request of BCI;
(b) the proposal to suspend or dismiss the Board member was placed on the agenda of the General Meeting at the request of BCI.

In all other cases a resolution to suspend or dismiss a Board member requires a majority of at least two thirds of the votes cast, representing more than half of the issued share capital.

An executive Director may also be suspended by the Board. The executive Directors shall not participate in the discussion and decision-making process of the Board on suspensions and dismissals. A suspension by the Board may be discontinued at any time by the General Meeting. Any suspension may be extended one or more times, but may not last longer than three months in the aggregate. If, at the end of that period, no decision has been taken on termination of the suspension or on dismissal, the suspension shall end.

1.5.15 General Meeting

General Meetings of shareholders are normally convened by the Board. Furthermore, shareholders, persons with depositary receipts rights and/or holders of depositary interests together representing at least ten percent (10%) of the Company's issued capital have the right to request the Board to convene a General Meeting, clearly stating the items to be dealt with. If (i) the request was made by BCI, (ii) at the moment of the request BCI held at least twenty-five percent (25%) of the shares and/or depositary interests and (iii) within four weeks from the date of the request, the Board has not proceeded to convene a General Meeting at such request, in such way that the General Meeting can be held within eight weeks after the receipt of the request, BCI may convene a General Meeting itself.

1.5.16 Amendment of the Articles

The General Meeting may resolve to amend the Articles at the proposal of the Board. A resolution of the General Meeting to amend the Articles is adopted by absolute majority of the votes cast. The General Meeting may furthermore resolve to change the corporate form of the Company. A change of the corporate form shall require a resolution to amend the Articles at the proposal of the Board. However, a resolution to an amendment that adversely affects the rights of the holders of depositary interests under the Articles requires a majority of at least two thirds of the votes cast, representing more than half of the issued capital.

1.5.17 Issuance of Company's shares

The Articles delegate the authority to issue shares in the capital of BCRE or grant rights to subscribe for shares to the Board. This authority of the Board: (a) relates to 28,918,340 shares in the capital of the Company during the period that commenced on 28 May 2014 and ends on the day of the annual General Meeting held in 2015, and (b) relates to 18,796,921 shares in the capital of the Company during the period that commenced on 28 November 2014 and that ends on the day of the annual General Meeting held in 2015 in addition to the number of shares in the capital of the Company set out under subsection (a) of this paragraph. Such authority may be extended, either by an amendment to the Articles, or by a resolution of the General Meeting, for a subsequent period of up to five years in each case.

1.5.18 Acquisition of Company's shares

Subject to certain provisions of Dutch law and the Articles, the Company may acquire fully paid shares in its own capital if (a) its shareholders' equity less the payment required to make the acquisition, does not fall below the sum of the paid-in and called-up share capital plus the reserves as required to be maintained by Dutch law or by the Articles (such excess, the "Distributable Equity"), and (b) the Company and its subsidiaries would thereafter not hold shares or hold a pledge over the Company's shares with an aggregate nominal value exceeding 50% of the Company's issued share capital. Other than shares acquired for no consideration, shares may only be acquired if the General Meeting has authorized the Board thereto. This authorization shall remain valid for a maximum of 18 months. The Board was so authorized by the General Meeting on 28 May 2014 for a period of 18 months.

No authorization from the General Meeting is required for the acquisition of fully paid Company's shares for the purpose of transferring these shares to employees of the Company or any other member of the Group under a scheme applicable to such employees.

1.5.19 Depositary interests and the CREST system

In order to enable the trading of the Company's shares on the London Stock Exchange main market, the Articles permit the holding of shares under the CREST system. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. CREST is a voluntary system and shareholders who wish to receive and retain shares will be able to do so. The Company's shares have been enabled for settlement in CREST on the date of admission to the London Stock Exchange.

To enable investors to settle the securities of non-UK registered companies through CREST, a depositary or custodian in the United Kingdom must hold the relevant securities and issue uncertificated depositary interests ("DIs") representing the underlying securities which are held in trust for the holder of the DIs. With effect from admission of BCRE to the London Stock Exchange, it is possible for CREST members to hold and transfer DIs in respect of Company's shares within CREST pursuant to a depositary interest arrangement established between the Company and Capita IRG Trustees Limited (the "Depositary"). From a practical perspective, DIs can be credited to the same member account as all of the other CREST investments of a particular investor and held and transferred in the same way as the securities of any other company participating in CREST.

Holders of DIs do not have the rights which Dutch law confers on shareholders, such as voting rights. In respect of the shares underlying the DIs those rights vest in the Depositary (or its custodian). Consequently, if the holders of DIs wish to exercise any of those rights they must rely on the Depositary (or its custodian) to either exercise those rights for their benefit or authorise them to exercise those rights for their own benefit. Pursuant to the deed poll which creates the DIs, the Depositary (or its custodian) must pass on to, and so far as it is reasonably able, exercise on behalf of the relevant holders of DIs all rights and entitlements which it receives or is entitled to in respect of the underlying shares and which are capable of being passed on or exercised.

1.5.20 Major shareholders

The Company is aware of the following persons who are interested, directly or indirectly, in more than 3% of the shares in the Company's capital. According to the public register of the Dutch Authority of the Financial Markets, as per 30 April 2015 this interest was as follows: S. Weintraub 46.67%, Medinol Ltd. 6.72%, Warburg Pincus Real Estate I L.P. 4.92% and L.J. Schreyer 4.37%.

Shimon Weintraub is the controlling shareholder of the Company. On 21 May 2014, the Company and each of BCI, BCH - Brack Capital Holdings Limited and Shimon Weintraub entered into a controlling shareholders agreement, pursuant to which they have each undertaken to the Company to not pursue any real estate opportunities (subject to certain exceptions) without first referring them to the Company for consideration. Under the agreement, each of BCI, BCH - Brack Capital Holdings Ltd and Shimon Weintraub has agreed that all arrangements between such person and its respective associates on the one hand and each member of the Group, on the other hand, will be on arm's length terms and on a normal commercial basis.

Furthermore, the Articles stipulate that a Board member shall not participate in deliberations and the decision-making process in the event of a direct or indirect personal conflict of interest between that Board member and the Company and the enterprise connected with it. If there is such personal conflict of interest in respect of all Board members, the preceding sentence does not apply and the Board shall maintain its authority.

1.6 DECREE ARTICLE 10 TAKEOVER DIRECTIVE

With regard to the information referred to in the Decree Article 10 Takeover Directive (2004/25/EC) which is required to be provided according to Dutch law, the following can be reported:

- BCRE has an authorised share capital consisting of 700,000,000 ordinary shares. On 31 December 2014, 161,610,064 shares with a nominal value of EUR 0.04 were issued and fully paid up. Following the decision of the General Meeting held on 14 October 2014, the nominal value of the shares has been reduced to EUR 0.01 on 2 January 2015.

  The Company has issued convertible loan notes on 24 December 2014 for an aggregate amount of EUR 16,800,000. The convertible loan notes bear 2.25% annual compounded interest and have a term maturing on 14 November 2016. The convertible loan notes (including accrued interest) are convertible in whole into ordinary shares in the capital of the Company (i) at the holder's option at any time up to the end of the term, and (ii) at the Company's option on the maturity date. The conversion price is EUR 1.68. Furthermore, the conversion price shall be reduced to the lowest effective price per Share paid for any share or securities convertible into shares following the date of the convertible loan agreement (save for certain customary exceptions).

- BCRE entered into a controlling shareholders agreement with BCI, BCH - Brack Capital Holdings Ltd, Shimon Weintraub and Peel Hunt LLP on 21 May 2014. Pursuant to this controlling shareholders agreement BCI was not allowed to sell or transfer any shares in the capital of the Company for a period of six months from admission of the Company's shares to the standard listing segment of the Official List of the London Stock Exchange. As admission to trading of the Company's shares became effective on 28 May 2014, this lock-in period ended on 28 November 2014.

- Information on major shareholders can be found above in paragraph 1.5.20.

- If and for as long as BCI holds at least 25% of the Company's shares or depositary interests representing Company's shares, it is entitled to draw up the nomination of one Board member, please refer to paragraph 1.5.14.

- The Company is a party to an employee option plan pursuant to which the Board may grant options from time to time to employees of BCH – Brack Capital Holdings Ltd, BCI and S.I.B. Capital Future Market Ltd. Options may be exercised by the eligible employees to acquire shares in the Company against payment of the exercise price. For further details on employee option plans within the Group, please refer to Note 15 in the explanatory notes to the Consolidated financial statements.

- There are no restrictions on voting rights on the Company's shares nor are the periods for exercising voting rights restricted.

- There are no agreements between the shareholders which are known to the Company that may result in restrictions on the transfer of securities and/or voting rights.

- The applicable provisions regarding the appointment and dismissals of the member of the Board and amendments to the Articles are set forth above, please refer to paragraphs 1.5.14 and 1.5.16.

- The powers of the Board regarding the issue of shares and the exclusion of pre-emptive rights and the repurchase of shares are set forth above, please refer to paragraph 1.5.17 and 1.5.18.
- The bonds issued by the Company in November 2014 include change of control provisions. A change of control event occurs in case any person other than BCI shall become interested in (i) more than 50% of the issued share capital of the Company, or (ii) shares in the capital of the Company carrying more than 50 per cent of the voting rights normally exercisable at a General Meeting. Please refer to the bonds prospectus that is available on the Company's website at www.brack-capital.com.
- There are no agreements between the Company and its Board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases, all because of a takeover bid.

1.7 REMUNERATION REPORT

In accordance with Dutch law and the Articles, the Company has a policy with respect to the remuneration of the Board. Executive Directors may not take part in the decision-making process in respect of the remuneration of executive Directors. The Board has established a remuneration committee of one independent non-executive Director and two non-independent non-executive Directors. The aim of the remuneration committee is to ensure that there is a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors.

Executive Directors

The remuneration package for the executive Director is fixed with a basic annual salary of EUR 40,000 (less any tax and / or social security contributions) payable monthly in arrears.

Non-executive Directors

The remuneration packages for the non-executive Directors are fixed, save for Harin Thaker, who, in his capacity as a member of the Investment Advisory Committee, had been granted a share option (as described under section '*Variable income*' below) in addition to his fixed remuneration and co-investment rights in the United States.

Each of Harin Thaker, Jan van der Meer and Daniel Aalsvel is entitled to a basic annual salary of EUR 30,000 (less any tax and / or social security contributions) payable monthly in arrears. In addition, Harin Thaker, in his capacity as a member of the Investment Advisory Committee, receives an additional annual salary of EUR 150,000 or its equivalent in any other currency and is fixed at GBP 122,500 annually.

Variable income

Harin Thaker, the Chairman of the Board, has an option to purchase 2.5% of the equity of any deal in which BCRE UK Properties B.V. ("BCRE UK") invests in accordance with the following terms: (a) term: 36 months from the closing of each deal; (b) exercise price: 2.5% of the equity invested by BCRE UK and the Co-investment Club (i.e. the co-investment pool established by the Group in 2011), adjusted for distributions and additional investments; and (c) type: regular or cashless as determined by Mr. Thaker at the time of the exercise.

Remuneration policy

On 2 February 2015 a remuneration policy regarding the remuneration of the Board, as proposed by the Company's remuneration committee, has been adopted by the General Meeting. The remuneration policy is available on the website of the Company at www.brack-capital.com.

1.8 AUDIT COMMITTEE REPORT

Audit Committee

The Audit Committee is comprised of Harin Thaker (non-executive Chairman), Michiel Olland (executive Director) and Daniel Aalsvel (independent non-executive Director). Daniel Aalsvel is the chairman of this committee.

Role

The Audit Committee assists the Board in observing its responsibility of ensuring that the Group's financial systems provide accurate and up-do-date information on its financial position and that the published Consolidated financial statements represent a true and fair reflection of this position. It also assists the Board in ensuring that appropriate accounting policies, internal financial controls and compliance procedures are in place.

The Audit Committee receives and reviews information from the Chief Financial Officer, the Company Secretary and the external auditors regularly throughout the year and upon request.

External auditors

EY Netherlands are the Company's current external auditors.

The Audit Committee considers the appointment of the external auditors and reviews their terms of appointment and negotiates fees on behalf of the Company prior to making recommendations through the Board to the shareholders to consider at the General Meeting.

JPA Van Noort Gassler & Co resigned as the Company's auditor on 11 November 2014 as a result of not being in a position to fulfil its duties as auditor to a listed company. EY Netherlands was recommended by the Audit Committee and proposed to the Board to be appointed as the statutory auditor starting with the audit of the financial statements for the year ended 31 December 2014 and this appointment was approved by the General Meeting on 2 February 2015. There was no tender for the audit contract. Under Dutch law there is no requirement to re-appoint the external auditor each financial year to hold office until the conclusion of the next general meeting when the accounts are laid before the meeting. An auditor, whose appointment has been approved by the general meeting of shareholders, will remain in office until such time as that auditor is replaced and the new auditor is approved at the general meeting. EY Israel is the auditor for the non-statutory accounts and EY Netherlands is the auditor for the statutory accounts.

In accordance with corporate governance requirements, the Audit Committee reviewed the independence and objectivity of the external auditors and has reported to the Board that it considers that the external auditors' independence and objectivity have been maintained.

To analyse audit effectiveness, the Audit Committee meets with senior management to discuss the performance of the external auditors without them being present. Separate meetings are also held with the external auditors without the presence of any member of the senior management, as requested.

The Audit Committee met on 20 April 2015 to discuss the draft final Annual Report 2014, with representatives of the auditors. The Audit Committee then met on 30 April 2015 for the approval of the accounts. The Audit Committee recommended to the Board that the Annual Report 2014 were in their view, fair, balanced and understandable in accordance with accounting standards, regulatory requirements and best practice.

Non-audit fees were paid to EY Israel for Financial Processes and Procedures (FPP) at the time of preparation of the prospectus for the Company's listing on the London Stock Exchange.

Internal audit

The Company does not have an internal audit function. The Audit Committee will continue to monitor and review the need for an internal audit function.

Financial reporting

Prior to submission to the Board, the Audit Committee monitors the integrity of the financial statements and annual accounts and confirms that they have been properly prepared in accordance with IFRS and the requirements of Dutch law.

The Audit Committee reviews draft annual and interim reports before recommending their publication to the Board. The Audit Committee discusses with the relevant senior managers, as required, and external auditors the significant accounting policies, estimates and judgments applied in preparing these reports.

The Audit Committee or the Board or the senior management also reviews the reports to shareholders and any other public announcement concerning the Group's financial position and corporate governance statements.

Whistleblowing

The Company has a policy in place to receive, retain, investigate and act on employee complaints or concerns regarding accounting, internal controls and auditing matters.

Audit Committee attendance and meetings

The Audit Committee met two times during 2014 and received regular financial updates from the Chief Financial Officer on the Group's performance. Attendance of the individual Directors, who all served on the Audit Committee since May 2014 (when the current Audit Committee was established), is shown in the table below.

Throughout the year, the Audit Committee reviewed and considered the following:

- The financial information that is publicly disclosed, which included the accounts for the year ended 31 December 2014; and the interim results for the period ended 30 June 2014
- The performance of the Group's assets throughout the year
- Selection and appointment of auditors
- Fees for the auditors

Audit Committee meetings and attendance during 2014

Name	August	November
Harin Thaker	✓	✓
Michiel Olland	✓	✓
Daniel Aalsvel	✓	✓
Total attendees	3	3

On behalf of the Board

Daniel Aalsvel

CHAIRMAN OF THE AUDIT COMMITTEE

1.9 RISK MANAGEMENT

1.9.1 Key risk factors

The key risk factors relating to the strategy of the Group include the following:

The Group is exposed to a number of specific real estate factors, including changes in laws and governmental regulations, property valuations and fluctuations in the property markets generally and in the local markets where the Group operates. If any of these factors were to materialise and be adverse, they could have a material adverse effect on the Group's business, financial condition and prospects.

Liquidity of real estate assets differs substantially between markets, asset classes and between development and investment and during the development stage. Many of the Group's assets are less liquid due to their location (mainly in emerging markets), type (requiring intensive management and/or deterring institutional investors) and their state of development (particularly in relation to uncompleted developments). Such illiquidity may affect the Group's ability to dispose of or liquidate some projects in a timely fashion and at satisfactory prices in response to changes in the economic environment, the local real estate market or other factors.

The Group may be subject to various risks relating to the imposition of sanctions under various regimes regarding the situation in Ukraine and Crimea. There is a risk that individuals or entities with whom the Group engages, are, or at any time in the future may become, subject to sanctions. For instance, sanctions against some Russian lending institutions already have affected severely, and may increasingly affect the credit availability to borrowers. Additionally, as a result of such sanctions, the Group may, unknowingly, be or become in breach of those sanctions. Furthermore, it is possible that further sanctions may be announced which may result in foreign lenders and investors freezing their activities in Russia and/or may affect the clearance of US Dollars and/or Euros through Russian banks and the repatriation of foreign currency out of Russia (which can also be a result of self-imposed capital controls by the Russian government), any of which could have a material adverse effect on the Group's business, its financial condition and the results of its operations.

The Group may be subject to various risks related to its operations in Russia. Since 2014, the political situation in Russia is extremely unstable due to the continuing conflict between Russia and Ukraine with an occasional ceasefire. The political developments, including the range of sanctions, and the drop in oil prices have negatively affected the Russian economy and the Ruble which considerably depreciated in 2014. If the situation deteriorates further, this could lead to such increased political instability and regulatory changes that the Group might even be forced to cease the projects situated in Russia in whole or in part. In addition, the deterioration of the economic conditions in Russia could be sharp and quick with further negative consequences on general macroeconomic conditions and the terms upon which tenants will be willing to enter into leases, particularly USD denominated leases or fixed lease. This would have a material negative effect on the Group's business, financial condition and results of operations.

The Group's portfolio suffers from a relatively high exposure level to four large projects, a retail and wholesale market project in Kazan (Russia), a residential and office project in Düsseldorf (Germany), a shopping centre in Lyubertsy, Moscow Oblast (Russia) and a potential development in Manhattan (New York). The projects in Russia are particularly exposed to additional risks relating to operating in Russia(see also above). Any kind of deterioration in any of these projects, these local markets or economies, as well as the Group's failure to achieve its business objectives in any of them, will have a material negative effect on the Group's value, business and prospects.

The Group's income producing portfolio suffers from exposures to two asset classes in Germany, multifamily and retail, which together constitute the majority of the Group's income producing property portfolio. A deterioration in either of these asset classes will cause a material negative effect on the Group's value, business and prospects. Additionally, the Group's portfolio in the US has a relatively large exposure to three Manhattan lodging developments. A downturn in that asset class may cause a material negative effect on the Group's portfolio value and its ability to meet its business objectives.

The Group is reliant on its key management teams in the countries where it operates. The departure of any member of its key skilled management teams in any of its key platforms could cause increased risk, substantial delays and cost overruns in existing projects, disruption to the management structure and relationships, an increase in costs associated with staff replacement, lost business relationships or reputational damage, which could have a material adverse effect on the Group's business, financial condition and result of operations.

A number of the Group's real estate assets are held through joint venture arrangements with third parties (including the development projects in Kazan (Russia), the property in Dmitrov (Russia) and projects in India), meaning that ownership and control of such real estate assets is shared with such third parties. If any material differences or disputes arise between the Group and its joint venture partners, this could prevent the Group from achieving its business objectives.

Please note that the risks that the Company may incur are not limited to the risks as set forth in this section. For further details, please refer to the Company's bonds prospectus dated 28 November 2014 and the Company's listing prospectus dated 28 May 2014 as available on the Company's website at www.brack-capital.com.

1.9.2 Main financial risks and risk management

The Company's main financial risks and its risk management can be summarized as follows:

Changes in interest rates may increase the Group's cost of borrowing, impacting its profitability and having an adverse effect on the Group's free cash flow, property valuation and the Group's ability to make distributions to Shareholders. The Group undertakes various hedging arrangements including interest rates swaps and caps, but it does not fully hedge against interest rate fluctuations. In the case of interest rate swap arrangements, a reduction of the relevant market interest rates would cause the market value of the swap contract to become negative, with a corresponding negative effect of the Group's NAV.

The Group's current hedging arrangements relate primarily to variable rate investment loans (which typically have a minimum five-year term) and certain development loans (with a minimum three-year term), and consist of interest rate swaps for the duration of the loan and/or cap instruments which cap the interest rate at a certain rate (often higher than the applicable rate) for the duration of the loan. At a corporate level, the Group seeks to hedge financial risks through its portfolio allocation and diversification. In addition, the Group seeks to reduce these risks by seeking to match, in each project, the currency denomination of its principal liabilities (financing and construction) and its principal sources of revenue (sale proceeds and rentals). For further details on the Group's financial risk/hedging, please refer to Note 27 in the explanatory notes to the Consolidated financial statements.

The Group's reporting currency is Euro but a number of the Group's subsidiaries and affiliates operate in non-Euro currencies. Any fluctuations between such currencies and the Euro may have a negative impact on the financial position of the Group and results of operations. Weakening of one or more of these non-Euro currencies against the Euro, and in particular the USD, may have a negative impact on the financial position of the Group and results of operations.

