

CONFIDENTIAL

BCRE - Brack Capital Real Estate Investments N.V.
Attn. Mrs. N. Koutsou
Barbara Strozziilaan 201
1083 HM AMSTERDAM

Rotterdam, 26 April 2018

REQ2406245/mb

Dear Mrs. Koutsou,

We confirm our approval to include the text of our auditor's report enclosed as an attachment in the section Other information related to the financial statements of BCRE - Brack Capital Real Estate Investments N.V. for the year 2017 dated 26 April 2018 as part of the annual report that equals the final draft presented to us of which an initialled copy is enclosed.

The text of our auditor's report states the name of our firm and the name of the responsible audit partner but without a handwritten signature. We kindly request you to include the text of the auditor's report without handwritten signature in the version of the annual report that will be published. We have enclosed one copy of our auditor's report including an original handwritten signature. This copy is meant for your own filing purposes.

Within four months after the reporting period, the completed annual report as referred to in the Financial Supervision Act (Wet op het financieel toezicht; Wft), are made available to the public (Wft Section 5:25c). These annual report should be simultaneously sent to the Authority for the Financial Markets (AFM) (Wft Section 5:25m).

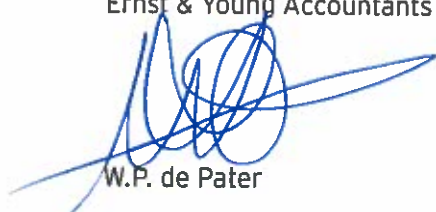
If you wish to publish the annual report and our auditor's report on the Internet, it is your responsibility to ensure proper separation of the annual report from other information on the web-site. For example, by presenting the annual report as a separate, read-only file, or by issuing a warning if readers switch from the web page containing the annual report (You are now leaving the secure page containing the audited annual report).

A copy of the annual report is to be signed by management and by the supervisory board and should be presented to the shareholders. The annual report should be adopted by the general meeting and adoption should be recorded in the minutes.


If prior to the general meeting circumstances arise that require a modification to the annual report, please note that under Section 2: 362 sub 6 of the Dutch Civil Code such modifications should be made prior to the general meeting. In this situation, of course, we withdraw our permission granted above.

Within five days after the adoption by the general meeting, the annual report should be sent to the Authority for the Financial Markets (AFM) (Wft Section 5:25o). The AFM will send this annual report to the Trade Register of the Chamber of Commerce within three days after receipt.

Yours sincerely,
Ernst & Young Accountants LLP



W.P. de Pater

Enclosures: Annual report initialled for identification purposes 
Signed auditor's report for your files
Original unsigned auditor's report to be included with the documents for publication
Information sheet Publication of auditor's report

Independent auditor's report

To: the shareholders and board of directors of BCRE-Brack Capital Real Estate Investments N.V.

Report on the audit of the 2017 financial statements included in the annual report

Our opinion

We have audited the 2017 financial statements of BCRE-Brack Capital Real Estate Investments N.V. (also referred to as the Company), incorporated in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- ▶ The accompanying consolidated financial statements give a true and fair view of the financial position of BCRE-Brack Capital Real Estate Investments N.V. as at 31 December 2017, and of its result and its cash flows for 2017, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- ▶ The accompanying company financial statements give a true and fair view of the financial position of BCRE-Brack Capital Real Estate Investments N.V. as at 31 December 2017, and of its result for 2017, 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 2017
- ▶ The following statements for 2017: the consolidated income statement, the consolidated statements of 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 2017
- ▶ The company income statement for 2017
- ▶ The notes comprising a summary of the 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 N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	€3,8 million (2016: €4,6 million)
Benchmark applied	0.5% of total assets
Explanation	<p>We consider total assets the most appropriate benchmark for materiality taking into account the nature and size of the business operations and the users of the financial statements.</p> <p>This measurement basis is widely used in the real estate industry. Since the Company measures its investment properties at fair value, the future value for investors is captured by the fair value measurement of investment properties. As such, this represents an important and relevant factor in measuring the Company's performance and stability.</p>

We have also taken misstatements into account 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 €190 thousand, 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 N.V. is at the 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 N.V.

Our group audit mainly focused 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 its operations are mainly based in the US and Russia, comprising approximately 90% of total assets reported as at 31 December 2017.

The group audit is performed in close cooperation with EY Israel, which performs most of the audit work, by selecting full, specific and limited scope locations, comprising approximately 66%, 30% and 4% of group's total assets reported as at 31 December 2017, respectively. We have reviewed the procedures performed by EY Israel on the most significant full scope locations in the US and Russia.

By performing the procedures mentioned above at selected group entities and at group level for accounts managed centrally, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the financial statements.

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.