The Group seeks to reduce its currency risks by matching, in each project, the currency denomination of its principal liabilities (financing and construction) and its principal sources of revenue (sale proceeds and rentals). Where such matching is not possible, the exposure of the Group to changes in currency exchange rates is even higher, and may adversely affect further the Group's results and cash flows. In some cases, the Group may succeed in matching the currency in lease agreements to the currencies of the loans, but the income of the tenant would still be in local currency. In such cases, a weakening of the local currency, while legally not affecting the tenant's obligation to pay in USD, would reduce his profitability and weaken his ability to pay rent, thus creating for the Group an additional, indirect, exposure to changes in the local exchange rates.

Further, a relatively large currency exposure exists in the first series of corporate bonds issued by the Company and, separately, the three series of corporate bonds issued by BCRE Germany. All of these bonds are denominated in NIS and interest payable on them is linked to the Israeli Consumer Prices Index ("CPI"). However, neither the Company nor BCRE Germany has any matching assets valued in NIS, and as a result, both companies are exposed to fluctuations in the Euro / NIS rate of exchange and the rate of CPI change in Israel. Strengthening of the NIS against the Euro and/or accelerated CPI inflation in Israel may have a negative effect on the Group's results and financial position.

The Company also incurs an exchange risk on the USD denominated bonds (Series B and Series C).

For further details on the bonds issued by the Company and BCRE Germany, please refer to Note 16 in the explanatory notes to the Consolidated financial statements.

1.10 STATEMENTS

1.10.1 Going concern

The Board has reviewed the current and projected financial position of the Group, making reasonable assumptions about future performance. After making enquiries, the Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. This has led the Board to conclude that it is appropriate to prepare the 2014 financial statements on a going concern basis.

1.10.2 Directors' statement

The Board confirms that to the best of its knowledge the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Furthermore, in view of all the above and with reference to the EU Transparency Directive (2004/109/EC) and section 5:25c paragraph 2 under c of the Dutch Financial Supervision Act (Wet op het financieel toezicht), the Board declares that to the best of its knowledge:

(a) the Consolidated financial statements for the year ended 31 December 2014 fairly reflect the assets, liabilities, financial position and results of BCRE and its consolidated subsidiaries;

(b) the additional management information provided in the annual report fairly reflect the situation on the balance sheet date and the state of affairs at BCRE and its consolidated subsidiaries during the financial year; and

(c) the significant risks to which BCRE is exposed are described in the annual report. For a description of these risks, see paragraph 1.9 above.

BCRE
BRACK CAPITAL REAL ESTATE

Shareholder enquiries

For information about the management of shareholdings please contact:

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Investor relations enquiries

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Annual reports, half year reports and shared information are all available on our website.

2 STATUTORY FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2014
EURO IN THOUSAND

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2014	31 December 2013
		Euro in thousand	
ASSETS:			
Non-current assets:			
Investment property	3	1,293,358	*) 960,423
Investments and loans to associates and joint ventures	5	222,824	256,303
Property, plant and equipment, net	8	1,725	635
Inventory of land	7b	37,576	48,937
Other investments and loans	9a	49,770	28,838
Restricted bank accounts and deposits	9c	2,035	-
Deferred tax assets	10d	7,689	*) 7,217
Total non-current assets		1,614,977	1,302,353
Current assets:			
Inventory of land and inventory of apartments under construction	7a	77,952	92,306
Trade and other receivables	12	21,598	17,264
Other investments and loans	9b	21,451	10,274
Restricted bank accounts and deposits	9c	22,995	3,875
Marketable securities and other short-term investments	11	5,465	4,499
Cash and cash equivalents	13	96,359	76,923
Total current assets		245,820	205,141
Assets classified as held for sale	3	16,330	15,608
Total assets		1,877,127	1,523,102

*) Restated. Refer to Note 2ad.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December	
		2014	2013
	Note	Euro in thousand	
EQUITY:			
Attributable to the equity holders of the Company:			
Share capital and premium	14	149,020	68,726
Convertible shareholders' capital notes	14	-	59,585
Convertible loan	14	16,575	-
Other reserves		(69,470)	(37,183)
Retained earnings		171,222	*) 141,180
		267,347	232,308
Non-controlling interests		437,020	*) 405,034
Total equity		704,367	637,342
LIABILITIES:			
Non-current liabilities:			
Derivative financial instruments	17	542	2,651
Interest-bearing loans and other borrowings	16	966,832	697,807
Other non-current liabilities	18	8,472	3,158
Deferred tax liabilities	10d	47,942	*) 41,520
Total non-current liabilities		1,023,788	745,136
Current liabilities:			
Tax provision		90	1,752
Trade and other payables	19	33,511	36,463
Interest-bearing loans and other borrowings	16	71,659	57,843
Advances from buyers	7c	43,446	43,542
Derivative financial instruments	17	266	1,024
Total current liabilities		148,972	140,624
Total liabilities		1,172,760	885,760
Total equity and liabilities		1,877,127	1,523,102

*) Restated. Refer to Note 2ad.

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

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2014	Year ended 31 December 2013
		Euro in thousand (except for share and per share data)	
Gross rental income		68,040	50,080
Service charge, management and other income	20	3,059	3,440
Property operating and other expenses	21	(21,221)	(13,773)
Rental and management income, net		49,878	39,747
Proceeds from sale of residential units		72,539	1,399
Cost of sales of residential units		(62,740)	(1,860)
Gross profit from sale of residential units		9,799	(461)
Total gross profit		59,677	39,286
Revaluation of investment property, net	3	112,118	*) 64,589
Gain from bargain purchase and loss from realization of investments, net	22	16,328	6,099
Administrative expenses	23	(11,657)	(10,984)
Administrative expenses relating to inventory under development, sales and marketing in Germany		(367)	(707)
Other income/(expenses), net	26	526	(1,341)
Share based payments	15	(2,880)	(2,403)
Share of profit of associates and joint ventures	5	2,497	48,918
Operating profit		176,242	143,457
Financial income	24	12,216	10,569
Financial expenses	25	(43,207)	(28,961)
Exchange rate differences, net		(50,970)	(10,032)
Financial expenses, net		(81,961)	(28,424)
Profit before tax		94,281	115,033
Tax expense	10b	(9,929)	*) (9,664)
Net profit for the year		84,352	105,369
Profit for the year attributable to:			
Equity holders of the Company		30,042	*) 30,543
Non-controlling interests		54,310	*) 74,826
		84,352	105,369
Earnings per share attributable to equity holders of the Company	28		
Basic		0.19	0.21
Diluted		0.17	0.17

*) Restated. Refer to Note 2ad.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2014	2013
	Euro in thousand	
Profit for the year	84,352	105,369
Other comprehensive loss:		
Items to be reclassified to profit or loss		
Exchange differences on translation of foreign operations, net	(9,699)	(13,969)
Share of other comprehensive loss of associates and joint ventures	(50,158)	(20,198)
Total other comprehensive loss	(59,857)	(34,167)
Total comprehensive income for the year	24,495	71,202
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	(6,106)	*) 8,915
Non-controlling interests	30,601	*) 62,287
	24,495	71,202

*) Restated. Refer to Note 2ad.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to the equity holders of the Company									
	Share capital and premium	Convertible shareholders' capital notes	Convertible loan	Foreign currency translation reserve	Share-based payment reserve	Reserves from transactions with non-controlling interests	Retained earnings	Total	Non-controlling interests	Total equity
Balance as at 1 January 2013	65,766	63,567	-	(3,463)	2,665	(7,972)	*)110,637	231,200	332,522	*)563,722
Profit for the year	-	-	-	-	-	-	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	68,726	59,585	-	(25,091)	1,517	(13,609)	141,180	232,308	405,034	637,342
Profit for the year	-	-	-	-	-	-	30,042	30,042	54,310	84,352
Other comprehensive loss	-	-	-	(36,148)	-	-	-	(36,148)	(23,709)	(59,857)
Total comprehensive income/(loss)	-	-	-	(36,148)	-	-	30,042	(6,106)	30,601	24,495
Capital notes conversion	59,585	(59,585)	-	-	-	-	-	-	-	-
Issuance of shares (1)	25,530	-	-	-	-	-	-	25,530	-	25,530
Issuance of convertible loan	-	-	16,575	-	-	-	-	16,575	-	16,575
Capital reduction (1)	(4,821)	-	-	-	-	-	-	(4,821)	-	(4,821)
Share based payments	-	-	-	-	1,313	-	-	1,313	1,567	2,880
Transactions with non-controlling interests, net (1)	-	-	-	-	-	2,548	-	2,548	(5,430)	(2,882)
Receipts from non-controlling interests, net	-	-	-	-	-	-	-	-	16,466	16,466
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(11,218)	(11,218)
Balance as at 31 December 2014	149,020	-	16,575	(61,239)	2,830	(11,061)	171,222	267,347	437,020	704,367

*) Restated. Refer to Note 2ad.
(1) See Note 14.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2014	2013
	Euro in thousand	
Cash flows from operating activities:		
Net profit for the year	84,352	105,369
Adjustments for:		
Depreciation	189	110
Gain from bargain purchase and other income, net	(16,328)	(4,758)
Revaluation of investment property, net	(112,118)	(64,589)
Share in profit of entities accounted for using equity method	(2,497)	(48,918)
Deferred taxes, net	10,175	3,222
Tax provision	(1,662)	385
Share based payment compensation	2,880	2,403
Other expenses	2,111	-
Financial expenses, net	81,961	28,424
Cash flow from operating profit before changes in working capital and provisions	49,063	21,648
(Decrease)/increase in advances from buyers	(96)	36,333
Decrease/(increase) in inventories of apartments under construction	22,062	(32,230)
Increase in trade and other receivables	(2,226)	(5,503)
Increase/(decrease) in trade and other payables	2,897	(10,729)
	22,637	(12,129)
Cash flows provided by operating activities	71,700	9,519
Cash flows from investing activities:		
Payment of liability for purchase of investment property	-	(1,981)
Acquisition of newly consolidated subsidiaries and obtaining control in companies previously accounted for using equity method, net (a)	(4,327)	(101,934)
Investment and loans to associates and jointly controlled entities, net	5,430	365
Changes in investments, net	(17,106)	9,455
Acquisition and additions to property, plant and equipment	(1,205)	(47)
Acquisitions of investment property	(218,124)	(49,774)
Additions to investment property	(40,722)	(35,459)
Placement of restricted deposits, prepaid transaction costs and placement of long-term deposits in banks, net	(21,155)	5,736
Proceeds from realization of investments and interest received	-	41,222
Interest received	1,440	224
Loans to related parties, net	(6,647)	4,085
Cash flows used in investing activities	(302,416)	(128,108)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2014	2013
	Euro in thousand	
Cash flows from financing activities:		
Share capital issuance, net	25,530	2,960
Issuance of convertible loans	16,575	1,133
Repayment of capital note	(2,294)	(2,874)
Receipt of loans, net	353,470	208,112
Issuance of debentures, net	80,334	54,608
Repayment of long-term loans and debentures	(181,014)	(124,098)
Repayment of loans from partners and non-controlling interest	(9,633)	-
Interest paid	(33,328)	(22,983)
Transactions with non-controlling interests, net	22,869	9,934
Purchase of rights from non-controlling interests of subsidiaries	(10,125)	(1,172)
Loans received from associates	361	4,457
Distribution to non-controlling interests	(11,218)	(3,712)
Repayment of swap transaction, transaction costs and sale of derivatives, net	(3,418)	84
Cash flows provided by financing activities	248,109	126,449
Increase in cash and cash equivalents	17,393	7,860
Foreign exchange differences, net	2,043	339
Cash and cash equivalents at the beginning of the year	76,923	68,724
Cash and cash equivalents at the end of the year	96,359	76,923

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2014	2013
	Euro in thousand	
(a) Acquisition of newly consolidated subsidiaries and obtaining control in companies previously accounted for using equity method:		
Assets and liabilities of subsidiaries on the purchase date:		
Working capital (excluding cash and cash equivalents), net	(2,011)	(4,847)
Fixed assets	(232)	-
Other investments and loans	(1,712)	-
Deferred tax assets	(2,107)	-
Investment property	-	(145,372)
Investments in associates	(1,002)	9,646
Interest bearing loans and borrowings	3,701	34,215
Loss from obtaining control	(2,111)	-
Non-controlling interests	1,147	4,424
	(4,327)	(101,934)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

a. The Company is a public limited company listed on the London Stock Exchange and incorporated and domiciled in The Netherlands. The address of its registered office is 201 Barbara Strozzilaan,1083HN, Amsterdam, The Netherlands.

The consolidated financial statements of the Company for the year ended 31 December 2014 comprise the Company and its subsidiaries and the Group's interest in associates and joint arrangements which are accounted for using the equity method. The Group is an international real-estate development and investment group.

b. Definitions:

In these consolidated financial statements:

The Company	- BCRE - Brack Capital Real Estate Investments N.V.
The Group	- The Company and its investees (significant investees are listed in the accompanying appendix).
Subsidiaries	- Entities that are controlled by the Group (as defined in IFRS10) and whose accounts are consolidated with those of the Company.
BCP	- Brack Capital Properties N.V. A subsidiary of the Company.
Entities under joint control	- Entities owned by various entities that have a contractual arrangement for joint control and are accounted for using equity method.
Associates	- Companies over which the Group has significant influence. The Group's investment in associates is accounted for using the equity method.
Investees	- Subsidiaries, associates and entities under joint control.
The parent company	- Brack Capital Investments Ltd. A company incorporated and domiciled in Israel.
Euro	- €
United States dollars	- $
United Kingdom pound	- £
New Israel Shekels	- NIS

c. The statutory financial statements were authorized in accordance with a resolution of the Board of Directors on 30 April 2015.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation:

The consolidated financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (IFRS as adopted by the EU) and with Part 9, Book 2 of the Netherlands Civil Code.

b. Measurement basis:

The consolidated financial statements have been prepared on a historical cost basis, with the exception of financial instruments (including derivative financial instruments) measured at fair value through profit or loss, available for sale financial assets and investment property measured at fair value.

The Company has elected to present the consolidated income statement using the function of expense method.

c. Consistent accounting policies:

The following accounting policies have been applied consistently in the consolidated financial statements for all periods presented.

d. Adoption of new Standards and Interpretations:

IFRIC 21, "Levies":

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 adoption of IFRIC 21 did not have a material impact on the consolidated financial statements. The Company has early adopted IFRIC 21.

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 consolidated financial statements was immaterial.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Adoption of new Standards and Interpretations (Cont.):

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39:

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the consolidated financial statements.

Annual Improvements 2010-2012 Cycle:

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus it clarifies those short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the consolidated financial statements.

e. Significant accounting judgments and assumptions:

1. Estimates and assumptions:

The preparation of the Group's consolidated financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the consolidated financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the consolidated financial statements are discussed below.

Investment property:

Investment property (which also includes investment property under development that can be reliably measured) is presented at fair value at the reporting date. Changes in its fair value are recognized in profit or loss. Fair value is determined generally by external independent valuation specialists using valuation techniques and assumptions as to estimates of projected future cash flows from the property and estimates of the suitable discount rate for these cash flows. When possible, fair value is determined based on recent real estate transactions with similar characteristics and location of the valued property.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Significant accounting judgments and assumptions (Cont.):

1. Estimates and assumptions (Cont.):

- Investment property (Cont.):

In determining the fair value of investment property, valuation specialists and the Group's management are required to use certain assumptions in order to estimate the future cash flows from the properties, the required yield rates on the Group's properties, the future rental rates, occupancy rates, lease renewals, the probability of leasing vacant spaces, property operating expenses, the financial strength of tenants and the implications of any investments for future development. Any change in these assumptions would be affecting the fair value of investment property.

- Inventories of real estate properties under construction and inventory of land:

The net realizable value is assessed based on management's evaluation including forecasts and estimates as to the amounts expected to be realized from the sale of the project inventory and the construction costs necessary to bring the inventory to a saleable condition.

- Deferred tax assets:

Deferred tax assets are recognized for unused carry-forward tax losses and deductible temporary differences to the extent that it is probable that taxable profits will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in Note 10.

- Determining the fair value of an unquoted financial asset and financial liability:

The fair value of unquoted financial assets and liabilities classified as Level 3 is determined using valuation techniques including projected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. The projected future cash flows and discount rates are subject to uncertainty and include consideration of inputs such as liquidity risk, credit risk and volatility.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Significant accounting judgments and assumptions (Cont.):

2. Judgments:

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:

- Recognizing revenue on a gross or net basis:

  In cases where the Group acts as agent without bearing any of the risks and rewards derived from the transaction, revenue is presented on a net basis. In contrast, if the Group acts as the principal and bears the risks and rewards derived from the transaction, revenue is presented on a gross basis.

- Acquisition of subsidiaries that are not business combinations:

  According to IFRS 3 “Business combinations”, at the time of acquisition of subsidiaries and activities, the Group considers whether the acquisition represents a business combination pursuant to IFRS 3. The following criteria which indicate acquisition of a business are considered to determine if an acquisition represents a business combination: the number of assets acquired, the extent to which ancillary services to operate the property are provided and the complexity of the management of the property. See also w.

f. Consolidated financial statements:

The Group has early adopted IFRS 10 commencing 2012.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies of the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Specifically, the Group controls an investee if and only if the Group has a) power over the investee, b) exposure, or rights, to variable returns from its involvement with the investee, and c) the ability to use its power over the investee to affect its returns. When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Consolidated financial statements (Cont.):

Although the Group directly holds as of December 31, 2014, 34.63% of the voting rights of BCP, the Group has determined that it has de facto control in BCP due to the size of its voting rights and including voting rights held by companies controlled by the Group's parent company, which companies are considered de facto agents of the Group. The size of the Group's holding in voting rights relative to the size or dispersion of the holdings of the other shareholders of BCP has enabled the Group to exercise a majority of the voting power that participates in the shareholder's meetings and appoints a majority of the directors and indirectly, the senior management of BCP.

Profit or loss and each component of other comprehensive income (OCI) are attributable to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

g. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The functional currency is separately determined for each Group's entity and is used to measure its financial position and operating results. The functional currency of the Company is the Euro. In addition, the consolidated financial statements are presented in Euro. All values are rounded to the nearest thousand (€ 000), except when otherwise indicated.

When the functional currency of an entity within the Group differs from the Group's presentation currency that entity represents a foreign operation whose financial statements are translated to the Group's presentation currency so that they can be included in the consolidated financial statements.

Upon the partial disposal of a subsidiary which disposal results in the loss of control of the subsidiary, the cumulative gain/(loss) recognized in other comprehensive income is transferred to profit or loss whereas upon the partial disposal of a subsidiary that is a foreign operation which disposal results in the retention of control, the relative portion of the cumulative amount is reattributed to non-controlling interests.

Intergroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in that foreign operation and are accounted for as part of the investment.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Functional currency, presentation currency and foreign currency (Cont.):

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences, other than those capitalized to qualifying assets or carried to equity in hedging transactions, are recognized in profit or loss.

3. Index-linked monetary items:

The Group has debentures that are linked to the Israeli Consumer Price Index ("Israeli CPI"). Monetary assets and liabilities linked to the changes in the Israeli CPI are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement.

h. Interest in joint arrangements and associates:

The Group has early adopted IFRS 11 commencing 2012.

Under IFRS 11 the Group classifies its joint arrangements as joint ventures based on the contractual rights and obligations. The Group's investments in its associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date.

Unrealized gains and losses resulting from transactions between the Group and associates or joint ventures are eliminated to the extent of the interest in the associates and joint ventures.

Certain investees provide for profits interests in excess of the investor's ownership. The Company has adopted the hypothetical liquidation approach in determining the allocation of earnings. The investor's share of the investee's earnings is calculated assuming that the investee has recognized and/or distributed the assets based on their book value, taking into consideration other distributions and investments made.

The financial statements of associates and joint ventures are prepared for the same reporting period as the Group. Accounting policies have been changed were necessary to ensure consistency with the policies adopted by the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investments in associates and joint ventures. At each reporting date, the Group determines whether there is objective evidence that these investments are impaired. See also j.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Interest in joint arrangements and associates (Cont.):

Losses of an associate in amounts which exceed its equity are recognized by the Group to the extent of its investment in the associate plus any losses that the Group may incur as a result of a guarantee or other financial support provided in respect of the associate. The equity method is applied until the loss of significant influence in the associate or loss of joint control in the joint venture or upon classification as held-for-sale.

i. Derivative financial instruments not designated as hedges:

The Group entered into contracts for derivative financial instruments such as interest rate swaps and CAP transactions to hedge risks associated with interest rate fluctuations. Such derivative financial instruments are measured at fair value.

Any gains or losses arising from changes in the fair values of derivatives that do not qualify for hedge accounting are recorded immediately in profit or loss.

j. Impairment of non-financial assets:

The Group evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

The following criteria are applied in assessing impairment of these specific assets:

Investment in associate or joint ventures:

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the investment in associates or joint ventures. The Group determines at each reporting date whether there is objective evidence that the carrying amount of the investment in the associate or the joint venture is impaired. The test of impairment is carried out with reference to the entire investment, including the goodwill attributed to the associate or the joint venture.

k. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling the asset to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Fair value measurement (Cont.):

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities,

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable,

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

l. Borrowing costs in respect of qualifying assets:

The Group capitalizes borrowing costs that are attributable to the acquisition, construction or production of qualifying assets.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, comprising of inventories and investment property that require a substantial period of time to bring them to a saleable condition or for its intended use.

The capitalization of borrowing costs commences when expenditures for the asset are being incurred, borrowing costs are being incurred and the activities to prepare the asset are in progress and ceases when substantially all the activities to prepare the qualifying asset for its intended use or sale are complete.

The amount of borrowing costs capitalized in the reported period includes specific borrowing costs and general borrowing costs based on a weighted capitalization rate.

m. Inventories of buildings and apartments for sale:

Cost of inventories of buildings and apartments for sale comprises identifiable direct costs of land such as taxes, fees and duties and construction costs. The Group also capitalizes borrowing costs as part of the cost of inventories of buildings and apartments for sale from the period in which the Group commenced development of the land.

Inventories of buildings and apartments for sale are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated selling costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. The operating cycle:

The Group's normal operating cycle is one year. With respect to construction work the operating cycle can last between two and three years. Accordingly, the current assets and current liabilities include items that are held and are expected to be realized by the end of the Group's normal operating cycle. If the operating cycle exceeds one year, the assets and liabilities attributed to this activity are classified in the consolidated balance sheet as current assets and liabilities based on the operating cycle.

o. Investment property:

Investment property is measured initially at cost, including costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment property are included in profit or loss when they arise. Investment property is not systematically depreciated.

The fair value model is also applied to property under construction for future use as investment property when fair value can be reliably measured.

Fair value is determined generally by external independent valuation specialists using economic valuations that involve valuation techniques and assumptions as to estimates of projected future cash flows from the property and estimates of the suitable discount rate for these cash flows. Investment property under development also requires an estimate of construction costs. If applicable, fair value is determined based on recent real estate transactions with similar characteristics and location of the valued property.

Investment property is derecognized on disposal or when the investment property ceases to be used and no future economic benefits are expected from its disposal.

p. Property, plant and equipment:

Equipment is stated at cost less accumulated depreciation and provisions for impairment. Depreciation is calculated on a straight-line basis, over the estimated useful life of the equipment.

q. Financial instruments:

1. Financial assets:

Financial assets within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are initially recognized at fair value plus directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

a) Financial assets at fair value through profit or loss:

The Group has financial assets at fair value through profit or loss comprising financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Financial instruments (Cont.):

1. Financial assets (Cont.):

a) Financial assets at fair value through profit or loss (Cont.):

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative, with the non-derivative component representing the host contract.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract is not measured at fair value through profit or loss.

b) Loans and receivables:

The Group has loans and receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortized cost using the effective interest method.

c) Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are initially recognized and subsequently carried at fair value. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale financial assets are recognized in other comprehensive income. When securities classified as available-for-sale financial assets are sold or impaired the accumulated fair value adjustments are included in the consolidated income statement.

2. Impairment of financial assets:

The Group assesses, at the end of each reporting period, whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows.

Financial assets carried at amortized cost:

There is objective evidence of impairment of debt instruments, loans and receivables carried at amortized cost as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Financial instruments (Cont.):

2. Impairment of financial assets (Cont.):

Assets classified as available-for-sale:

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Group of financial assets is impaired.

3. Financial liabilities:

a) Financial liabilities measured at amortized cost:

Interest-bearing loans and borrowings are initially recognized at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are measured based on their terms at amortized cost using the effective interest method.

b) Financial liabilities at fair value through profit or loss:

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

4. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business.

r. Trade and other receivables:

Trade receivables are recognized and carried at original amounts less an allowance for any uncollectible amounts. An allowance for doubtful debts is recorded when collection of the amount is no longer probable.

s. Cash and short-term deposits:

Cash and short-term deposits in the consolidated statement of cash flows comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Following are the types of provisions included in the consolidated financial statements:

Legal claims:

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

u. Revenue recognition:

The specific criteria for revenue recognition for the following types of revenues are:

Revenues from the sale of residential apartments:

Revenues from the sale of residential apartments are recognized when the principal risks and rewards of ownership have passed to the buyer. Revenues are recognized when significant uncertainties regarding the collection of the consideration no longer exist, the related costs are known and there is no continuing managerial involvement with the residential apartment delivered. These criteria are usually met when construction has effectively been completed, the residential apartment has been delivered to the buyer and the buyer has paid the entire consideration for the apartment.

Rental income from operating lease:

Rental income is recognized on a straight-line basis over the lease term. Fixed increases in rent over the term of the contract are recognized as income on a straight-line basis over the lease period. The aggregate cost of lease incentives granted is recognized as a reduction of rental income on a straight-line basis over the lease term.

Interest income:

Interest income on financial assets is recognized as it accrues using the effective interest method.

Reporting revenues using gross basis or net basis:

In cases where the Group acts as an agent without being exposed to the risks and rewards associated with the transaction, its revenues are presented on a net basis. However, in cases where the Group operates as a principal supplier and is exposed to the risks and rewards associated with the transaction, its revenues are presented on a gross basis. Service revenues include, inter alia, real-estate tax, water supply, cleaning, electricity, heating. Those amounts are presented on net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Leases:

The basis for classifying leases as finance or operating depend on the substance of the agreements and classification is made at the inception of the lease in accordance with the following principles as set out in IAS 17.

The Group as lessee:

1. Finance leases:

Finance leases transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset. At the commencement of the lease term, the leased assets are measured at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

The Group as lessor:

2. Operating leases:

Lease agreements where the Group does not transfer substantially all the risks and benefits incidental to ownership of the leased asset are classified as operating leases. Rental income is recognized in profit or loss on a straight-line basis over the lease term.

w. Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. Under this method, the identifiable assets and liabilities of the acquired business are recognized at fair value on the acquisition date. The cost of the acquisition is the aggregate fair value of the assets transferred, liabilities incurred and equity interests issued by the acquirer on the date of acquisition.

In respect of business combinations, non-controlling interests are measured at fair value on the acquisition date or at the proportionate share of the non-controlling interests in the acquiree’s net identifiable assets.

For business combinations direct acquisition costs are recognized as an expense in profit or loss.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed as measured on the acquisition date. If the resulting amount is negative, the acquisition is considered a bargain purchase and the acquirer recognizes the resulting gain in profit or loss on the acquisition date.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is recognized immediately as an expense and is not subsequently reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Business combinations and goodwill (Cont.):

Acquisitions of subsidiaries that are not business combinations:

Upon the acquisition of subsidiaries and activities that do not constitute a business, the consideration paid is allocated among the subsidiary's identifiable assets and liabilities based on their relative fair values on the acquisition date without attributing any amount to goodwill or to deferred taxes. The non-controlling interests, if any, participate at their relative share of the fair value of the net identifiable assets on the acquisition date.

x. Taxes on income:

Taxes on income in the consolidated income statement comprise current and deferred taxes. Current or deferred taxes are recognized in profit or loss, except to the extent that the tax arises from items which are recognized directly in other comprehensive income or in equity.

1. Current taxes:

   Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

2. Deferred taxes:

   Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.
   Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

   Deferred tax assets and liabilities are measured at the tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related tax asset is realized or the liability is settled.

   Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

y. Share based payment transactions:

The Group employees and other service providers are entitled to remuneration in the form of equity-settled share-based payment transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

y. Share based payment transactions (Cont.):

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using a standard option pricing model.

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period which the performance and/or service conditions are to be satisfied, ending on the date on which the relevant employees become fully entitled to the award. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

z. Assets held for sale:

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair values less cost to sell.

aa. Earnings per share:

Earnings per share are calculated by dividing the net profit attributable to equity holders of the Company by the weighted number of ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential ordinary shares are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Further, potential ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company.

ab. Convertible loans:

Convertible loans issued by the Company are classified as equity as there is no contractual obligation for the Company to deliver cash or any other financial asset under the terms of the loans.

ac. New standards and interpretations issued but not yet effective:

A number of new standards, amendments to standards and interpretations have been issued but not yet been endorsed by the EU therefore have not been applied in preparing these consolidated financial statements. Following are the significant standards that when adopted could have an impact on the consolidated financial statements:

<u>IFRS 15, "Revenue from Contracts with Customers":</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

ac. New standards and interpretations issued but not yet effective (Cont.):

IFRS 15, "Revenue from Contracts with Customers" (Cont.):

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted.

The Company is evaluating the possible impact of the amendment to IFRS 15 but is presently unable to assess its effect, if any, on the consolidated financial statements.

IFRS 9, "Financial Instruments":

In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments" which reflects all phases of the financial instruments project and replace IAS 39 "Financial Instruments: Recognition and Measurement" and all previous of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

The Company is evaluating the possible impact of the amendment to IFRS 9 but is presently unable to assess its effect, if any, on the consolidated financial statements.

ad. Change 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 Group 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 Group'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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

ad. Change in accounting policy (Cont.):

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

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

	As previously reported	Restatement	As currently presented
	Euro in thousand		
Non-current assets:			
Investment property	945,915	14,508	960,423
Deferred tax assets	9,510	(2,293)	7,217
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 income statement for the year ended 31 December 2013:

	As previously reported	Restatement	As currently presented
	Euro in thousand		
Revaluation of investment property, net	61,203	3,386	64,589
Tax expense	(3,279)	(6,385)	(9,664)
Net profit for the year	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

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

	As previously reported	Restatement	As currently presented
	Euro in thousand		
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:- INVESTMENT PROPERTY

a. Movement:

	31 December	
	2014	2013
	Euro in thousand	
Balance at the beginning of the year	960,423	*) 668,637
Initial consolidation of newly consolidated subsidiaries and acquisitions of investment property (1),(2),(3),(4),(5) and (6)	219,517	195,147
Additions	49,305	36,636
Revaluation of investment property, net	113,064	66,918
Foreign exchange differences	(48,951)	(6,915)
Balance at the end of the year	1,293,358	*) 960,423
Location:		
Germany	990,585	835,259
Russia	160,182	125,164
USA	139,267	-
UK	3,324	-
	1,293,358	960,423

*) Restated. Refer to Note 2ad.

(1) On 2 January 2014, a subsidiary of the Group purchased for £2.4 million (€3.1 million), including acquisition costs of £0.15 million (€0.19 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 square feet of gross leasable area and 10 parking places. The refurbishment is planned to start during 2015.

(2) On 10 January 2014, a subsidiary of the Group 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). For the financing of the purchase see Note 16.

(3) On 14 February 2014, wholly owned and controlled sub-subsidiaries of BCP entered into a notarized sale agreement to purchase the entire rights of the seller in 1,567 residential units 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 financing of the purchase see Note 16a(8).

(4) In the course of the year, BCP entered into an agreement (via its wholly owned and controlled sub-subsidiaries) for 4 transactions to purchase the entire rights in a commercial center, 575 residential units and land in North Rhine Westphalia in Germany in a total amount of €50 million excluding related transaction costs. For the financing of the purchase agreement see Note 16a(11).

(5) On 11 July 2014, the Company entered into a contract for the acquisition of the vacant building located at 627 Greenwich Street, Manhattan for the total consideration of $106 million (€78 million). The Company closed this acquisition on 12 November 2014. For the financing of the purchase agreement see Note 16.

NOTE 3:- INVESTMENT PROPERTY (Cont.)

a. Movement (Cont.):

(6) In August 2013, Orchard Retail Owner LLC, a subsidiary of the Group, signed a contract for the sale of a retail and garage property (collectively the "Project") for the consideration of $21 million (€17 million). The Project was classified as held for sale in the consolidated statement of financial position as of 31 December 2013 and 31 December 2014. The closing of the transaction occurred on 13 February 2015 amounting to $20 million net of transaction costs.

b. Some investment properties in Germany and an investment property in the US comprised of income generating residential real estate with lease agreements shorter than one year. As of 31 December 2014, the Group's residential lease agreements represent annual revenues of approximately €32.2 million. In addition, the Group owns through its subsidiaries in Germany and Russia, income generating commercial real estate consisting of assets leased to third parties. The future minimum income from existing tenants in the income generating commercial real estate is as follows:

	31 December	
	2014	2013
	Euro in thousand	
First year	37,181	35,930
Second year to the fifth year	118,542	111,445
Sixth year and onwards	117,996	120,925
	273,719	268,300

c. Securities:

All the properties in Germany with the total carrying amount of €991 million, all properties in Russia with the total carrying amount of €160 million and all properties in USA with the total carrying amount of € 139 million, are subject to registered debentures to secure bank loans (see also Note 16).

d. Reconciliation of fair value:

	Investment properties							
	Germany			Russia		UK	USA	
	Residential properties	Commercial properties	Land for development	Commercial properties under construction	Commercial properties	Property for development	Residential properties	Property for development
	Euro in thousand							
Balance as of 1 January 2014	308,944	473,359	52,956	85,646	39,518	-	-	-
Additions and acquisitions	92,110	20,614	19,298	29,592	-	3,114	14,055	90,039
Revaluation	10,540	9,086	3,678	42,779	13,560	210	1,079	32,132
Classifications	-	2,581	(2,581)	-	-	-	-	-
Foreign exchange differences	-	-	-	(37,406)	(13,507)	-	1,962	-
Balance as of 31 December 2014	411,594	505,640	73,351	120,611	39,571	3,324	17,096	122,171

NOTE 3:- INVESTMENT PROPERTY (Cont.)

Description of valuation techniques used and key inputs to valuation on investment properties as of 31 December 2014 and 31 December 2013:

	Valuation technique	Significant unobservable inputs	2014	2013
			Weighted average	
Germany				
Residential properties	DCF	Representative monthly rental fees per sq m (in €)	5.41	5.38
		Long-term vacancy rent (%)	2.1	2.03
		Discount rate (%)	6	6.15
		Cap rate (%)	5.5	5.7
Commercial properties	DCF	Representative monthly rental fees per sq m (in €)	8.26	8.15
		Discount rate (%)	6.8	6.93
		Cap rate (%)	6.8	6.9
Land for development	Residual method	Representative monthly rental fees per commercial sq m (in €)	14.5	14.5
		Projected construction costs per sq m (in €)	1,300	1,300
		Discount rate (%)	9	9.5
Russia				
Commercial properties under construction	Residual method	Estimated rental value per sq m per month (in €)	52.71	48.31
		Rent growth p.a. (%)	3	3
		Discount rate (%)	16.5	15
		Cap Rate (%)	11	10
Commercial properties	DCF	Estimated rental value per sq m per month (in €)	8.23	8.5
		Rent growth p.a. (%)	2.34	2.31
		Discount rate (%)	13.25	12.8
		Cap Rate (%)	12	11
UK				
Property for development	Residual method	Estimated average rental income per sq ft (in £)	17	n/a
		Cap rate (%)	6.25	n/a
		Construction cost per sq ft (in £)	75	n/a
USA				
Residential properties	DCF	Estimated average net rental income per sq ft (in $)	5.51	n/a
		Cap rate (%)	7.24	n/a
Property for development	Residual method	Discounted sellout per sq ft (in $)	2,350	n/a
		Construction costs per sq ft (in $)	673	n/a
		Discount rate (%)	6	n/a

<u>Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy:</u>

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the portfolios of investment property are (a) the ERV, (b) the rental growth, (c) the long-term vacancy rate, and (d) the discount rate/yield. Significant increases/(decreases) in the ERV (per sqm p.a.) and the rental growth p.a. in isolation would result in a significantly higher/(lower) fair value measurement. Significant increases/(decreases) in the long-term vacancy rate and discount rate (and exit or yield) in isolation would result in a significantly lower/(higher) fair value measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- INVESTMENT PROPERTY (Cont.)

Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy (Cont.):

Generally, a change in the assumption made for the ERV (per sqm p.a.) is accompanied by:

1. A similar change in the rent growth p.a. and discount rate (and exit yield);
2. An opposite change in the long term vacancy rate.

NOTE 4:- SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name	Country of incorporation	31 December 2014	31 December 2013
Brack Capital Properties N.V.	The Netherlands	65.37%	65.29%

	Year ended 31 December 2014	Year ended 31 December 2013
	Euro in thousand	
Accumulated balances of material non-controlling interest:	275,837	253,342
Profit allocated to material non-controlling interest:	33,673	30,101

The Company has consolidated the financial statements of BCP due to de facto control as defined in IFRS 10 (see also note 2f). As of 31 December 2014 and 31 December 2013 the Group holds 34.63% and 34.71% respectively, of BCP's share capital and voting rights.

During February 2014, Brack Capital Zeta BV (a subsidiary of the parent company) agreed, irrevocably, to exercise its voting rights (6.73%) in the shareholders' meetings of BCP in accordance with the direct instructions of the Company until July 2015.

During 2014, in several transactions the Company through a subsidiary acquired 67,020 shares in BCP for a total consideration of €3.1 million.

During 2014, BCP distributed to its non-controlling interests €11,218 thousands. In addition, during the year a subsidiary of the Company provided additional loans to subsidiaries of BCH in the amount of €3 million, secured by shares of BCP. For all these loans, as per the agreed terms the subsidiary has the option to acquire the pledged shares of BCP instead of receiving the principal amount of the loan and accrued interest. See also Note 30c.

The fair value of the Group's investment in BCP as of 31 December 2014 is approximately €105.4 million.

The summarized financial information of BCP is provided below. This information is based on amounts as presented in the consolidated financial statements of BCP.

NOTE 4:- SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Cont.)

Summarized statement of comprehensive income:

	Year ended 31 December	
	2014	2013
	Euro in thousand	
Gross rental income	60,512	49,540
Gain from sale of apartments, net	12,434	-
Property operating expenses, net	(5,613)	(4,976)
Administrative expenses	(13,328)	(11,698)
Revaluation of investment property, net	23,304	32,534
Finance costs, net	(23,825)	(22,043)
Share in loss of associates	-	(1,675)
Profit before tax	53,484	41,682
Income tax	(6,029)	(2,613)
Profit for the year	47,455	39,069
Total comprehensive income	47,455	39,069
Attributable to non-controlling interests on Group's level	33,673	30,101
Dividends paid to non –controlling interests	11,218	3,712

Summarized statement of financial position:

	31 December	
	2014	2013
	Euro in thousand	
Inventory of apartments under construction	64,901	71,920
Cash and cash equivalents	60,205	33,960
Other current assets	30,518	10,301
Investment property	990,585	835,259
Inventory of real estate	37,576	48,937
Other non-current assets	14,484	19,979
Other current liabilities	59,452	57,617
Interest-bearing loans and borrowing	720,387	588,751
Other long term liabilities	39,249	38,271
Total equity	379,181	335,717
Attributable to (on Group's level):		
Equity holders of parent	96,824	82,375
Non-controlling interests	275,837	253,342

Summarized statement of cash flows information:

	31 December	
	2014	2013
	Euro in thousand	
Operating activities	70,484	35,606
Investing activities	(133,530)	(166,490)
Financing activities	89,291	107,346
Net increase/(decrease) in cash and cash equivalents	26,245	(23,538)

NOTE 5:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES

a. The Group has the following investments in associates and joint ventures:

Investment in associates and joint ventures located in	Share of profit/(loss) of associates and joint ventures Year ended 31 December		Investment in associates and joint ventures 31 December	
	2014	2013	2014	2013
	Euro in thousand			
Russia (b)	96	58,508	158,797	196,924
USA	2,226	(1,949)	42,914	34,499
Italy	-	-	1,002	-
Izaki (2)	-	(5,154)	-	5,248
Cyprus (1)	126	(570)	10,531	10,501
India (1)	49	(242)	4,575	4,126
Germany	-	(1,675)	5,005	5,005
	2,497	48,918	222,824	256,303

(1) Investment of 20% in BCRE India Fund (Group's share - 20%) which invests in real estate in India and USA (the "Fund"). With respect to the obligation made to invest in the Fund see also Note 29b(1). The Fund measures its investment in associates in its financial statements at fair value through profit or loss. The Company (through a wholly own subsidiary) and its shareholders are members of the Board of the general partners' in the Fund. All investment decisions are being made through majority of the Fund's investors. The Company accounts for its investment in the Fund using the equity method.

One project located in India, is also being held (25%) directly through a Cypriot subsidiary of the Company.

(2) Investment in BCRE Izaki B.V. has become a wholly owned subsidiary during the year ended 31 December 2014, following the acquisition of the remaining 50% shareholding held by the co-investor as a part of other transactions and reconciliations made with this co-investor. Since the consideration paid is higher than the fair value of the assets acquired, the Company recorded an impairment in the total amount of €2.1 million as a part of "other income/(expenses),net" in the consolidated income statement.

b. Interest in a joint venture:

Part of the investment in associates and joint ventures located in Russia relates to the following:

The Group has effective share in Siletia Fund LLP (the "joint venture") of approximately 38% (2013: approximately 28%), a jointly controlled entity which holds together with its partners a project company in Kazan, Republic of Tatarstan, Russia. The Company's interest in the joint venture is accounted for using the equity method. During the first half of 2012, the joint venture has been chosen to develop and operate a large, modern, multi-phase wholesale market complex in Kazan (including 5 pavilions and other auxiliary commercial areas), designated by the Republic of Tatarstan and the City of Kazan to replace several markets that are being closed and evacuated within the city. Accordingly a 49 year leasehold for a total of approximately 200 hectares, with right to buy the freehold was secured by the joint venture. The total consideration paid by the Joint venture was approximately €19.8 million ($25 million).

NOTE 5:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES (Cont.)

b. Interest in a joint venture (Cont.):

The Group's value of the investment in the project amounted to €156 million (including loans given to joint venture in the amount of €8 million) and €191 million (including loans given to joint venture in the amount of €11 million) as of 31 December 2014 and 31 December 2013 respectively. After deducting the non-controlling interest, the Group's effective share in the project amounted to €97 million and €111 million as of 31 December 2014 and 31 December 2013, respectively. The construction of pavilion 1, pavilion 2 and pavilion 3 of the project were completed in December 2012, August 2013 and August 2014, respectively.