Following the divestment of the remaining interest in Brack Capital Properties N.V. during 2017, the deconsolidation of this associate, which was reported as a key audit matter last year, is not included anymore as a separate key audit matter for this year.

Risk	Our audit approach	Key observations
Valuation of investment properties (see notes 2 and 5)		
<p>The valuation of the investment properties, including those held by investments in associates and joint ventures, is important to our audit as it represents a significant judgmental area with respect to an important part of the total assets of the group. Because these properties are measured at fair value, the valuation is highly dependent on estimates. The group's policy is that property valuations are performed by external appraisers at least once a year. These valuations are based on assumptions, such as estimated rental values, the rent growths and the discount and cap rates.</p>	<p>We considered the objectivity, independence and expertise of the external appraisers.</p> <p>Furthermore, we audited the correctness of source data used in the valuation. We involved our real estate valuation specialists in different countries and used their specific experience and knowledge in the local markets to assist us in the review and testing of models, assumptions and parameters of the valuation.</p> <p>We reviewed the adequacy of the disclosures provided in the financial statements.</p>	<p>We did not identify any material misstatement in the valuation of investment properties and in the disclosures reported in the financial statements.</p>
Unfavorable economic conditions in Russia (see notes 2, 3, 5 and 7)		
<p>The unfavorable economic conditions in Russia have a significant impact on the valuations of the Russian investment properties, investments in associates and joint ventures. Consequently, a risk also exists that the loan covenants are not met.</p>	<p>Our audit procedures included, amongst others, a detailed review of the valuations of the Russian investment properties (using local EY valuation experts) and investments in associates and joint ventures. We assessed that the group met the financial covenants as stated in the loan agreements.</p> <p>We reviewed the adequacy of the disclosures provided in the financial statements.</p>	<p>We verified that management's estimations regarding the valuation of investment properties, investments in associates and joint ventures related to the operations of the group in Russia appropriately reflect the local market situation and economic conditions.</p> <p>We verified that the Company made appropriate disclosures in the financial statements.</p>

Risk	Our audit approach	Key observations
Investments and loans to associates and joint ventures (see notes 2 and 7)		
<p>The group holds interest in several associates and joint ventures, accounted for using the equity method. In addition, the group granted loans to its investees. At each reporting date the group determines whether there are indicators that these investments are impaired. We have determined that the assessment of possible impairment of investments in investees contains a risk, mainly due to the uncertainty related to the future profitability of their operations and the fact that the investment properties of the investees are valued at fair value.</p> <p>Furthermore management decided to dispose of certain associates and/or joint ventures and classified these as discontinued operations (sale of Brack Capital Properties N.V.) or assets held for sale.</p>	<p>As the recoverability of these investments and loans is dependent on the related real estate projects in these entities, our audit response included the procedures for investment properties that are described in the above key audit matters. We evaluated indicators of impairment and performed audit procedures on the management's impairment analysis. This included testing procedures on the projects' projected cash flows and budgets to ensure collectability of loans granted.</p> <p>We evaluated management's considerations regarding associates and/or joint ventures classified as discontinued operations or assets held for sale.</p> <p>We reviewed the adequacy of the disclosures provided in the financial statements.</p>	<p>We concur with management's assessment of impairment related to investments and loans to associates and joint ventures as well as management's assessment of associates and/or joint ventures classified as discontinued operations or as held for sale.</p> <p>We verified that the Company made appropriate disclosures in the financial statements.</p>

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- ▶ The director's report
- ▶ Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- ▶ Is consistent with the financial statements and does not contain material misstatements
- ▶ Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Director's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the board of directors as auditor of BCRE-Brack Capital Real Estate Investments N.V. on 2 February 2015, as of the audit for the year 2014, and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities for the financial statements

Responsibilities of 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. 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 members of the board of directors are 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 material errors and fraud.

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.

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 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 a company to cease 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

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.

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. In this respect we also submit a report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and 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 to 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.

Rotterdam, 26 April 2018

Ernst & Young Accountants LLP



W.P. de Pater

Independent auditor's report

To: the shareholders and board of directors of BCRE-Brack Capital Real Estate Investments N.V.

Report on the audit of the 2017 financial statements included in the annual report

Our opinion

We have audited the 2017 financial statements of BCRE-Brack Capital Real Estate Investments N.V. (also referred to as the Company), incorporated in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- ▶ The accompanying consolidated financial statements give a true and fair view of the financial position of BCRE-Brack Capital Real Estate Investments N.V. as at 31 December 2017, and of its result and its cash flows for 2017, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- ▶ The accompanying company financial statements give a true and fair view of the financial position of BCRE-Brack Capital Real Estate Investments N.V. as at 31 December 2017, and of its result for 2017, 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 2017
- ▶ The following statements for 2017: the consolidated income statement, the consolidated statements of 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 2017
- ▶ The company income statement for 2017
- ▶ The notes comprising a summary of the 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 N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	€3,8 million (2016: €4,6 million)
Benchmark applied	0.5% of total assets
Explanation	<p>We consider total assets the most appropriate benchmark for materiality taking into account the nature and size of the business operations and the users of the financial statements.</p> <p>This measurement basis is widely used in the real estate industry. Since the Company measures its investment properties at fair value, the future value for investors is captured by the fair value measurement of investment properties. As such, this represents an important and relevant factor in measuring the Company's performance and stability.</p>

We have also taken misstatements into account 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 €190 thousand, 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 N.V. is at the 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 N.V.