In May 2013, pavilion 1 was destroyed by fire. During December 2013, the LLC Management Company Technopolis New Toura ("the project company") had received €17 million ($22 million) as compensation for losses. The agreed insurance proceeds were received in February 2014. The project company has recorded a gain during the year ended 31 December 2013 for the amount received from the insurer. The reconstruction of pavilion 1, which is intended to be used for wholesale trade from the trucks, is expected to be completed by the first half of 2015.

The total rental income for the two pavilions (pavilions 2 and 3) for 2014 was approximately €13 million ($17,2 million). The total rental income for the three pavilions (pavilions 1, 2 and 3) is expected to be €21 million ($26 million) in 2015, €45 million ($54 million) in 2016 and from 2017 onwards to €70 million ($85 million) with yearly indexation of 9%. In addition, an entrance fee agreement was signed for pavilions 2 and 3 according to which the tenants will pay an amount of €7.6 million ($13 million) per phase as one time entrance fee.

The land plot and the constructed pavilions are being revaluated based on external valuation received by the Group. The fair value was determined based on estimated future revenues expected from the completed project, using yields in line with relevant significant risk to the construction process, including construction risk and rental risk. These are higher than current yields for similar investment property already completed. The expected remaining costs to completion are deducted from such estimated future revenues. In computing the fair value, the valuators used a discount rate within the range of 20% - 29% (2013:17.5% - 29%) and a capitalization rate on reversion of 17% (2013: 15%). As a result, a revaluation gain was recorded in the income statement within "share of profit of associates and joint ventures" in the amount of €18 million and €56 million for the years ended 31 December 2014 and 31 December 2013, respectively (after deduction of non-controlling interests of €13.3 million and €32.8 million for the years ended 31 December 2014 and 2013 respectively). In addition, foreign exchange loss was recorded in the income statement within "share of profit of associates and joint ventures" for the year ended 31 December 2014 in the amount of €49 million (after deduction of non-controlling interests of €36 million).

NOTE 5:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES (Cont.)

b. Interest in a joint venture (Cont.):

In August 2012, a construction loan was signed for the first 2 stages out of a total of 5. The construction loan, in the amount of €33.8 million, for pavilion 1 and 2 was refinanced by a new loan of €72.3 million ($94 million) in three tranches, the last tranche of which was received in November 2013. In December 2013, a facility loan agreement of €23.8 million ($31 million) for the construction of pavilion 3 was signed. As of 31 December 2014, the total drawdowns amounted to €95 million ($124 million). The securities provided for these borrowings were the retail-warehouse complex of pavilion 2, property rights in pavilion 3 and lease rights for the land plot.

The Company had secured the Borrower's obligation under the Facility Agreement (for construction of pavilion 3) to pay interests, commissions, forfeit, accrued on the investment phase of pavilion 3 development. The Guarantee shall not exceed the amount of $4.1 million (€3 million).

In May 2013, the Company entered into agreement with its partners according to which the Company received the option to purchase an additional 5% of interest in the joint venture for a total consideration of €1.2 million ($1.65 million). The exercise price of the option amounted to €4.5 million ($5.85 million). In December 2013, the Company exercised its option, and as a result, recorded a gain from bargain purchase in the amount of approximately €14 million.

On 30 December 2014, the Group acquired additional 10% in the joint venture, increasing its effective shareholding from 28% to 38% for the liability to fund the project with the estimated amount of $8.7 million (€7.2 million) (see also note 18) over a period of two years. The liability was calculated based on the fair value of the obligation. As a result of the transaction the Group had recorded a gain of €16.3 million in the consolidated income statement (see also note 22). The joint venture agreement have not changed as a result of this acquisition.

During 2014, mainly in the second half of the year, the Russian economy was subject to sanctions imposed on it and in the last quarter of 2014, the Russian economy experienced a serious deterioration which resulted, inter alia, in the weakening of Russian Rouble in relation to the US dollar by about 72%. In the second half of 2014 and principally in December of that year, due to the decline in oil prices, the aggravation of the sanctions imposed by the West due to Geopolitical instability in the East Ukraine and the devaluation of the Russian Rouble, the Central Bank of Russia raised the interbank interest rate from 5.5% in January 2014 to 17%. International rating agencies (S&P, Moody's and Fitch Ratings) gradually lowered Russia's credit rating to BB+/Baa3 with a negative outlook. After the balance sheet date through the date of signing the consolidated financial statements, the Russian Rouble strengthened 8.5% in its value in relation to the US dollar. During February and March 2015 the Central Bank of Russia ("CBR") lowered the interbank interest to 14%. Russia recorded 0.6% year over year growth in its Gross Domestic Product in 2014. Inflation (end period) amounted 11.4% during 2014. Russian foreign currency reserves have dropped during 2014 by 23% from $501 billion to $385 billion (CBR). The deterioration of the economic conditions in Russia could have further negative consequences on general macroeconomic conditions and the willingness of international tenants to operate in Russia and/or to enter into leases, particularly USD denominated leases.

NOTE 5:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES (Cont.)

The movement in the investment in the joint venture for the year ended 31 December 2014 is as follows:

	Euro in thousand
Balance at the beginning of the year	190,638
Additional investment	24,080
Repayments of loans	(4,772)
Share in loss for the year	(3,064)
Share in other reserves	(923)
Foreign exchange differences	(51,827)
Balance at the end of the year	154,132

Summarized financial information of the joint venture, based on its financial information, and reconciliation with the carrying amount of the investment in consolidated financial information are set out below:

	Year ended 31 December	
	2014	2013
	Euro in thousand	
Current assets, including cash and cash equivalents and prepayments	4,695	21,815
Non-current assets	413,459	511,734
Current liabilities, including tax payable	19,234	9,997
Non-current liabilities, including deferred tax liabilities and long-term borrowing	137,795	149,065
Equity	261,125	374,487
Proportion of the Group's ownership	96,545	110,950

Summarized statement of profit or loss of the joint venture:

	Year ended 31 December	
	2014	2013
	Euro in thousand	
Gross rental income and service charge	13,480	6,318
Operating expenses	(2,420)	(2,386)
Revaluation of investment property	57,850	140,034
Administrative expenses, including depreciation	(5,977)	(979)
Finance (expenses), net	(51,756)	(9,828)
Other (expenses)/income	(429)	18,464
Profit before tax	10,748	151,623
Income tax expense	(3,340)	(24,067)
Profit for the year	7,408	127,556
Group's share of profit for the year	1,859	32,821

NOTE 5:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES (Cont.)

Summarized financial information in aggregate for immaterial entities accounted for using the equity method:

	31 December 2014	31 December 2013
	Euro in thousand	
Carrying amount of the investments	68,692	65,665

	Year ended 31 December 2014	Year ended 31 December 2013
	Euro in thousand	
Profit/(loss) from continuing operations	5,561	(7,082)
Other comprehensive income/(loss)	2,592	(2,206)
Total comprehensive income/(loss)	8,153	(9,288)

NOTE 6:- FAIR VALUE MEASUREMENT

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2014:

		Fair value hierarchy			
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Euro in thousand			
Assets measured at fair value:					
Investment property	31 December 2014	1,293,358	-	-	1,293,358
Derivatives	31 December 2014	10,408	-	10,408	-
Marketable securities and other short-term investments	31 December 2014	5,465	5,465	-	-
Liabilities measured at fair value:					
Derivatives	31 December 2014	808	-	808	-
Interest-bearing loans and borrowings	31 December 2014	327,512	-	-	327,512
Liabilities for which fair values are disclosed	31 December 2014	287,195	157,908	-	129,287

There have been no transfers between Level 1 and Level 2 during the year.

Quantitative disclosures fair value measurement hierarchy for Group's assets and Liabilities as at 31 December 2013:

			Fair value hierarchy		
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
			Euros in thousands		
Assets measured at fair value:					
Investment property	31 December 2013	960,423	-	-	960,423
Derivatives	31 December 2013	379	333	46	-
Marketable securities and other short-term investments	31 December 2013	4,499	4,499	-	-
Liabilities measured at fair value:					
Derivatives	31 December 2013	3,675	1,081	2,594	-
Interest-bearing loans and borrowings	31 December 2013	437,249	-	-	437,249
Liabilities for which fair values are disclosed	31 December 2013	236,067	136,118	-	99,949

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- INVENTORY OF LAND AND INVENTORY OF APARTMENTS UNDER CONSTRUCTION

a. Current assets:

	31 December	
	2014	2013
	Euro in thousand	
Cost of land	31,467	40,361
Construction costs and tax (1)	46,485	51,945
	77,952	92,306

(1) Include accumulated capitalized borrowing costs of approximately €185 thousand as at 31 December 2014 (€335 thousand as at 31 December 2013).

b. Non-current assets:

	31 December	
	2014	2013
	Euro in thousand	
Cost of land	30,946	40,177
Construction costs and tax	6,630	8,760
	37,576	48,937

c. Inventory of land and inventory of apartments under construction mainly includes a project in Düsseldorf Germany, to build approximately 1,000 residential units undertaken by BCP. During 2012, BCP commenced the construction of stage A of the project to build 202 residential units and during the fourth quarter of 2013, BCP commenced the construction of a part of the second stage (stage B1) of the project consisting of 197 residential units and 713 square meters for commercial use. During the fourth quarter of 2014, BCP commenced the construction of the remaining part attributed to the second stage of the project (stage B2) that will include another 107 residential units. As a result of the above, the Group classified €11,118 thousand and €17,935 thousand from inventory of land to inventory of apartments under construction during 2014 and 2013, respectively. The first stage of the project was delivered to its buyers during 2014 and the delivery of the second stage units to their buyers is expected to take place during 2016.

In respect of stage A and until the end of the reporting period, BCP signed all 202 sale agreements for the sale of the residential units with proceeds estimated to be €81million. Total advances (including payments recognized as revenue in respect of delivering apartments) as of 31 December 2014 amounted to approximately €79.5 million. In respect of stage B1 and until the end of the reporting period, BCP signed 96 sale agreements with proceeds estimated at €43.1 million. Total advances as at 31 December 2014 amounted to approximately €15.5 million. In respect of stage B2, on 24 July 2013, BCP entered into a contingent agreement with a German pension fund for the sale of 79 residential units out of stage B2, in two buildings spanning over an area of 7,803 square meters (net), commercial spaces of 713 square meters and 101 parking spaces for a total consideration of €30 million. Total advances as at 31 December 2014 amounted to approximately €19.5 million. The agreement is subject to certain conditions. The transaction will be completed upon delivery of the units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- PROPERTY, PLANT AND EQUIPMENT, NET

	2014	2013
	Euro in thousand	
Cost		
Balance at the beginning of the year	800	7,792
De - consolidation (1)	-	(7,039)
Additions	1,205	47
Foreign exchange differences	94	-
Balance at the end of the year	2,099	800
Accumulated depreciation		
Balance at the beginning of the year	165	2,578
De - consolidation (1)	-	(2,523)
Depreciation	189	110
Foreign exchange differences	20	-
Balance at the end of the year	374	165
Net book value	1,725	635

(1) During 2013, an asset was sold to an associate company. The sale did not have a material effect on the Group's results.

NOTE 9:- OTHER INVESTMENTS AND LOANS

a. Composition of long term investments and loans:

	31 December	
	2014	2013
	Euro in thousand	
Derivatives financial instruments	10,408	379
Employees (1)	9,098	13,697
Loans to companies investing in real estate projects (2)	4,075	5,003
Other investments and loans	6,825	4,860
Advance payment for investment property (3)	8,391	858
Related parties (4)	10,973	4,041
	49,770	28,838

(1) Represents recourse loans to employees also secured by their portion in the Group investments. Part of the loans have a non-recourse mechanism that allows the loans to be classified as non-recourse with the pledged assets being the only security, upon a Loan to Value ("LTV") ratio of 67% or below, based on market value, or the Net Assets Value ("NAV") of the pledged assets. The loans bear an annual interest rate of 3.5% and are repayable within 5-7 years (see also note 9b(2)).

(2) Loans granted by the Group to third parties which intend to finance real estate projects. The loans bear an annual interest rate of 10% - 12% (see also note 9b(1)).

(3) The amount relates to an advance payment made by the Company in connection with a potential purchase of a building in Manhattan, New York. The closing of the purchase is subject to several conditions. The primary outstanding contingencies to the purchase are the approvals of the New York State Attorney General and the state court to the transaction as the seller is a not-for-profit organization.

(4) Loans provided to shareholders, see also Note 30c.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- OTHER INVESTMENTS AND LOANS (Cont.)

b. Composition of short term loans and current maturities of long term loans:

	31 December 2014	31 December 2013
	Euro in thousand	
Loans to companies investing in real estate projects (1) and (3)	18,525	10,274
Employees (2)	2,926	-
	21,451	10,274

(1) In April 2013, the Group established, BCRE Lending LLC, a subsidiary that specializes in providing short-term senior construction debt. The loan liabilities provided by the subsidiary are short term loans, bear annual interest within the range of 10%-12% and are collateralized primarily by small residential development assets in the New York Metropolitan Area. As of 31 December 2014, the Group together with other co-investors had committed to loan liabilities amounting to €17.4 million ($21.1 million) out of which €16.8 million ($20.4 million) had been drawn. All loans are senior loans and are secured by personal guarantees and/or equity pledges.

(2) The subsidiary of the Group, BCP has provided senior executives with non-recourse loans bearing annual interest at a rate of Euribor plus 1.3% (on the basis of 3-month Euribor), which are repayable no later than 30 November 2015. As collateral for the loans, it was determined that severance pay deposited in pension funds and advanced study funds on behalf of the borrowers and future salary payments (including bonus payments) would be used as collateral for the repayment of the debt; the borrowers did not provide BCP with any additional collateral for the loans granted. It was also agreed that, at their discretion, the borrowers may sell option warrants and/or shares owned by them, and the proceeds will be used to repay the loan, insofar as it has not been repaid on the date of sale. The balance of the loans as of 31 December 2014 and 31 December 2013 was €2,926 thousand and €5,319 thousand, respectively (for 2013 loans were classified as long term) (See note 9a(1)).

The joint managers of BCP are entitled to receive additional loans from BCP under the same terms of the existing loans as long as the balance of the loans in the future does not exceed 50% of their holdings in BCP and in BCP's subsidiary which owns the site in Düsseldorf.

(3) In July 2006, a newly consolidated subsidiary of the Group has granted a loan to a related American entity which has invested in a real estate project in Miami USA. The real estate project includes 718 apartments and until March 2015 716 apartments have been sold. The loan bear interest at the grater of 8.1% per annum or linkage to the Case-Shiller Home Price Index (Miami). The maturity of the loan will be the earlier of the date upon which the senior loan has been repaid in full or the date upon the final condominium unit has been sold to a third party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9:- OTHER INVESTMENTS AND LOANS (Cont.)

c. Restricted bank accounts and deposits:

	31 December 2014	31 December 2013
	Euro in thousand	
Restricted bank accounts and deposits (1)	25,030	3,875
Less: current maturities	(22,995)	(3,875)
Total non-current restricted bank accounts and deposits	2,035	-

(1) Short term and long term restricted bank accounts and deposits bear an annual interest rate within the range of 0% - 0.25% (2013: 0% - 0.45%). Mainly includes restricted rent accounts and restricted cash to secure debentures issued by the Company.

NOTE 10:- TAX EXPENSE

a. The following are the tax rates applicable to the Company and its key subsidiaries:

The Netherlands - Tax rate: 25%

U.S.A - Federal tax - Tax rate: 35% (calculated on a gradated basis), state and city taxes also apply.

Cyprus - Tax rate: 12.5%

Germany (1) - Corporate income tax rate: 15.825%
Trade tax rate: 15.4%

Russia - Tax rate: 20% (15.5% in certain instances)

Luxembourg - Tax rate: 29.2% (including surcharge and municipal business tax)

(1) Earnings from the sale of apartments are subject to local business tax in Germany. The corporate tax and local business tax rate amount to 31.225%.

b. Taxes on income included in the consolidated income statement:

	Year ended 31 December 2014	Year ended 31 December 2013
	Euro in thousand	
Current income tax	(529)	(102)
Deferred tax	(10,175)	*) (9,548)
Prior year's taxes	775	(14)
Total income tax expense	(9,929)	(9,664)

*) Restated. Refer to Note 2ad.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- TAX EXPENSE (Cont.)

c. Reconciliation between the tax expense in the consolidated income statement and the profit before tax, multiplied by the current tax rate, can be explained as follows:

	Year ended 31 December	
	2014	**2013**
	Euro in thousand	
Profit before tax	94,281	115,033
Statutory tax rate (25%)	23,570	28,758
Increase/(decrease) in respect of:		
Company's share in earnings of associates	(378)	(3,798)
Effect of different tax rates in foreign subsidiaries	(10,893)	(9,361)
Differences for which deferred tax assets were not recorded	422	(3,999)
Gain from bargain purchases	(2,041)	(1,394)
Effect of non-deductible expenses	24	67
Previous year's tax and others	(775)	(609)
Tax charge	9,929	9,664

d. Deferred taxes:

Composition:

	31 December	
	2014	**2013**
	Euro in thousand	
Deferred tax liabilities:		
Measurement of loans at fair value	(661)	(1,988)
Measurement of investment property and inventory of land at fair value upon business combination	(63,056)	(45,859)
Measurement of derivative financial instruments at fair value	(3,114)	-
Deferred tax assets:		
Measurement of derivative financial instruments at fair value	-	594
Others	845	-
Carry forward tax losses	25,733	12,950
Deferred tax liabilities, net	(40,253)	(34,303)

Losses carried forward:

The Company has tax losses of €26 million that are available for a period of 9 years from the year that the losses were generated for offsetting against future taxable profits of the Company. Deferred tax assets have not been recognized in respect of these losses as they may not be used to offset taxable profits, there are no other tax planning opportunities or other evidence of recoverability in the near future. Other Dutch and Cypriot entities have tax losses carried forward, which deferred taxes were not recorded for, since there is no evidence of recoverability in the near future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- TAX EXPENSE (Cont.)

d. Deferred taxes (Cont.):

Losses carried forward (Cont.):

As of 31 December 2014, BCP and its subsidiaries have business losses and capital losses carried forward for tax purposes amounting approximately to €60.5 million. In respect of these carried forward losses, deferred tax assets have been recognized in the consolidated financial statements as of 31 December 2014 in the amount of approximately €12 million.

As of 31 December 2014, the Russian companies of the Group have business losses and capital losses carried forward for tax purposes amounting approximately €52 million. In respect of these carried forward losses, deferred tax assets have been recognized in the consolidated financial statements as of 31 December 2014 and 31 December 2013 in the amount of approximately €15.5 and €5.4 million respectively. As of 31 December 2014, there are additional €5 million tax losses, for which no deferred taxes were recorded.

NOTE 11:- MARKETABLE SECURITIES AND OTHER SHORT-TERM INVESTMENTS

	31 December	
	2014	2013
	Euro in thousand	
Other short term investments	184	629
Debentures (1)	863	1,777
Other marketable securities	4,418	2,093
	5,465	4,499

(1) See Note 30.

NOTE 12:- TRADE AND OTHER RECEIVABLES

	31 December	
	2014	2013
	Euro in thousand	
Government authorities	6,978	5,948
Trade receivables (1)	5,999	5,698
Prepaid expenses	1,237	1,160
Related parties (2)	1,330	986
Other receivable	6,054	3,472
	21,598	17,264

(1) Trade receivables are presented after the deduction of provision for doubtful debts in the amount of €2,763 thousand (2013: €2,524 thousand).

(2) See Note 30.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- CASH AND CASH EQUIVALENTS

a. Composition:

	31 December 2014	31 December 2013
	Euro in thousand	
Bank balances (1)	65,519	67,968
Deposits (2)	30,840	8,955
Cash and cash equivalents	96,359	76,923

(1) Cash at banks earn interest at floating rates based on daily bank deposit rates.

(2) Short-term deposits bear average yearly interest of 0.1%-0.75% (2013: 0.15%-1.7%).

b. By currency:

	31 December 2014	31 December 2013
	Euro in thousand	
In NIS	24,894	3,784
In Euro, or linked to Euro	39,641	30,732
In US dollar, or linked to US dollar	31,720	39,300
Other	104	3,107
	96,359	76,923

NOTE 14:- EQUITY

a. Composition of share capital:

	31 December 2014		31 December 2013	
	Authorized	Issued and fully paid	Authorized	Issued and fully paid
Ordinary shares of €0.04 (2013: €0.1) each (1)	700,000,000	161,610,064	2,500,000	1,445,917

(1) On January 8 2015, a capital reduction was performed, on which accordingly each share reduced to €0.01, see also 5 below.

b. Ordinary shares issued and fully paid:

	Number of shares	In Euro
At 1 January 2013	1,420,256	142,026
Issued during 2013	25,661	2,566
At 31 December 2013/ 1 January 2014	1,445,917	144,592
Issued during 2014, net (1) and (4)	17,018,364	170,184
Conversion and split (2)	143,145,783	1,301,325
Conversion (3)	-	4,848,302
Capital reduction (5)	-	(4,848,302)
At 31 December 2014	161,610,064	1,616,101

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- EQUITY (Cont.)

1. On 28 May 2014, the Company's entire issued ordinary share capital was admitted to the standard listing segment of the Official List of UK Listing Authority for trading on the main market of listed securities of London Stock Exchange Plc.

   The Company has raised approximately €24 million, net of issuance expenses of €2.1 million, through the placing of 16,097,883 new ordinary shares at €1.62 per share.

   Following the admission, the total amount of €59.6 million of capital notes was converted to share premium.

2. On 28 May 2014, the nominal value of each share in the Company's share capital was firstly increased from €0.10 to €1 per share and subsequently on the same date, each share (with a nominal value of €1) was converted into 100 shares with a nominal value of €0.01. The difference of €1.3 million from the increase of the nominal value from €0.10 to €1 was debited in the share premium account.

3. On 14 October 2014, the Company increased the nominal value of the ordinary shares from €0.01 to €0.04 per share. The difference of €4.8 million was debited in the share premium account.

4. On 23 December 2014, the Company has raised approximately €1.5 million pursuant to the issuance of 920,481 new shares at an issue price of €1.66 per share. In addition, the
   Company raised €16.6 million, net of expenses, pursuant to the issuance of the Convertible Loan Notes.

   The Convertible Loan Notes bear 2.25% annual compounded interest and will have a term maturing on 14 November 2016. The Convertible Loan Notes (including accrued interest) will be convertible in whole into ordinary shares (i) at the holder's option at any time up to the end of the term, and (ii) at the Company's option on the maturity date. The conversion price shall be €1.68 per share following the Capital Reduction (see also 5 below). Furthermore, the conversion price shall be reduced to the lowest effective price per share paid for any share or securities convertible into shares following the date of the convertible loan agreement (save for certain customary exceptions).

5. On 24 December 2014 the Board of Directors approved the capital reduction which reduced the nominal value of each share from €0.04 to €0.01 totaling to €4.8 million which was paid to shareholders on 8 January 2015. The respective liability of €4.8 million in relation to the capital reduction was recognized in these consolidated financial statements (see also Note 19).

6. On 28 May 2014, the authorized share capital of the Company was changed from 2,500,000 shares of €0.1 each to 700,000,000 shares of €0.01 each.

   On 14 October 2014, the authorized share capital of the Company was changed from 700,000,000 shares of €0.01 each to 700,000,000 shares of €0.04 each.

   On 24 December 2014, the authorized share capital of the Company was changed from 700,000,000 shares of €0.04 each into 700,000,000 shares of €0.01 each.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- EQUITY (Cont.)

c. Dividend policy:

Subject to compliance with Dutch law and depending on the extent of a receipt of a distribution from BCP, the Company intends to make an annual distribution to its shareholders (either in the form of a cash dividend or in any other form available under Dutch law) of around 2.5% of the Company's end-of-year Net Asset Value ("NAV") commencing in 2014, assuming no change to the issued share capital of the Company. However, there can be no assurance that the Company will generate sufficient earnings to allow it to make distributions and if it does, the Board of Directors may elect to reinvest the entire profit instead of making distributions.

d. Nature and purpose of reserves:

Non-controlling interest holder's transaction reserve:

1. On 29 September 2014, the Company through a subsidiary has acquired 16,290 shares of BCP through an off market transaction from Brack Capital Zeta B.V, a subsidiary of parent company, at a price of NIS224.4 per share. As a result, the Company recorded a loss amounting to €30 thousand within "reserves from transactions with non-controlling interests".

2. On 3 December 2014, the Company through a subsidiary has acquired 25,000 shares of BCP through an off market transaction at a price of NIS227 per share. As a result, the Company recorded a loss amounting to €82 thousand within "reserves from transactions with non-controlling interests".

3. On 22 December 2014, the Company through a subsidiary, has exercised an option to purchase 18,658 shares of BCP for a total consideration of $1,059 thousand. The effective price per share was around NIS224. As a result, the Company recorded a loss amounting to €24 thousand within "reserves from transactions with non-controlling interests".

4. During 2014, on various days, the Company, through a subsidiary has acquired 7,072 shares of BCP through market transactions at an average price of NIS229 per share. As a result, the Company recorded a loss amounting to €30 thousand within "reserves from transactions with non-controlling interests".

5. During 2014, the employees and officers of the Group exercised at various dates 185,452 options into 185,452 shares of BCP. The exercise increment received for those options exercised amounted to €2,752 thousand. As a result, the Company recorded a loss amounting to €1.5 million within "reserves from transactions with non-controlling interests".

6. On 1 July 2014, the Company through a subsidiary, has acquired additional 10% in the Russian subsidiary holding the Lyubertsy project in Moscow for the consideration of $2.3 million (€1.9 million). As a result, the Company recorded a gain amounting to €2.8 million within "reserves from transactions with non-controlling interests".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- EQUITY (Cont.)

d. Nature and purpose of reserves (Cont.):

Non-controlling interest holder's transaction reserve (Cont.):

7. During 2014, the Company through its subsidiaries has entered into various transactions with non-controlling shareholders in relation to the acquisition of their shareholding in subsidiaries. As a result of these transactions the Company recorded a gain of €1.9 million within "reserves from transactions with non-controlling interest".

NOTE 15:- SHARE BASED PAYMENTS

1. Warrants 1 - On 4 February 2010, BCP allocated option warrants, exercisable in five years from the date of allocation, into 313,171 BCP's shares, to the Group's employees. The exercise prices of such warrants range between €0- €20.1 per share (the exercise prices of some of the warrants are adjusted by cumulative yearly interest within the range of 8%-12%). In addition, on 26 August 2010, BCP's Board of Directors approved the allocation of option warrants to eight employees, exercisable to 158,593 BCP's shares, at an exercise price within the range of €3.91 and $15.63 per share plus 8% annual interest. As of 31 December 2014 all warrants were exercised.

2. Warrants 2 - On 29 June 2009 BCRE Russian Properties Limited ("BRP"), a subsidiary of the Company, granted warrants to the employees of the Group exercisable into 584,658 BRP shares. The exercise prices of the warrants are within the range of €11.7- €37 per share (the exercise prices of some of the warrants are adjusted by cumulative yearly interest within the range of 8%-12%). The warrants were immediately vested and can be exercised to shares in five years from the grant date. On 29 November 2012, the BRP's Board of Directors approved the extension of the exercise period from 5 years to 10 years since the grant date. The change in the terms of the warrants did not have material effect on the Group's results.

3. Warrants 3 - On 30 November 2009, BCP granted to its joint CEO, 101,608 warrants (representing 1.59% of the BCP's share capital assuming full dilution), exercisable from grant date and until five years and seven months from the date of grant as follows: 50,804 exercisable 31 months from the date of allocation and 50,804 exercisable 43 months from the date of allocation. The warrants exercise price is €17.5 per share plus 7.5% compounded annual interest. On 15 July 2010, BCP granted warrants exercisable into 188,701 shares of BCP (representing about 3.5% of the BCP's share capital assuming full dilution), to BCP second joint CEO and to additional employees, who were employed by BCP's subsidiaries, at an exercise price of approximately € 17.97 per share plus 7.5% compounded annual interest. One half of these warrants is exercisable 24 months after the allocation date and the other half is exercisable 36 months after the allocation date. As of 31 December 2014, the remaining unexercised warrants are exercisable into BCP's shares. The warrants are fully vested.

4. Warrants 4 - During 2012, the Company's Board of Directors approved the issuance of fully vested warrants exercisable into Company's shares representing 3% of the Company's share capital to an investment committee member. The exercise price of the warrants is €1.32 per share. The fair value of the option granted is approximately €1,517 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- SHARE BASED PAYMENTS (Cont.)

5. Warrants 5 - During 2013, BCP's Audit Committee members and the Board of Directors approved the issuance of 441,524 warrants exercisable into 441,524 of BCP's shares which will be allocated to BCP's officers, including the joint CEOs and the CEO of a subsidiary who serves also as a Director in BCP. On 29 October 2013, the general meeting of BCP's shareholders approved the aforesaid resolutions. The fair value of the warrants is approximately €5,883 thousand.

6. Warrants 6 - On 2 July 2013, the managing Board of Brack Capital USA B.V. ("BCRE USA"), a subsidiary of the Company, granted to employees of the Group 480,278 warrants exercisable into 13.8% of BCRE USA's share capital, at an exercise price within the range $13.78 - $27.11 per share. 55% out of the warrants granted are vested upon grand, 10%, 15% and 20% of the warrants granted are vested at each year thereafter. The fair value of the warrants granted is approximately €1,258 thousand.

7. Warrants 7 – On 28 May 2014, an entity beneficially owned by the family of senior manager A was granted 2,862,155 under a warrant agreement entered into between the Company and the relevant entity, exercisable (subject to the Warrants having vested) from the date of grant within seven years, to 2,862,155 shares. 50% of these warrants can be exercised against an exercise price of EUR 1.4565 ("A Warrants"). The remaining 50% of the warrants can be exercised against an exercise price of EUR 1.7801 ("B Warrants"). The warrant agreement also provides for a cashless exercise, at the option of the holder of warrants. 50% of the A Warrants and 50% of the B Warrants vested immediately and 50% of the A Warrants and 50% of the B Warrants shall vest one year after the grant of the warrants. The holder of warrants is protected against dilution in the case of a bonus payment, rights offering, distribution of a cash dividend or any other distribution by the Company. The fair value of these warrants is approximately €1,413 thousand.

   On 28 May 2014, senior manager B was granted 483,519 warrants pursuant to a warrant agreement entered into with the Company, exercisable (subject to the warrants having vested) from the day of grant within seven years, to 483,519 shares. These warrants can be exercised against an exercise price of EUR 1.6183. 1/3rd of these warrants vested immediately, 1/3rd shall vest one year after the date of the grant of the warrants and the remaining 1/3rd shall vest two years after the date of the grant of the warrants. The warrant agreement also provides for a cashless exercise, at the option of the holder of warrants. The holder of warrants is protected against dilution in the case of a bonus payment, rights offering, distribution of a cash dividend or any other distribution by the Company. The fair value of these warrants is approximately €241 thousand.

8. Expense recognized in the consolidated financial statements:

   The expense recognized in the consolidated financial statements for services received from Group's employees is presented in the following table:

	Year ended 31 December	
	2014	**2013**
	Euro in thousand	
Equity-settled share-based payment plan	2,880	2,403

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- SHARE BASED PAYMENTS (Cont.)

9. Movement during the year:

The following table illustrates the number and the weighted average exercise prices (WAEP) of, and the movement in, share options during the year:

	2014 Number	2014 WAEP	2013 Number	2013 WAEP
Outstanding at 1 January	1,988,624	21.20	1,179,260	18.34
Granted during the year	3,345,674	1.62	921,802	23.30
Share split	4,045,932	1.32	-	-
Exercised during the year	(204,018)	13.45	(112,438)	6.68
Outstanding at 31 December	9,176,212	4.85	1,988,624	21.20

The following table lists the inputs to the models used for the seven share based plans for the year ended 31 December 2014:

	Warrants 1	Warrants 2	Warrants 3
Dividend yield (%)	0%	0%	0%
Expected volatility (%)	32%-36%	28%-29%	35%
Risk-free interest rate (%)	0.4%-4.12%	0.18%-2.53%	0.47%-3.23%
Early Exercise Factor- EEF (%)	150%-300%	150%-250%	150%
Weighted average share price (€)	€7.83	€39.46	€25.22
Model used	Binomial	Binomial	Binomial

	Warrants 4	Warrants 5	Warrants 6
Dividend yield (%)	0%	0%	0%
Expected volatility (%)	23%-30%	21%-26%	26%
Risk-free interest rate (%)	0.21%-1.48%	0.02%-2.78%	0.14%-0.64%
Early Exercise Factor- EEF (%)	250%	75%-150%	150%-250%
Weighted average share price (€)	€505.66 per 1% of Company's equity	€40.09	€13.31
Model used	Binomial	Binomial	Binomial

	Warrants 7
Dividend yield (%)	0%
Expected volatility (%)	20% - 34%
Risk-free interest rate (%)	0.09% - 1.11%
Early Exercise Factor- EEF (%)	150%
Weighted average share price (€)	€ 1.62
Model used	Binomial

The expected life of the warrants is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the warrants is indicative of future trends, which may not necessarily be the actual outcome.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16:- INTEREST-BEARING LOANS AND BORROWINGS

Below is information about the contractual terms of the Group's interest-bearing loans and borrowings.

	31 December 2014	31 December 2013
	Euro in thousand	
Euro		
Bank loans (1),(8),(9),(10) and (11)	575,615	467,397
US dollar		
Bank loans, debentures, bonds and others (3),(4),(7),(12),(13) and (14)	250,686	81,638
Russian Rouble		
Bank loan and others	4,737	7,547
NIS		
Debentures (2),(5) and (6)	207,453	199,068
Total interest-bearing loans and borrowings	1,038,491	755,650
Less - current maturities	71,659	57,843
Total non-current interest-bearing loans and borrowings	966,832	697,807

(1) Due to designation of loans as at fair value through profit or loss to avoid accounting mis-match, €320,430 thousand out of the balance of the loans as of 31 December 2014 are presented at fair value (€437,249 thousand as at 31 December 2013).

(2) Debentures (series A) amounting to €62.7 million (297 million NIS) (2013: €77.9 million) (2013: 373 million NIS), of which €15.8 million (75 million NIS) (2013: €15.5 million) (2013: 74 million NIS) are presented as current maturities, are linked to the Israeli CPI, bear annual interest of 6.504% and are to be repaid in 7 annual instalments, commencing in December 2012.

(3) In November 2013, the Company had issued an additional series of debentures (series B) for a nominal value of $25 million (€18.1 million). The debentures were issued to private investors and are denominated in US dollar, bearing interest rate of 7% per annum. The debentures' amount is repayable in seven annual payments of unequal amounts on 31 December of each year from 2015 to 2021 (inclusive). Each of the first four repayments constitutes 6.25% of the debenture's amount and each of the last three payments will equal 25% of the debenture's amount. The debentures are secured by BCP shares. With respect to debenture's covenants (see Note 29a(7)).

(4) On 5 December 2014, the Company issued bonds (series C) with an aggregate principal amount of $56,350 thousand (€45,7 million). The bonds bear interest rate of 6.5% per annum which is subject to adjustments of 0.25%-0.5% in the case of changes in the bonds' rating. The amount of bonds is repayable in eight annual payments of unequal amounts on 5 December of each year from 2015 to 2022 (inclusive). Each of the first two payments constitute 5% of the bonds' amount, the third and fourth payments constitute 10% each of the bonds' amount and each of the last four payments constitutes 17.5% of the bonds' amount. With respect to the bonds covenants (see Note 29a(8)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16:- INTEREST-BEARING LOANS AND BORROWINGS (Cont.)

(5) On 27 January 2014, 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. The debentures bear annual interest of 3.29% (subject to adjustments in the event of a change in the rating of debentures) (effective interest rate is approximately 3.489% per annum) and will be repaid in unequal 12 yearly installments starting 2013 until 2014.

(6) In July 2014, BCP completed the issuance to the public in Israel new series (series C) of non-convertible debentures of NIS125,000,000 par value with a duration of 8.5 years. The debentures were offered by way of a uniform offer as prescribed in the securities regulations (manner of offering securities to the public) – 2007 in 125,000 units by way of tender on the annual interest rate to be borne by the debentures. The annual interest rate of these debentures is 3.3% (effective interest rate is approximately 3.517% per annum). The interest on the debentures is payable in two semiannual installments on 20 January and 20 July on each of the years 2015 through 2026 (inclusive) effective from 20 January 2015. On 22 July 2014, BCP allocated according to the outcome of the issuance, NIS102,165,000 par value of debentures. On 24 July 2014, trading has commenced for the above securities in the Tel Aviv Stock Exchange. The debentures are linked to the Israeli CPI and payable (principal) in 12 annual installments of unequal amounts on 20 July of 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, the tenth payment will constitute 17% of the principal of the total par value of the debentures and each payment of the last 2 payments will constitute 32.5% of the principal of the total par value of the debentures.

(7) A subsidiary of the Company in USA financed approximately 68% of the purchase of Cobblestone Grove Apartments, as described in Note 3a(2), with a bank loan in the amount of $12.8 million (€9.3 million). The loan has a term of 10 years and bears fixed interest rate of 4.9% per annum.

(8) For the purpose of financing the purchase of residential units in Germany as described in Note 3a(3), BCP entered into an agreement with a German bank for a non-recourse loan of €42.3 million with final repayment date of 1 May 2019. The loan bears six months Euribor interest rate plus a margin of 1.7% payable every quarter. The loan is payable quarterly at an annual rate of 2.5% until the final repayment date where the unsettled principal balance should be paid in full.

(9) In December 2013, 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 this loan facility a lien was placed on two income generating real estate properties in Germany. The new loan was mainly used to repay existing loans of €20 million obtained from another bank, under which a lien was placed on one of the assets. The bank financing has the following principle terms: a non-recourse loan with final repayment date of 31 December 2018. The loan bears three months Euribor interest rate plus a margin of 2.35%. Interest payments are payable quarterly.
The loan is payable quarterly at an annual rate of 2.7% until the final repayment date on which the unsettled principal balance should be paid in full. The loan was received in January 2014. With respect to the covenants set forth in the loan agreement see Note 29a(10).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16:- INTEREST-BEARING LOANS AND BORROWINGS (Cont.)

(10) On 4 February 2014, 13 subsidiaries of BCP (the “asset companies”) entered into a loan agreement with a German bank in a total amount of €125 million. In respect of this loan facility a lien was placed on 13 income generating real estate properties in Germany spanning over a total area of 158 thousand square meters. The new loan was received in February 2014. The new loan was mainly used to repay an existing loan from another bank in the amount of € 100 million, under which a lien was placed on the same assets. The bank financing has the following principle terms: a non-recourse loan with final repayment date of 30 December 2018. The loan bears three months Euribor interest rate plus a margin of 2.3%. Interest payments are payable quarterly. The loan is payable quarterly at an annual rate of 3% until the final repayment date on which the unsettled principal balance should be paid in full. With respect to the covenants set forth in the loan agreement see Note 29a(11).

(11) For the purpose of financing the purchase of real estate in Germany as described in Note 3a(4), BCP entered into an agreement with German banks pursuant to the following term: a non-recourse loan of €38.4 million with final repayment date between 4 to 5 years from the date the loan was granted. The loans bear Euribor interest rate for three or six months plus a margin of 1.5% - 2.25%. The loans will be paid quarterly at an annual rate of 0%-2.5% until the final repayment date in which the unsettled principal balance should be paid in full.

(12) In November 2014, a subsidiary of the Group in USA entered into a loan agreement with two banks for obtaining two loan facilities, Note A amounting to $67 million (€55 million) and Note B amounting to $20 million (€16.5 million). As per the agreed terms, Note A will bear variable interest and Note B will bear interest of 5.5% per annum. Interest shall be payable by monthly instalments commencing on 1 January 2015 until the maturity of the facility on 1 June 2016. The principal amounts of Note A and Note B are payable in one instalment on the loan maturity date. With respect to the covenants set forth in the loan agreement see Note 29a(12).

(13) In August 2014, a Group’s subsidiary entered into a loan agreement with a group of lenders for obtaining a loan facility amounting to $12 million (€10 million). The purpose of the facility is the finance of the development of a commercial shopping center in Lyubertsy, Moscow region, Russia owned by this subsidiary of the Group. The facility bears a fixed interest of 13% per annum and is payable in one instalment, including accrued interest and principal amount in February 2018. With respect to the covenants set forth in the loan agreement see Note 29a(13).

(14) On 18 December 2014, the Company entered into a loan agreement with a financing bank for the amount of $5.1 million (€4.2 million). The loan facility bears fixed interest of 5.27% per annum and is repayable by quarterly instalments of $255 thousand (€210 thousand) plus accrued interest, commencing on 30 March 2015 up until the loan maturity date on 30 December 2019. With respect to the covenants set forth in the loan agreement see Note 29a(14).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2014	31 December 2013
	Euro in thousand	
Interest rate derivative measured at fair value *)	808	3,675

*) Amounts of €266 thousand and €1,024 thousand were recorded as current liabilities as of 31 December 2014 and 31 December 2013, respectively.

a. Some of the German subsidiaries that own investment properties and related loans, has entered into interest rate swap agreements. In these agreements, the subsidiary hedges its exposure to future changes in variable interest rates on cash flows, by swapping it for a fixed interest rate. The change in the fair value of the hedging instrument (not designated as a cash flow hedging for accounting purposes) is recognised in profit or loss. As of 31 December 2014, the fixed interest rate with (no margin) was 0.50%.

b. Some of the German subsidiaries that own investment properties took out loans with maximal interest ceiling. In addition, these subsidiaries entered into agreements to fix the interest rate ceiling (CAP). In those agreements, each subsidiary hedges its exposure to future changes in variable interest on cash flows, by fixing a ceiling rate for the payment of interest. The change in the fair value of instrument was charged directly in profit or loss. As of 31 December 2014 the ceiling interest rates are between 3% and 4.5% (2013: 3.5% and 4.5%)

NOTE 18:- OTHER NON-CURRENT LIABILITIES

	31 December 2014	31 December 2013
	Euro in thousand	
Financial lease liability (1)	3,186	3,186
Tenant deposits	1,738	-
Other liabilities (2)	7,158	-
Less - current maturities	(3,610)	(28)
	8,472	3,158

(1) The financial lease liability refers to an investment property asset leased from a local authority until 2047 (see also Note 29c).

(2) See Note 5b.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- TRADE AND OTHER PAYABLES

	31 December 2014	31 December 2013
	Euro in thousand	
Trade payables	2,717	5,623
Real estate tax and other tax payable	758	1,207
Payable for repayment of capital note	-	2,294
Tenant deposits	3,903	3,536
Accrued expenses	7,819	5,757
Advances received from customers	3,959	3,103
Other payables	4,437	1,164
Amounts payable to partner upon acquisition of interest in investees (1)	4,329	2,306
Liability for capital reduction (4)	4,821	-
Amounts payable to partners and non-controlling interest upon investment realization (2)	-	9,660
Related parties (3)	768	1,813
	33,511	36,463

(1) Including payable on account of exercise of option in the amount of €0.8 million (2013: €2.3 million). See also Note 5b.

(2) The amounts bear an annual interest rate of 1% and were repaid on December 2014.

(3) See Note 30e.

(4) See Note 14b(5).

NOTE 20:- SERVICE CHARGE, MANAGEMENT AND OTHER INCOME

	Year ended December 31, 2014	Year ended December 31, 2013
	Euro in thousand	
Service charge from tenants	51	21
Management and advisory fee	3,008	3,419
	3,059	3,440

NOTE 21:- PROPERTY OPERATING AND OTHER EXPENSES

	Year ended December 31, 2014	Year ended December 31, 2013
	Euro in thousand	
Property management and salary expenses	6,070	3,500
Property taxes and fees	992	570
Maintenance, repairs and renewals	3,522	3,495
Letting expenses	3,777	1,702
Other expenses	6,860	4,466
	21,221	13,733

NOTE 22:- GAIN FROM BARGAIN PURCHASE AND LOSS FROM REALIZATION OF INVESTMENTS, NET

	Year ended December 31	
	2014	2013
	Euro in thousand	
Gain from bargain purchase (1)	16,328	13,762
Loss from realization of investments	-	(7,541)
Other	-	(122)
	16,328	6,099

(1) Regarding gain from bargain purchase in 2014 see Note 5b.

NOTE 23:- ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2014	2013
	Euro in thousand	
Wages and salaries	5,022	4,582
Legal expenses and other professional services (1)	3,746	3,688
Office rent and maintenance	689	923
Other administrative expenses	2,567	2,498
	12,024	11,691
(1) Includes payments to related parties	969	1,032

NOTE 24:- FINANCIAL INCOME

	Year ended 31 December	
	2014	2013
	Euro in thousand	
Marketable securities	206	402
Gain from loan purchased	-	5,647
Interest income on loans, receivables and deposits	12,010	4,520
	12,216	10,569

NOTE 25:- FINANCIAL EXPENSES

	Year ended 31 December	
	2014	2013
	Euro in thousand	
Finance expenses on interest bearing loans, net	42,238	27,454
Bank charges and others	969	1,507
	43,207	28,961

NOTE 26:- OTHER INCOME/(EXPENSES), NET

	Year ended 31 December	
	2014	2013
	Euro in thousand	
Loss from purchase of investee (1)	(2,111)	-
Other income/(expenses), net	2,637	(1,341)
	526	(1,341)

(1) See Note 5a(2).

NOTE 27:- FINANCIAL INSTRUMENTS

Classification of financial assets and financial liabilities:

	31 December	
	2014	2013
	Euro in thousand	
Loans and receivables at amortized cost:		
Cash and cash equivalents	96,359	76,923
Current maturities of long term loans	21,451	10,274
Trade and other receivables (1)	20,361	16,104
Marketable securities and other short-term investments	5,465	4,499
Restricted deposits	25,030	3,875
Other investments and loans	49,770	28,838
	218,436	140,513
Financial liabilities at fair value through profit or loss:		
Interest-bearing loans and borrowings	(327,512)	(437,249)
Derivative financial instruments	(808)	(3,675)
	(328,320)	(440,924)
Other financial liabilities at amortized cost:		
Interest-bearing loans and borrowings	(710,979)	(318,401)
Trade and other payables (2)	(22,578)	(29,824)
Other non-current liabilities (3)	(8,472)	(3,158)
	(742,029)	(351,383)

(1) With the exception of prepaid expenses.
(2) With the exception of tenant deposits and advances from customers.
(3) With the exception of tenant deposits.

The Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's, financial performance. The Group's uses derivative financial instruments to hedge certain risk exposures. Also the Group designates part of the bank loans to be measured at fair value through profit or loss in order to decrease the effect of changes in assets fair value which was financed by those loans.

The Group's management reviews and agrees on policies for managing each of the risks.

NOTE 27:- FINANCIAL INSTRUMENTS (Cont.)

Credit risk

Management has a credit policy in place and monitors the exposure to credit risk on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets. Customers that fail to meet the Group's benchmark for creditworthiness may transact with the Group only on a prepayment basis. The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, restricted deposits and other financial assets (including loans granted).

The Group's companies regularly monitor the credit status of their customers and debtors and record appropriate provisions for the possibility of losses that may be incurred from the provision of credit, in respect of specific debts of which collection is doubtful. As a result, the Group exposure to bad debts is insignificant.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is presented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation and that at all times the Group does not breach the borrowing limits or covenants or any of its borrowing facilities.

The table below summarizes the maturity profile of the Group financial liabilities at 31 December 2014 and 31 December 2013 based on contractual undiscounted payments:

	Year ended 31 December 2014						
	Less than a year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
	Euro in thousand						
Interest-bearing loans and borrowings	100,711	285,817	103,171	404,908	114,698	210,744	1,220,049
Financial liabilities and other long-term liabilities	215	3,794	215	215	215	5,927	10,581
Trade and other payables	22,578	-	-	-	-	-	22,578
	123,504	289,611	103,386	405,123	114,913	216,671	1,253,208

	Year ended 31 December 2013						
	Less than a year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
	Euro in thousand						
Interest-bearing loans and borrowings	76,086	69,638	297,924	93,579	204,467	130,450	872,144
Financial liabilities and other long-term liabilities	215	215	215	215	215	6,143	7,218
Trade and other payables	29,824	-	-	-	-	-	29,824
	106,125	69,853	298,139	93,794	204,682	136,593	909,186

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27:- FINANCIAL INSTRUMENTS (Cont.)

Cash flow and fair value interest rate risk

The Group is exposed to risk resulting from changes in cash flows of loans bearing variable rate interest because of changes in interest rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group hedges most of its financial liabilities by taking loans at fixed interest rate or by entering into interest rate swap agreements or CAP agreements, to reduce exposure to interest rate changes. As of the report date, approximately 70% of the Group's loans and debentures are hedged.

Hedging and derivative instruments

(1) Cash flow derivative:

As of 31 December 2014, the Group has an interest rate swap agreement (IRS) in the sum of €60,625 thousand according to which the Group should pay a fixed interest rate of 0.5% and receive variable interest at a rate equal to one month Euribor.

As of 31 December 2014, the Group has CAP options on loan principals in the amount of approximately €106,016 thousand to fix Euribor interest rate within the range of 1.9%-2.5%.

In addition, as of 31 December 2014, the Group has CAP options to fix loan agreements amounting to € 114,868 thousand such that the total interest on the loan liabilities will not exceed the range of 4.5%-6%.

The hedge transactions are not designated as cash flow hedges for accounting purposes and therefore changes in fair value are recorded in the consolidated income statement.

(2) Currency exchange transactions:

As of 31 December 2014, the Group has various agreements for future sales of Euro against future purchases of US dollar in the total amount of €110 million at an average forward rate of €/$1.36. The fair value of the currency exchange transactions as of 31 December 2014 is €10,365 thousand which is presented as other long term investments. The transaction payment dates are during 2016-2017.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Russian Roubles and NIS. The Group incurs foreign currency risk on income, purchases and borrowings that are denominated in a currency other than the Euro. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency transaction risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies. With respect to the deterioration in the Russian economy, which resulted in the wakening of Russia Rouble, see note 5b. The Group seeks to reduce its currency risks by matching, in each project, the currency denomination of its principal liabilities (financing and construction) and its principal sources of revenue (sale proceeds and rentals).

NOTE 27:- FINANCIAL INSTRUMENTS (Cont.)

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the relevant variable, with all other variables held constant, of the Group's profit before tax:

	Sensitivity to change in Euro/NIS	
	Effect on profit or loss	
	NIS strengthened by 5%	NIS weakened by 5%
	Euro in thousand	
2014	(10,267)	10,267
2013	(9,760)	9,760

	Sensitivity to change in USD/RUB	
	Effect on profit or loss	
	RUB strengthened by 5%	RUB weakened by 5%
	Euro in thousand	
2014	3,973	(3,973)
2013	2,441	(2,441)

	Sensitivity to change in Euribor	
	Effect on profit or loss	
	+200 basis points	-200 basis points
	Euro in thousand	
2014	19,114	(13,219)
2013	14,245	(16,231)

(*) Reasonably possible changes in the EUR/USD expect to have an immaterial effect on the profit or loss.

Fair value

Set out below, are the carrying amounts and the fair value of the Group's financial instruments that are not presented in the consolidated financial statements at fair value:

	Carrying amount		Fair value	
	31 December		31 December	
	Euro in thousand			
	2014	2013	2014	2013
Financial liabilities:				
Debentures and interest payable on debentures	278,147	219,184	287,195	236,067

The carrying amount of cash and cash equivalents, restricted deposits and other short-term investments, trade receivables, other accounts receivable, trade payables and other payables and interest-bearing loans and borrowing presented at amortized cost approximates their fair value.

Fair value of the quoted debentures is based on price quotations at the reporting date.

NOTE 27:- FINANCIAL INSTRUMENTS (Cont.)

Fair value (Cont.)

Description of unobservable material data that are used in valuation:

Financial Liabilities:	Valuation technique	Unobservable material data	Range (weighted average)	Sensitivity of fair value to change in data
Loans (*)	DCF	Discount interest	Euribor for 3 months plus 2.05%-2.5%	2% increase/decrease in discount rate will result in increase/decrease in fair value up to €12.8 million
Interest swap transactions	DCF	Payment curve	Euribor curve for transaction period	2% increase/decrease in Euribor curve will result in increase/decrease in fair value up to €6.3 million

(*) Loans are categorised within Level 3 of the fair value hierarchy. During 2014, the Company recorded a loss due to revaluation of the loans to fair value amounting to €11.9 million which was recorded as a part of "financial expenses" in the consolidated income statement. As of 31 December, 2014 the fair value of loans measured at fair value summed to €437 million (2013: €328 million). During 2014 the Company repaid loans measured at fair value amounting to €120 million. As of the data for the determination of the fair value of investment property, see note 3.

Capital management

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the Company. The primary objective of the Group's capital management is to maximize the shareholder value. In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to its loans that define capital structure requirements as breaches in meeting the financial covenants might, in some cases, permit the lender to seek for immediate repayment of the defaulting loan. There have been no breaches in the financial covenants of any loans and borrowing during the reported period and at the year end. The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sells assets to reduce debt.

NOTE 28:- EARNINGS PER SHARE (EPS)

The following reflects the income and share data used in the basic and diluted EPS computations:

	31 December 2014	31 December 2013
	Euro in thousand	
Net profit for the year attributable to equity holders of the parent for basic earnings	30,042	30,543
Adjustment due to share of diluted earnings of investees (*)	(2,622)	(6,104)
Net profit for the year attributable to equity holders of the parent adjusted for the effect of dilution	27,420	24,439

(*) Mainly due to options and warrants issued by those investee**s.**

NOTE 28:- EARNINGS PER SHARE (EPS) (Cont.)

	31 December	
	2014	**2013**
	Number of shares	
Weighted average number of ordinary shares for basic EPS	154,515,053	144,591,700
Effect of dilution:		
Warrants	9,761	7,257
Weighted average number of ordinary shares adjusted for the effect of dilution	154,524,814	144,598,957

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these consolidated financial statements.

NOTE 29:- COMMITMENTS AND CONTINGENCIES

a. Liens and guarantees:

The investment properties of the Group, each owned by a separate subsidiary, are subject to registered debentures to secure the related bank loans. The lien on the assets is the only guarantee that was submitted to secure the bank loans, except for the following:

1. As collateral for non-recourse loans from banking corporations, liens have been also registered on the bank accounts into which rental fees are received (see also note 9c), on rights in respect of insurance policies, a lien on the shares of the company holding the asset etc. Each property is owned by a consolidated Special Purpose Vehicle ("SPV") company of BCP. In respect of some of the properties, a cross-guarantee secures credit facilities taken for the acquisition of the properties.

   Some of the loan agreements also contain "negative lien" provisions, whereby the borrowers are prohibited from creating additional liens on the encumbered assets and revenues, without receiving the prior explicit consent of the lender. BCP is entitled to direct the relevant activities of those SPVs, and accordingly BCP consolidates the financial statements of those SPVs.

2. As part of the loan agreement signed in November 2013 with a German bank for the purpose of obtaining €101.4 million for financing Stage B of the project in Dusseldorf, BCP extended a guarantee of €15.9 million, out of which an autonomous guarantee of €8.9 million is in favor of the local authority in Dusseldorf to secure the liabilities of the project's companies according to the development agreement entered into with the local authority. The remaining guarantee balance of €7 million will be used for issuing guarantees to performing contractors and others. The annual interest of the guarantee is 1.25% and is calculated only in respect of the amount actually extended as guarantee.

NOTE 29:- COMMITMENTS AND CONTINGENCIES (Cont.)

a. Liens and guarantees (Cont.):

3. The German credit facility agreements contain several financial covenants that must be complied with. These are the Loan to Value ("LTV") ratio, which ranges between 70% and 85%, the Interest Cover Ratio ("ICR") and the Debt Service Cover Ratio ("DSCR"). The ICR must be higher than a range of 150% to 160% and the DSCR higher than a range of 115% to 145%. BCP's steady cash flow enables BCP to meet the ICR and DSCR covenants. In addition, all of the BCP facilities are non-recourse and there is no cross default among the facilities and therefore failure to comply with the terms of one of the frameworks does not constitute violation of the other frameworks.

   As of 31 December 2014 and 31 December 2013, the Group's companies meet all the covenants.

4. BCP has undertaken that so long as the debentures (Series A) are still outstanding:

   (a) BCP's equity attributable to BCP's shareholders shall not fall below €80 million.
   (b) BCP will not make any distribution of dividends and/or capital to its shareholders or purchase its shares if, as a result of such distributions or purchase, the equity of BCP (excluding non-controlling interests) will be reduced below €80 million.
   (c) The ratio between the equity attributed to BCP's shareholders at the end of each quarter to the net financial debt (financial liabilities less cash, cash equivalents and short-term investments) according to the financial information attributed to BCP (stand-alone) shall not fall below 187.5%.
   (d) The ratio between BCP's total net financial liabilities less cash, cash equivalents and short-term investments, and BCP's total equity (including non-controlling rights) shall not exceed 90%.
   (e) The ratio of the value of Brack German Properties B.V. ("BGP") pledged shares calculated on the basis of the subsidiary's equity (attributed to BCP's shareholders), to the outstanding principal plus interest and accumulated linkage and not yet paid, shall not fall below 175%.

   As of 31 December 2014 and 31 December 2013, BCP meets all the covenants.

5. BCP has undertaken that so long as the debentures (Series B) are still outstanding:

   (a) BCP's equity attributable to BCP's shareholders shall not fall below €150 million.
   (b) BCP will not make any distribution of dividends and/or capital to its shareholders or purchase its shares if, as a result of such distributions or purchase, the equity of BCP (excluding non-controlling interests) will be reduced below €160 million or the ratio described in (c) below will exceed 70%.
   (c) The ratio between BCP's total net financial liabilities less cash, cash equivalents and short-term investments, and BCP's total equity (including non-controlling rights) shall not exceed 75%.

NOTE 29:- COMMITMENTS AND CONTINGENCIES (Cont.)

a. Liens and guarantees (Cont.):

(d) The ratio of the value of BGP pledged shares calculated on the basis of the subsidiary's equity (attributed to BCP's shareholder) to the outstanding principal plus interest and accumulated linkage and not yet paid, shall not fall below 175%.

As of 31 December 2014 and 31 December 2013, BCP meets all the covenants.

6. A guaranty was provided by the Company and its partner with regards to a construction loan for the development of a property in the USA. The partners provided the following guaranties, jointly and severally:

(a) Principal Payment Guaranty, as follows:
   1) 25% until property receives a temporary certificate of occupancy ("TCO");
   2) Then reducing to 20% until a Debt Yield of 11% is achieved;
   3) Then reducing to 15% until a Debt Yield of 12.5% is achieved; and
   4) Then reducing to 10%.

(b) Completion Guaranty.

(c) Carry Guaranty for the Property (real estate taxes, insurance, utilities, and condo charges) until receipt of a TCO.

(d) Debt Service Guaranty throughout the Loan term covering interest payments (not principal).

(e) Standard "bad-boy" carve-outs throughout the term of the Loan.

(f) The Company and its partner must jointly maintain $100 million of net worth and $30 million of liquid assets (decreasing to $20 million once the related property commences operations and then to $15 once a debt yield of 12.5% is achieved).

7. The Company had undertaken, the following covenants with respect to Series B debentures:

(a) The Company will not make any distribution of dividends and/or capital to its shareholders or purchase its shares if, as a result of such distributions or purchase, the equity of the Company (excluding non-controlling interests) will be reduced below $200 million or the ratio described in (d) below will exceed 37.5%.

(b) The Company's equity attributable to its shareholders (excluding non-controlling interests) shall not fall below $140 million.

(c) BCP's equity attributable to BCP's shareholders shall not fall below €135 million.

(d) The ratio between the net financial debt to the total capital and debt (CAP) of the Company's shall not exceed 36.5%.

(e) The net financial debt to CAP ratio of BCP shall not exceed 45%.

As of 31 December 2014 and 31 December 2013, the Company meets all the covenants.

NOTE 29:- COMMITMENTS AND CONTINGENCIES (Cont.)

a. Liens and guarantees (Cont.):

8. With respect to the bonds issued by the Company in December 2014, as described in Note 16a(4), the Company shall meet the following covenants:

(a) The Company's equity attributable to its shareholders (excluding non-controlling interests) shall not fall below $140 million.
(b) The ratio between the net financial debt to the total assets of the Company's shall not exceed 75%.
(c) The Company will not make any distribution of dividends to its shareholders if, as a result of such distributions the equity of the Company (excluding non-controlling interests) will be reduced below $150 million or the ratio described in (c) above will exceed 70%.

In addition, the Company will not distribute any dividends if:

(a) Total equity minus non-controlling interests will be less than $150 million following such distribution, or
(b) The ratio of net debt to total assets will not be less than 70% following such distribution.

As of 31 December 2014, the Company meets all the covenants.

9. BCP has undertaken that so long as the debentures (Series C) are still outstanding:

(a) BCP's equity attributable to BCP's shareholders shall not fall below €190 million.
(b) BCP will not make any distribution of dividends and/or capital to its shareholders or purchase its shares if, as a result of such distributions or purchase, the equity of BCP (excluding non-controlling interests) will be reduced below €200 million.
(c) The ratio between BCP's total net financial liabilities less cash, cash equivalents and short-term investments, and BCP's total equity (including non-controlling rights) shall not exceed 75%.
(d) The ratio between the value of the shares of BGP, pledged to guarantee the repayment of debentures, calculated on the basis of the subsidiary's equity (attributed to the shareholders of BCP) and BCP's debts to the holders of the debentures (Series C) shall not fall below 175%

As of 31 December 2014, BCP meets all the covenants.

10. Pursuant to the loan agreement entered into by two subsidiaries of BCP ("the asset companies") in December 2013, the asset companies undertaken that throughout the loan term the LTV ratio will not exceed the range of 67% to 75% and the DSCR will be greater than 120%.

As of 31 December 2014, the asset companies meet all the above financial covenants.

NOTE 29:- COMMITMENTS AND CONTINGENCIES (Cont.)

a. Liens and guarantees (Cont.):

11. Pursuant to the loan agreement entered into by 13 subsidiaries of BCP (the “asset companies”) on 4 February 2014, the asset companies undertaken that through the loan term the LTV ratio will not exceed 77% and the DSCR will be greater than 130%.

    As of 31 December 2014, the asset companies meet all the above financial covenants.

12. Pursuant to the loan agreement entered into by the Group’s subsidiary in USA in November 2014, the Company provided a guarantee to the financing banks in respect of the following: (1) standard environmental indemnity, (2) standard “bad-boy” carve-outs throughout the term of the Loan agreement and (3) a payment guaranty on the Note B of the facility.

    As of 31 December 2014, the Company meets all the above covenants.

13. Pursuant to the financial covenants set forth in the loan agreement entered in August 2014 between a Group’s subsidiary and a group of lenders, the equity of the guarantor for this loan facility, BCRE Russia Properties Limited, shall not fall below 10 times of the outstanding loan amount including any accrued interest. In case the covenant is breached and upon demand of 50% of the group of lenders, the guarantor will be obliged to pay to the lenders such amount so as to furnish for the breach

    As of 31 December 2014, the guarantor of the facility meets all the above covenants.

14. Pursuant to the financial covenants set forth in the loan agreement entered into by the Company and a financing bank on 18 December 2014, throughout the loan term (1) the Company shall maintain liquid assets in an amount of no less than NIS20 million, (2) the Company shall ensure that its equity will not be less than USD140 million, (3) the Company shall ensure that the equity of BCP will not be less than EUR135 million, (4) the Company shall ensure that the ratio between the net solo financial debt to the total solo capital and debt (CAP) of the Company will not exceed 36.5%, (5) the Company shall ensure that the net solo financial debt to CAP ratio of BCP shall not exceed 45% and (6) the Company shall not pay any forms of distributions to its present or future shareholders, if as a result of such distributions the Company’s equity is reduced below $200 million or if the net financial debt to CAP ratio of the Company exceeds 37.5%.

    As of 31 December 2014 the Company meets all the above mentioned covenants.

15. Pursuant to the loan agreement entered into by the Group’s subsidiary in USA, the Group provided a guaranty in favor of the bank as follows: (1) standard “bad-boy” carve-outs, (2) Standard Environmental Indemnity and (3) that the company must maintain $12.8 million (€10.5 million) of net worth and $1.28 million (€1.05 million) of liquid assets.

NOTE 29:- COMMITMENTS AND CONTINGENCIES (Cont.)

a. Liens and guarantees (Cont.):

16. Within the framework of two agreements entered into by subsidiaries for BCP for the acquisition of three residential properties, the acquiring subsidiary companies gave an undertaking to the sellers (a government housing corporation), inter alia, not to sell more than 25% of the acquired apartments over a period of 10 years (and not more than 2.5% per year), to fulfill capital investments in the acquired properties of a minimum of €8.5 to € 11 per square meter per annum over a period of 10 years, to meet certain limitations regarding rent increases for residents living in the property on the acquisition date. The commitments are undertaken in order to uphold the terms of sale determined by the federal government controlling the seller. The undertakings are secured by a guarantee given by the ultimate parent company, in the amount of approximately €10 million.

    On 18 November 2010, BCP granted indemnification letter to the ultimate parent company under which BCP shall compensate the ultimate parent company for any demand to exercise the above guarantees, if at all.

b. Commitments:

1. During 2007, the Company committed to invest in India through investing in the BCRE India Fund (the "Fund") of an amount of $21.8 million which reflects 20% of the total Fund's commitments. The Group has a 20% equity interest in the Fund and receives a management fee and a performance fee on all of the investments made by the Fund. In 2009, following an amendment to the terms and conditions of the Fund, it was decided that the Fund will cease making new investments in India (but would continue supporting existing investments) and will direct new investment activity to the USA. As of 31 December 2014 and 31 December 2013 the Company has invested in the Fund €14.6 million ($19.9 million) and €14.3 million ($19.6 million), respectively. The Fund does not intend to make new investments and plans to use these amounts to make follow-on investments (as required) and to cover the Fund's related expenses.

2. When shareholders of the Company and other investors are joining the Group in real estate investments, the relevant subsidiary of the Group which manages the investment, is entitled to a promote of 20% to 30% of the investors' share in the profit made by the investment, after full return of the investment plus an annual yield within the range of 8% to 15%. The IRR threshold and the promote mechanism are dependent upon the location of the investment.

NOTE 29:- COMMITMENTS AND CONTINGENCIES (Cont.)

c. Finance lease:

	2014		2013	
	Minimum payments	**Present value of payments**	**Minimum payments**	**Present value of payments**
	Euro in thousand			
Within one year	215	31	215	29
After one year but not more than five year	860	125	862	114
More than five years	5,927	3,030	6,141	3,043
Total minimum lease payments	7,002	3,186	7,218	3,186
Less amounts representing finance charges	(3,816)	-	(4,032)	-
Present value of minimum lease payments	3,186	3,186	3,186	3,186

d. Legal claims:

No material claims were filed against the Group.

NOTE 30:- RELATED PARTIES

a. Transactions with related parties:

	Year ended 31 December	
	2014	**2013**
	Euro in thousand	
Interest income from related parties	429	-
Interest expenses to related parties	(134)	(10)
Management fees expenses to related parties (1) and (2)	(969)	(1,032)
Reimbursement of expenses (1)	(1,279)	(1,280)

(1) The Group is supported by BCH – Brack Capital Holdings Limited ("BCH") through the provision of services by the employees of BCH, which are paid for on cost basis and the provision of rating, investor relations and other financial services for a fixed amount totaling $1.1 million (€0.7 million). In addition, the Company paid to BCH reimbursement of expenses in the amount of $1.7 million (€1.3 million).

(2) The Group is receiving advisory services from B Joel Advisors Limited, a company owned by a related party, payable on a monthly basis. The expense in the amount of approximately €0.2 million was recorded in the income statements.

b. Transactions with entities accounted for using the equity method:

	Year ended 31 December	
	2014	**2013**
	Euro in thousand	
Management fees income from related parties	342	297
Interest income from related parties (1)	826	1,237
Interest expenses to related parties (2)	(597)	(524)

(1) See section d(1)
(2) See section d(2)

NOTE 30:- RELATED PARTIES (Cont.)

c. Balances with related parties:

	31 December 2014	31 December 2013
	Euro in thousand	
Loans granted to related parties (1)	10,973	3,889
Loans granted by related parties (2)	(2,055)	(2,179)

(1) The loans granted to related parties bear annual interest rate in the range of 3% to 4.5% and are repayable on July 2015, February 2017, June 2017 and September 2017 depending on the terms of each loan and the date the loan was granted.

On 17 February 2014, a subsidiary of the Company provided a loan in the amount of NIS5 million (€1.15 million) to the Company's parent company, BCH with an annual 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 the principal amount of the loan and accrued interest.

On 17 February 2014, a subsidiary of the Company provided an additional loan for the amount of NIS1 million (€0.23 million) to a subsidiary of BCH with an annual interest rate of 4.5% and a repayment date of 16 February 2017 secured by 4,926 shares of BCP. The subsidiary has similarly the option to acquire the 4,926 pledged shares of BCP instead of receiving the principal amount of the loan and accrued interest.

On 19 June 2014, a subsidiary of the Company provided an additional loan for the amount of NIS6.9 million (€1.47 million) to a subsidiary of BCH with an annual interest rate of 4.5% and a repayment date of 18 June 2017 secured by 28,193 shares of BCP. The subsidiary has similarly the option to acquire the 28,193 pledged shares of BCP instead of receiving the loan and interest.

On 23 September 2014, a subsidiary of the Company provided an additional loan for the amount of $1 million (€0.78 million) to a subsidiary of BCH with an annual interest rate of 4.5% and a repayment date of 22 September 2017 secured by 15,946 shares of BCP. The subsidiary has the option to acquire the 15,946 pledged shares of BCP instead of receiving the principal amount of the loan and accrued interest.

On 23 September 2014, the subsidiary of the Company provided an additional loan for the amount of $2 million (€1.56 million) to BCH with an annual interest rate of 4.5% and a repayment date of 22 September 2017 secured by 34,418 shares of BCP. The subsidiary has the option instead of a repayment of the loan and interest to acquire the 34,418 pledged shares of BCP.

The fair value of the options at the day the loans were provided are immaterial. None of the above options has been exercised during the year ended 31 December 2014.

(2) Loans granted by Melody Trust, a company owned by a related party, bears annual interest within the range of 6.5% - 7%. See also Notes 16(3) and 16(4).

NOTE 30:- RELATED PARTIES (Cont.)

d. Balances with entities accounted for using the equity method:

	31 December 2014	31 December 2013
	Euro in thousand	
Loans granted to related parties (1)	53,355	53,481
Loans granted by related parties (2) and (3)	(10,097)	(23,640)

(1) The Group provided various loans to entities accounted for using the equity method as follows:

(a) Loans in the total amount of €32.9 million bear no interest and are repayable on demand.

(b) Loans in the amount of €8 million bear interest at the rate of 8% per annum and is repayable within 5 years from the date of grant. The loans were granted during 2013 and 2014.

(c) Loan in the amount of €1 million bears interest at the rate of 12% per annum and is repayable within 5 years from the date of grant. The loan was granted during 2011.

(d) Loan in the amount of €9.3 million, granted to a project in USA, bears interest at the rate of 1.5% per annum and is repayable in 2016. The Company at its option may convert the loan prior to the maturity date for a 74.31% equity interest in the borrower (which is the holding company of the associate) on a fully diluted basis.

(2) During 2013, the Company received loans from Greystone Owner LLC and BCRE 15 USW Holdings LLC (associates of the Group) in the total amount of €16 million. The loans bear 1% annual interest rate and were repaid in 2014.

(3) The loan received from Coralone Limited, an entity accounted for using the equity method, in the amount of €10 million bears annual interest rate of 12% and is repayable in 2016.

e. Balances with companies under joint control and associates:

	31 December 2014	31 December 2013
	Euro in thousand	
Receivable from companies under joint control and associates	1,330	986
Payable to companies under joint control	(768)	(1,813)

The above balances bear no interest and are repayable on demand.

f. Balances with key management personnel:

	31 December 2014	31 December 2013
	Euro in thousand	
Loans granted to key management personnel (1)	4,575	4,293

(1) Loans granted to key management personnel of the Company bear interest of 0% to 3.5% per annum and are repayable on demand.

NOTE 30:- RELATED PARTIES (Cont.)

g. Compensation of key management personnel of the Group:

	Year ended 31 December	
	2014	2013
	Euro in thousand	
Share – based payments transactions (1)	2,403	1,271
Salaries (2)	2,661	2,116
Directors fees (3)	281	38

(1) See also note 15.

(2) The Chairman of the Board, has an option to purchase 2.5% of the equity of any deal in which BCRE UK invests in accordance with the following terms: (a) term: 36 months from the closing of each deal; (b) exercise price: 2.5% of the equity invested by BCRE UK and the co-investment club, adjusted for distributions and additional investments; and (c) type: regular or cashless as determined by the chairman at the time of the exercise. In addition the Chairman of the Board is entitled for an additional annual salary of £122,500 (€150,000) in his capacity as a member of the Investment Advisory Committee (beside his salary as a non-executive director). As of 31 December 2014, there is one deal closed by BCRE UK Properties BV entitling the Chairman of the Board to purchase equity of the deal in accordance with the terms described above.

(3) Relates to the Company's Director remuneration.

NOTE 31: SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on its products and services and has five reportable segments, as follows:

- Income producing commercial real estate
- Income producing residential real estate
- Property held for appreciation
- Residential development
- Other segments – mainly hotel operating and construction

No operating segments have been aggregated to form the above reportable operating segments.

The Executive Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on gross profit including revaluation of investment properties and share in profit of associates and joint ventures. Also, the Group financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments.

NOTE 31: SEGMENT INFORMATION (Cont.)

Year ended 31 December 2014	Income producing commercial real estate	Income producing residential real estate	Property held for appreciation	Residential development	Other	Total
			Euro in thousand			
Gross rental income	39,731	27,919	390	-	-	68,040
Service charge, management and other income	-	902	-	-	2,157	3,059
Proceeds from sale of residential units	-	-	-	72,539	-	72,539
Cost of sales of residential units	-	-	-	(62,741)	-	(62,741)
Property operating and other expenses	(7,986)	(5,328)	(712)	(225)	(6,969)	(21,220)
Gross profit	31,745	23,493	(322)	9,573	(4,812)	59,677
Revaluation of investment property and gains from bargain purchase	38,973	11,619	78,798	-	(944)	128,446
Share of profit of associates and joint ventures	887	-	2,479	-	(869)	2,497
Segment results	71,605	35,112	80,955	9,573	(6,625)	190,620
Administrative and other expenses, net						(14,378)
Finance expenses, net						(81,961)
Profit before taxes						94,281

Year ended 31 December 2013	Income producing commercial real estate	Income producing residential real estate	Property held for appreciation	Residential development	Other	Total
Gross rental income	30,594	18,797	689	-	-	50,080
Proceeds from sale of residential units	-	-	-	1,399	-	1,399
Cost of sale of residential units	-	-	-	(1,860)	-	(1,860)
Service charge, management and other income	-	-	-	-	3,440	3,440
Property operating expenses and others	(4,467)	(2,719)	(57)	(1,532)	(4,998)	(13,773)
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	25,421	-	2,602	70,688
Share of profit of associates and joint ventures	55,238	-	(5,110)	-	(1,210)	48,918
Segment results	114,718	25,390	20,943	(1,993)	(166)	158,892
Administrative and other expenses, net						(15,435)
Finance expenses, net						(28,424)
Profit before taxes						115,033

NOTE 31: SEGMENT INFORMATION (Cont.)

As of 31 December 2014	Income producing commercial real estate	Income producing residential real estate	Property held for appreciation	Residential development	Other	Total
	Euro in thousand					
Segment assets	707,048	428,691	343,054	115,527	53,338	1,647,658
Unallocated assets						229,087
Segment liabilities	355,444	247,242	138,849	63,828	6,415	811,778
Unallocated liabilities						360,982

As of 31 December 2013	Income producing commercial real estate	Income producing residential real estate	Property held for appreciation	Residential development	Other	Total
	Euro in thousand					
Segment assets	712,849	308,950	177,351	141,243	33,184	1,373,577
Unallocated assets						149,525
Segment liabilities	305,942	173,830	25,428	67,589	14,917	587,706
Unallocated liabilities						298,054

As of 31 December 2014	Germany	Russia	USA	Others	Total
	Euro in thousand				
Non-current assets	1,033,166	328,739	182,009	9,844	1,553,758

As of 31 December 2013	Germany	Russia	USA	Others	Total
	Euro in thousand				
Non-current assets	889,258	319,838	32,357	24,210	1,265,663

Year ended 31 December 2014	Germany	Russia	USA	Others	Total
	Euro in thousand				
Revenues	131,445	7,511	3,593	1,089	143,638

Year ended 31 December 2013	Germany	Russia	USA	Others	Total
	Euro in thousand				
Revenues	49,540	3,292	1,129	958	54,919

Year ended 31 December 2014	Germany	Russia	USA	Others	Total
	Euro in thousand				
Capital investments	132,023	55,110	104,397	3,078	294,608

Year ended 31 December 2013	Germany	Russia	USA	Others	Total
	Euro in thousand				
Capital investments	172,028	91,998	-	-	264,026

NOTE 32: SUBSEQUENT EVENTS

a. On 7 April 2015, a subsidiary of the Company in USA has acquired a new multifamily platform (''Century Lakes'') in Cincinnati, Ohio for the total amount of $17.2 million (€14.2 million). In order to finance the acquisition the subsidiary obtained a bank loan of $11.2 million (€9.2 million).

b. On 30 December 2014, the shareholders agreement in relation to the Novosibirsk project, an agro industrial, wholesale and distribution center, which will be implemented by phases, was signed between the joint venture (''JV'') and the local partner. According to this agreement the JV company was established, where JV hold 51% of the shares and the remaining 49% by the local partner.

   For the consideration of the local partner's share, he assigned the rights of the land plots with the total area of approximately 156 hectare, located in Novosibirsk region, which shall be used for the project development. JV committed to fund up to 500 million Russian Rouble, as a consideration for its share in the project.

LIST OF SIGNIFICANT INVESTEES

Significant investees	Investee	Country of incorporation	Ownership interest 31 December 2014	2013
Brack Capital Properties N.V.	Subsidiary	The Netherlands	34.63%	34.71%
Brack Capital First B.V.	Subsidiary	The Netherlands	100%	100%
BCRE Russian Properties Ltd	Subsidiary	Cyprus	85.07%	83.9%
Brack Capital U.S.A B.V.	Subsidiary	The Netherlands	100%	100%
BCRE India B.V.	Subsidiary	The Netherlands	100%	100%

COMPANY FINANCIAL STATEMENTS

AS OF 31 DECEMBER 2014

COMPANY STATEMENT OF FINANCIAL POSITION
(AFTER PROFIT APPROPRIATION)

	Note	31 December 2014	31 December 2013
		Euro in thousand	
ASSETS			
Property, plant and equipment		3	-
Financial fixed assets	1	341,418	*) 287,885
Loan to related party	2	-	3,687
Total non-current assets		341,421	291,572
Loan to related party	2	4,422	-
Other receivables and other investments	3	8,343	5,226
Amount due from related parties	4	19,276	15,306
Marketable securities and other investments, short term		3,350	3,679
Restricted cash		13,451	-
Cash and cash equivalents		24,614	34,448
Total current assets		73,456	58,659
Total assets		414,877	350,231
EQUITY			
Issued capital	5	1,616	145
Share premium	5	147,404	68,581
Capital notes	5	-	59,585
Convertible loan	5	16,575	-
Legal reserves for subsidiaries	5	276,342	*) 215,031
Company's share in reserves of investees	5	(11,061)	*) (13,609)
Share based payment reserve		2,830	1,517
Accumulated loss	5	(166,359)	*) (98,942)
Total equity		267,347	232,308
LIABILITIES			
Debentures	6c	110,032	80,583
Bank loan	7	3,356	-
Total non-current liabilities		113,388	80,583
Debentures	6	19,388	15,548
Bank loan	7	840	-
Amount due to related parties	8	7,761	15,298
Trade and other payables	9	6,153	6,494
Total current liabilities		34,142	37,340
Total equity and liabilities		414,877	350,231

*) Restated. Refer to Note 14.
The accompanying notes are an integral part of the financial statements.

COMPANY INCOME STATEMENT

	Year ended 31 December	
	2014	2013
	Euro in thousand	
Other results after tax	(11,457)	(19,185)
Share of profit of financial fixed assets	41,499	*) 49,728
Net profit for the year	30,042	*) 30,543
Other comprehensive loss:		
Share of other comprehensive loss of financial fixed assets	(36,148)	*) (21,628)
Total other comprehensive loss	(36,148)	*) (21,628)
Total comprehensive (loss)/income for the year	(6,106)	*) 8,915

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

General

The consolidated financial statements are an integral part of the statutory financial statements of the Company for the year ended 31 December 2014. If there is no further explanation provided to the items included in the statement of financial position and the income statement of the Company, please refer to the related notes in the consolidated statement of financial position and the consolidated income statement.

With regard to the income statement, the Company applies the exemption of article 2:402 BW.

Currency

The exchange rates used in these financial statements are:	31/12/2014	31/12/2013
EUR : USD	1.2155	1.3766
EUR : ILS	4.7454	4.782
EUR : GBP	0.7825	0.836

Accounting policies

The financial statements of BCRE-Brack Capital Real Estate Investments N.V. (“the Company”) have been prepared in accordance with the provisions of Part 9, Book 2, of the Netherlands Civil Code.

The same principles governing valuation and the determination of results (including the principles governing the classification of financial instruments as equity or liability) have been applied in compilation of the company financial statements as in compilation of the consolidated financial statements, as permitted by Article 2:362, clause 8, of the Civil Code.

In these company’s financial statements the investments in subsidiaries are measured at net asset value. The net asset value of a participating interest is determined by valuing the assets, provisions and liabilities and calculating the result using the accounting principles applied to the consolidated financial statements. When the Company’s share of losses in an investment equals or exceeds its interest in the investment, (including separately presented goodwill or any other unsecured non-current receivables, being part of the net investment), the Company does not recognize any further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment. In such case the company will recognize a provision.

Pursuant to Article 402, Book 2, of the Netherlands Civil Code, the Company’s income statement has been presented in abridged form.

NOTE 1:- **FINANCIAL FIXED ASSETS**

a. Movement in investment in subsidiaries:

	31 December 2014	31 December 2013
	Euro in thousand	
Balance at the beginning of the year	285,391	*) 291,005
Additions/(repayments), net	44,708	(26,484)
Impairment	-	(1,734)
Share of profit	41,525	49,869
Share of translation reserve	(36,148)	(21,628)
Transactions with non-controlling interests	2,548	(5,637)
Balance at the end of the year	338,024	*) 285,391

b. Movement in investment in associates:

	31 December 2014	31 December 2013
	Euro in thousand	
Balance at the beginning of the year	69	210
Share of loss	(26)	(141)
Balance at the end of the year	43	69

c. Loan to indirect subsidiaries:

	31 December 2014	31 December 2013
	Euro in thousand	
Balance at the beginning of the year	2,425	1,970
Interest on loans	237	228
Exchange differences	689	227
Balance at the end of the year	3,351	2,425

d. Investments in subsidiaries and associates can be specified as follows:

Name	31 December 2014	31 December 2013
	Euro in thousand	
Brack Capital First B.V. (Subsidiary)	315,300	252,851
BCRE Izaki B.V. (Subsidiary)	2,251	4,401
Brack Capital Cyprus Management Limited (Subsidiary)	1,377	702
Seaband Limited (Associate)	43	69
BCRE Russian Properties Limited (Subsidiary)	19,177	27,532
Brack Maraconi (Netherlands) B.V. (Subsidiary)	(81)	(95)
	338,067	285,460

NOTE 1:- **FINANCIAL FIXED ASSETS (Cont.)**

e. The Company holds the following direct financial interests:

Company name	Country of incorporation	Share in issued capital %
Brack Capital First B.V.	The Netherlands	100%
BCRE Izaki B.V.	The Netherlands	100%
Brack Capital Cyprus Management Limited	Cyprus	100%
BCRE Russian Properties Limited	Cyprus	16.95%
Seaband Limited	Cyprus	30.49%
Brack Maraconi (Netherlands) B.V.	The Netherlands	20%

f. The Company holds the following significant indirect financial interests:

Company name	Country of incorporation	Share in issued capital %
BCRE India B.V.	The Netherlands	100%
BCRE UK Properties B.V.	The Netherlands	100%
Brack Capital Gamma B.V.	The Netherlands	100%
Brack Capital USA B.V.	The Netherlands	100%
Brack Capital Properties N.V.	The Netherlands	34.63%

NOTE 2:- LOAN TO RELATED PARTY

The loan granted to Brack Capital Holdings Limited bears annual interest of 3% and is repayable on July 2015.

NOTE 3:- **OTHER RECEIVABLES AND OTHER INVESTMENTS**

Other receivables and other investments represent loans granted to employees and to third party investors, secured by their portion in the Group’s investments.

NOTE 4:- **AMOUNTS DUE FROM RELATED PARTIES**

Amounts due from related parties represent various loans given to Group’s Companies.

NOTE 5:- EQUITY

The composition of the Company's equity is as follows:

	Share Capital	Share Premium	Capital notes	Convertible loan	Share based payment	*) Legal reserves for subsidiaries	*) Company's share in reserves of investees	*) Accu-mulated losses	Total
	Euro in thousands								
Balance as at 1 January 2013	142	65,624	63,567	-	2,665	142,945	(7,972)	(35,771)	231,200
Result for the period	-	-	-	-	-	93,714	-	(63,171)	30,543
Other comprehensive loss	-	-	-	-	-	(21,628)	-	-	(21,628)
Total other comprehensive loss	-	-	-	-	-	72,086	-	(63,171)	8,915
Issuance of shares	3	2,957	1,106	-	-	-	-	-	4,066
Share based payments	-	-	(5,088)	-	(1,148)	-	-	-	(6,236)
Transactions with non-controlling interests, net	-	-	-	-	-	-	(5,637)	-	(5,637)
Balance as at 31 December 2013 / 1 January 2014	145	68,581	59,585	-	1,517	215,031	(13,609)	(98,942)	232,308
Result for the period	-	-	-	-	-	97,459	-	(67,417)	30,042
Other comprehensive loss	-	-	-	-	-	(36,148)	-	-	(36,148)
Total other comprehensive loss	-	-	-	-	-	61,311	-	(67,417)	(6,106)
Capital notes conversion	-	59,585	(59,585)	-	-	-	-	-	-
Conversion and split	1,301	(1,301)	-	-	-	-	-	-	-
Issuance of shares	170	25,360	-	-	-	-	-	-	25,530
Capital reduction	-	(4,821)	-	-	-	-	-	-	(4,821)
Issuance of convertible loans	-	-	-	16,575					16,575
Share based payments	-	-	-	-	1,313	-	-	-	1,313
Transactions with non-controlling interests, net	-	-	-	-	-	-	2,548	-	2,548
Balance as at 31 December 2014	1,616	147,404	-	16,575	2,830	276,342	(11,061)	(166,359)	267,347

*) Restated. Refer to Note 14.

The legal reserves for subsidiaries note are not distributable reserves and cannot be utilized for the distribution of dividends to shareholders.

NOTE 5:- EQUITY (Cont.)

Authorized share capital

By notarial deed the Articles of Association were amended on the following dates:

a. On 28 May 2014, the authorized share capital of the Company was changed from 2,500,000 shares of €0.10 each to 700,000,000 shares of €0.01 each.

b. On 14 October 2014, the authorized share capital of the Company was changed from 700,000,000 shares of €0.01 each to 700,000,000 shares of €0.04 each.

c. On 24 December 2014, the authorized share capital of the Company was changed from 700,000,000 shares of €0.04 each into 700,000,000 shares of €0.01 each.

Issued share capital

On 28 May 2014, the Company's entire issued ordinary share capital was admitted to the standard listing segment of the Official List of UK Listing Authority for trading on the main market of listed securities of London Stock Exchange Plc. Following the admission, the Company has raised approximately €24 million, net of issuance expenses of €2.1 million, through the placing of 16,097,883 new ordinary shares at €1.62 per share.

On 23 December 2014, the Company has raised approximately €1.5 million pursuant to the issuance of 920,481 new shares at an issue price of €1.66 per share.

Share premium

Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares.

On 28 May 2014, the nominal value of each share in the Company's share capital was firstly increased from €0.10 to €1 per share and subsequently on the same date, each share (with a nominal value of €1) was converted into 100 shares with a nominal value of €0.01. The difference of €1,3 million from the increase of the nominal value from €0.10 to €1 was debited in the share premium account.

On the same date and following the admission of the Company's entire issued ordinary share capital to the standard listing segment of the Official List of UK Listing Authority for trading the total amount of €59.6 million of capital notes was converted to share premium.

On 14 October 2014, the Company increased the nominal value of the ordinary shares from €0.01 to €0.04 per share. The difference of €4.8 million was debited in the share premium account.

On 24 December 2014 the Board of Directors approved the capital reduction which reduced the nominal value of each share from €0.04 to €0.01 totaling to €4.8 million. The respective liability of €4.8 million in relation to the capital reduction was recognized in these financial statements.

Capital notes

The capital notes were denominated in Euro. The Company could force conversion at maturity (fixed conversion rate). The shareholders have the right to force the conversion at any time. The capital notes were subordinated to all the liabilities of the Company, including, but not limited to contingent liabilities.

Following the admission of the Company's entire issued ordinary share capital to the standard listing segment of the Official List of UK Listing Authority for trading the total amount of €59.6 million of capital notes was converted to share premium.

Convertible loan

On 23 December 2014, the Company raised €16.6 million, net of expenses, pursuant to the issuance of the Convertible Loan Notes. The Convertible Loan Notes bear 2.25% annual compounded interest and will have a term maturing on 14 November 2016.

NOTE 5:- EQUITY (Cont.)

Legal reserves for subsidiaries

The legal reserves for subsidiaries include the following:
1. reserve for participating interests,
2. translation reserve,
3. revaluation reserve.

The reserve for participating interests for for which BCRE cannot secure payment of dividend.
The translation reserve relates to investment in foreign subsidiaries that are translated into Euro at the exchange rate as of year-end.
The revaluation reserve relates to the unrealized result of the revaluation of investment properties and the investment properties held by investments in associates.

Result for the period / Accumulated losses

The board proposes to the General Meeting of the shareholders to add the 2014 result: an amount of EUR 30,042 thousand to be added to the other reserves.

NOTE 6:- NON-CURRENT LIABILITIES

a. Debentures

Below is information about the contractual terms of the debentures issued by the Company:

(1) Debentures (series A) amounting to €62.7 million (297 million NIS) (2013: €77.9 million) (2013: 373 million NIS), of which €15.8 million (75 million NIS) (2013: €15.5 million) (2013: 74 million NIS) are presented as current maturities, are linked to the Israeli CPI, bear annual interest of 6.504% and are to be repaid in 7 annual instalments, commencing in December 2012.

(2) In November 2013, the Company had issued an additional series of debentures (series B) for a nominal value of $25 million (€18.1 million). The debentures were issued to private investors and are denominated in US dollar, bearing interest rate of 7% per annum. The debentures' amount is repayable in seven annual payments of unequal amounts on 31 December of each year from 2015 to 2021 (inclusive). Each of the first four repayments constitutes 6.25% of the debenture's amount and each of the last three payments will equal 25% of the debenture's amount. The debentures are secured by BCP shares. The Company had undertaken, the following covenants with respect to Series B debentures:

(a) The Company will not make any distribution of dividends and/or capital to its shareholders or purchase its shares if, as a result of such distributions or purchase, the equity of the Company (excluding non-controlling interests) will be reduced below $200 million or the ratio described in (d) below will exceed 37.5%.
(b) The Company's equity attributable to its shareholders (excluding non-controlling interests) shall not fall below $140 million.
(c) BCP's equity attributable to BCP's shareholders shall not fall below €135 million.
(d) The ratio between the net financial debt to the total capital and debt (CAP) of the Company's shall not exceed 36.5%.
(e) The net financial debt to CAP ratio of BCP shall not exceed 45%.

As of 31 December 2014 and 31 December 2013, the Company meets all the covenants.

(3) On 5 December 2014, the Company issued bonds (series C) with an aggregate principal amount of $56,350 thousand (€45,7 million). The bonds bear interest rate of 6.5% per annum which is subject to adjustments of 0.25%-0.5% in the case of changes in the bonds' rating. The amount of bonds is repayable in eight annual payments of unequal amounts on 5 December of each year from 2015 to 2022 (inclusive). Each of the first two payments constitute 5% of the bonds' amount, the third and fourth payments constitute 10% each of the bonds' amount and each of the last four payments constitutes 17.5% of the bonds' amount. The Company had undertaken, the following covenants with respect to Series C debentures:

NOTE 6:- NON-CURRENT LIABILITIES (cont.)

(a) The Company's equity attributable to its shareholders (excluding non-controlling interests) shall not fall below $140 million.
(b) The ratio between the net financial debt to the total assets of the Company's shall not exceed 75%.
(c) The Company will not make any distribution of dividends to its shareholders if, as a result of such distributions the equity of the Company (excluding non-controlling interests) will be reduced below $150 million or the ratio described in (c) above will exceed 70%.

In addition, the Company will not distribute any dividends if:

(a) Total equity minus non-controlling interests will be less than $150 million following such distribution, or
(b) The ratio of net debt to total assets will not be less than 70% following such distribution.
(c) As of 31 December 2014, the Company meets all the covenants.

As of 31 December 2014, the Company meets all the above mentioned covenants.

NOTE 7:- **BANK LOANS**

On 18 December 2014, the Company entered into a loan agreement with a financing bank for the amount of $5.1 million (€4.2 million). The loan facility bears fixed interest of 5.27% per annum and is repayable by quarterly instalments of $255 thousand (€210 thousand) plus accrued interest, commencing on 30 March 2015 up until the loan maturity date on 30 December 2019.

Pursuant to the financial covenants set forth in the loan agreement, throughout the loan term (1) the Company shall maintain liquid assets in an amount of no less than NIS20 million, (2) the Company shall ensure that its equity will not be less than USD140 million, (3) the Company shall ensure that the equity of Brack Capital Properties N.V. ("BCP") will not be less than EUR135 million, (4) the Company shall ensure that the ratio between the net solo financial debt to the total solo capital and debt (CAP) of the Company will not exceed 36.5%, (5) the Company shall ensure that the net solo financial debt to CAP ratio of BCP shall not exceed 45% and (6) the Company shall not pay any forms of distributions to its present or future shareholders, if as a result of such distributions the Company's equity is reduced below $200 million or if the net financial debt to CAP ratio of the Company exceeds 37.5%.

As of 31 December 2014 the Company meets all the above mentioned covenants.

NOTE 8:- **AMOUNTS DUE TO GROUP COMPANIES**

Amounts due to Group Companies represents various loans given to other companies of the group.

NOTE 9:- TRADE AND OTHER PAYABLES

	31 December	
	2014	2013
	Euro in thousand	
Capital reduction liability	4,821	-
Accounts payable to suppliers and trade creditors	509	254
Other liabilities	823	50
Payable for repayment of capital notes	-	2,294
Payable to co-investors	-	3,896
	6,153	6,494

NOTE 10:- **CORPORATE INCOME TAX**

The corporate income tax return for the fiscal year 2013 will be filed by the end of 30 April 2015.

NOTE 11:- **AUDIT FEES**

With reference to section 2:382a (1) and (2) of the Netherlands Civil Code, the following audit fees for the financial year ended 31 December 2014 have been charged to the Company, its subsidiaries and other consolidated entities.

	Ernst & Young Accountants LLP, The Netherlands	Ernst & Young, Israel
	Euro in thousand	Euro in thousand
Audit and assurance services	38	260

NOTE 12:- EMOLUMENT OF DIRECTORS

The emoluments, as intended in section 2:383 (1) of the Netherlands Civil Code, which were charged in the financial year to the Company amounted to EUR 130,000 (2013: EUR 38,000) for Directors. The composition of Directors emoluments is as follows:

	Year ended 31 December	
	2014	2013
	Euro in thousand	
Michiel Olland (executive)	40	-
Jan van Der Meer (non-executive)	30	22
Harin Thaker (non-executive)	30	-
Daniel Aalsvel (non-executive)	30	-
Josef Herman	-	16
	130	38

The Chairman of the Board (Harin Thaker), has an option to purchase 2.5% of the equity of any deal in which BCRE UK invests in accordance with the following terms: (a) term: 36 months from the closing of each deal; (b) exercise price: 2.5% of the equity invested by BCRE UK and the co-investment club, adjusted for distributions and additional investments; and (c) type: regular or cashless as determined by the chairman at the time of the exercise. In addition the Chairman of the Board is entitled for an additional annual salary of £122,500 (€150,000) in his capacity as a member of the Investment Advisory Committee (beside his salary as a non-executive director).

NOTE 13:- SHARE BASED PAYMENTS

During 2012, the Company's Board of Directors approved the issuance of fully vested warrants exercisable into Company's shares representing 3% of the Company's share capital to an investment committee member. The exercise price of the warrants is €1.32 per share. The fair value of the option granted is approximately €1,517 thousand.

Immediately prior to Admission, an entity beneficially owned by the family of senior manager A was granted 2,862,155 under a warrant agreement entered into between the Company and the relevant entity, exercisable (subject to the Warrants having vested) from the date of grant within seven years, to 2,862,155 shares. 50% of these warrants can be exercised against an exercise price of EUR 1.4565 ("A Warrants"). The remaining 50% of the warrants can be exercised against an exercise price of EUR 1.7801 ("B Warrants"). The warrant agreement also provides for a cashless exercise, at the option of the holder of warrants. 50% of the A Warrants and 50% of the B Warrants vested immediately and 50% of the A Warrants and 50% of the B Warrants shall vest one year after the grant of the warrants. The holder of warrants is protected against dilution in the case of a bonus payment, rights offering, distribution of a cash dividend or any other distribution by the Company.

Immediately prior to Admission, senior manager B was granted 483,519 warrants pursuant to a warrant agreement entered into with the Company, exercisable (subject to the warrants having vested) from the day of grant within seven years, to 483,519 shares. These warrants can be exercised against an exercise price of EUR 1.6183. 1/3rd of these warrants vested immediately, 1/3rd shall vest one year after the date of the grant of the warrants and the remaining 1/3rd shall vest two years after the date of the grant of the warrants. The warrant agreement also provides for a cashless exercise, at the option of the holder of warrants. The holder of warrants is protected against dilution in the case of a bonus payment, rights offering, distribution of a cash dividend or any other distribution by the Company.

NOTE 13:- SHARE BASED PAYMENTS (Cont.)

The expenses recognized in the Company's financial statements for the year ended 31 December 2014, for the warrants granted are as follows:

	Year ended 31 December	
	2014	2013
	Euro in thousand	
Share – based payments transactions	1,313	1,271

NOTE 14:- RESTATEMENT OF PRIOR YEAR ERROR

For the year ended 31 December 2013, the Company incorrectly accounted for its financial fixed assets under the cost method which was not in accordance with the applicable Dutch GAAP. Under this Dutch GAAP financial fixed assets should be measured based on the net assets value method.

The effects of the correction of this error in view of the above on the Company's statement of financial position as at 1 January 2013, is as follows:

	As previously reported	Restatement	As currently presented
	Euro in thousand		
Financial fixed assets	125,952	167,233	293,185
Legal reserve for subsidiaries	-	142,945	142,945
Company's share in reserves of investees	-	(7,972)	(7,972)
Accumulated losses	(68,031)	32,260	(35,771)

The effects of the correction of this error in view of the above on the Company's statement of financial position as at 31 December 2013, is as follows:

	As previously reported	Restatement	As currently presented
	Euro in thousand		
Financial fixed assets	98,987	188,898	287,885
Legal reserve for subsidiaries	-	215,031	215,031
Company's share in reserves of investees	-	(13,609)	(13,609)
Accumulated losses	(86,418)	(12,524)	(98,942)

NOTE 15:- STAFF

During this financial year the average number of employees in the Group amounted to 55 (2013: 50), of which 52 (2013: 44) were employed outside The Netherlands.

Amsterdam, 30 April 2015

Board of Directors

Harin Thaker	Jan van der Meer	Michiel Olland	Daniel Aalsvel

OTHER INFORMATION

Provisions in the Articles of Association governing the appropriation of profit

In accordance with article 30 of the Company's Articles of Association, the Company's Board of Directors may determine which part of the profits shall be reserved. The part of the profit remaining after reservation shall be put at the disposal of the General Meeting.

Proposal for appropriation of the result

It is proposed by the board of directors to the General Meeting of the shareholders to add the 2014 result: an amount of EUR 30,042 thousand to the other reserves. The financial statements have been prepared after appropriation of result.

Subsequent events

On 7 April 2015, an indirect subsidiary of the Company in USA has acquired a new multifamily platform (''Century Lakes'') in Cincinnati, Ohio for the total amount of $17.2 million (€14.2 million). In order to finance the acquisition the subsidiary obtained a bank loan of $11.2 million (€9.2 million).

On 30 December 2014, the shareholders agreement in relation to the Novosibirsk project, an agro industrial, wholesale and distribution center, which will be implemented by phases, was signed between the joint venture (''JV'') and the local partner. According to this agreement the JV company was established, where JV hold 51% of the shares and the remaining 49% by the local partner.

For the consideration of the local partner's share, he assigned the rights of the land plots with the total area of approximately 156 hectare, located in Novosibirsk region, which shall be used for the project development. JV committed to fund up to 500 million Russian Rouble, as a consideration for its share in the project.

INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report

To: the shareholders and board of directors of BCRE-Brack Capital Real Estate Investments NV

Report on the audit of the financial statements 2014

Our opinion

We have audited the financial statements 2014 of BCRE-Brack Capital Real Estate Investments NV, based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The consolidated financial statements give a true and fair view of the financial position of BCRE-Brack Capital Real Estate Investments NV as at 31 December 2014 and of its result and its cash flows for 2014 in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.
- The company financial statements give a true and fair view of the financial position of BCRE-Brack Capital Real Estate Investments NV as at 31 December 2014 and of its result for 2014 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2014.
- The following statements for 2014: consolidated income statement, and the consolidated statements of other comprehensive income, changes in equity and cash flows.
- The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- The company statement of financial position as at 31 December 2014.
- The company income statement for 2014.
- The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of BCRE-Brack Capital Real Estate Investments in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgment we determined the materiality for the financial statements as a whole at € 9 million. The materiality is based on 0.5% of total assets. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the board of directors that misstatements in excess of € 450 thousands, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

BCRE-Brack Capital Real Estate Investments NV is head of a group of entities. The financial information of this group is included in the consolidated financial statements of BCRE-Brack Capital Real Estate Investments NV.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

Our group audit mainly concentrated on significant group entities based on the relative size of the group entity on the total assets, including the size of the investment properties, inventory of land and apartments under construction and interest bearing loans and borrowings. Significant group entities are also determined based on specific risks of material misstatements. The group is organized on a country basis and we identified the German entities, US entities and the Russian entities as a full scope location. We have performed audit procedures ourselves at group entity BCRE-Brack Capital Real Estate Investments N.V. and in joint operation with our local team in Israel, we performed audit procedures for the significant group entities. We performed review procedures or specific audit procedures at the other group entities.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the board of directors. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment properties

The valuation of the investment properties, including the investment properties held by the investment in associates, is important to our audit as it represents a significant judgment area and an important part of the total assets of the company. The valuation of the investment properties is highly dependent on estimates. We therefore identified the valuation of investment properties as a significant risk. The group policy is that property valuations are performed by external experts at least once a year. These valuations are amongst others based on assumptions, such as estimated rental revenues, discount rates, occupancy rates, historical transactions, market knowledge, developers risk and historical transactions.

Amongst others, we have considered the objectivity, independence and expertise of the external appraisers. We furthermore assessed the correctness of the property related data as used as input for the valuations and utilized our real estate valuation specialists to assist us in analyzing the valuations and challenging the underlying assumptions. We further focused on the adequacy of the disclosures on the valuation of investment property.

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Disclosures of this item are included in note 2e-1, note 2o and note 3 of the financial statements.

De facto control Brack Capital Properties NV
The group has 34.63% of the voting rights of Brack Capital Properties NV, a Dutch company with its shares traded on the Tel Aviv stock exchange. The group has determined that it has de facto control in Brack Capital Properties NV due to the size of its voting rights and including the voting rights held by companies controlled by the group's parent company, which companies are considered de facto agents of the group. The size of the group's holding in voting rights relative to the size or dispersion of the holdings of the other shareholders of Brack Capital Properties NV has enabled the group to exercise a majority of the voting power that participates in the shareholder's meeting and can appoint the majority of the directors and indirectly, the senior management of Brack Capital Properties NV.

Our audit procedures included among others an assessment of whether the facts and circumstances and the minutes of shareholder's meetings substantiate accounting for the participation in Brack Capital Properties NV as a consolidated subsidiary based on de facto control.

Disclosures of this item are included in note 2f and note 4 of the financial statements.

Responsibilities of management and the board of directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The non-executive board of directors is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit

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- procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Report on other legal and regulatory requirements

Report on the directors' report and the other information

Pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the directors' report and other information):

- We have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
- We report that the directors' report, to the extent we can assess, is consistent with the financial statements.

Engagement

We were engaged by the board of directors as auditor of BCRE-Brack Capital Real Estate Investments NV on 2 February 2015, as of the audit for the year 2014 and have operated as statutory auditor since that date.

Zwolle, 30 April 2015
Ernst & Young Accountants LLP

Signed by: M. Rooks