Our group audit mainly focused 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 its operations are mainly based in the US and Russia, comprising approximately 90% of total assets reported as at 31 December 2017.

The group audit is performed in close cooperation with EY Israel, which performs most of the audit work, by selecting full, specific and limited scope locations, comprising approximately 66%, 30% and 4% of group's total assets reported as at 31 December 2017, respectively. We have reviewed the procedures performed by EY Israel on the most significant full scope locations in the US and Russia.

By performing the procedures mentioned above at selected group entities and at group level for accounts managed centrally, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the financial statements.

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.

Following the divestment of the remaining interest in Brack Capital Properties N.V. during 2017, the deconsolidation of this associate, which was reported as a key audit matter last year, is not included anymore as a separate key audit matter for this year.

Risk	Our audit approach	Key observations
Valuation of investment properties (see notes 2 and 5)		
The valuation of the investment properties, including those held by investments in associates and joint ventures, is important to our audit as it represents a significant judgmental area with respect to an important part of the total assets of the group. Because these properties are measured at fair value, the valuation is highly dependent on estimates. The group's policy is that property valuations are performed by external appraisers at least once a year. These valuations are based on assumptions, such as estimated rental values, the rent growths and the discount and cap rates.	<p>We considered the objectivity, independence and expertise of the external appraisers.</p> <p>Furthermore, we audited the correctness of source data used in the valuation. We involved our real estate valuation specialists in different countries and used their specific experience and knowledge in the local markets to assist us in the review and testing of models, assumptions and parameters of the valuation.</p> <p>We reviewed the adequacy of the disclosures provided in the financial statements.</p>	We did not identify any material misstatement in the valuation of investment properties and in the disclosures reported in the financial statements.
Unfavorable economic conditions in Russia (see notes 2, 3, 5 and 7)		
The unfavorable economic conditions in Russia have a significant impact on the valuations of the Russian investment properties, investments in associates and joint ventures. Consequently, a risk also exists that the loan covenants are not met.	<p>Our audit procedures included, amongst others, a detailed review of the valuations of the Russian investment properties (using local EY valuation experts) and investments in associates and joint ventures. We assessed that the group met the financial covenants as stated in the loan agreements.</p> <p>We reviewed the adequacy of the disclosures provided in the financial statements.</p>	<p>We verified that management's estimations regarding the valuation of investment properties, investments in associates and joint ventures related to the operations of the group in Russia appropriately reflect the local market situation and economic conditions.</p> <p>We verified that the Company made appropriate disclosures in the financial statements.</p>

Risk	Our audit approach	Key observations
Investments and loans to associates and joint ventures (see notes 2 and 7)		
<p>The group holds interest in several associates and joint ventures, accounted for using the equity method. In addition, the group granted loans to its investees. At each reporting date the group determines whether there are indicators that these investments are impaired. We have determined that the assessment of possible impairment of investments in investees contains a risk, mainly due to the uncertainty related to the future profitability of their operations and the fact that the investment properties of the investees are valued at fair value.</p> <p>Furthermore management decided to dispose of certain associates and/or joint ventures and classified these as discontinued operations (sale of Brack Capital Properties N.V.) or assets held for sale.</p>	<p>As the recoverability of these investments and loans is dependent on the related real estate projects in these entities, our audit response included the procedures for investment properties that are described in the above key audit matters. We evaluated indicators of impairment and performed audit procedures on the management's impairment analysis. This included testing procedures on the projects' projected cash flows and budgets to ensure collectability of loans granted.</p> <p>We evaluated management's considerations regarding associates and/or joint ventures classified as discontinued operations or assets held for sale.</p> <p>We reviewed the adequacy of the disclosures provided in the financial statements.</p>	<p>We concur with management's assessment of impairment related to investments and loans to associates and joint ventures as well as management's assessment of associates and/or joint ventures classified as discontinued operations or as held for sale.</p> <p>We verified that the Company made appropriate disclosures in the financial statements.</p>

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- ▶ The director's report
- ▶ Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- ▶ Is consistent with the financial statements and does not contain material misstatements
- ▶ Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Director's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the board of directors as auditor of BCRE-Brack Capital Real Estate Investments N.V. on 2 February 2015, as of the audit for the year 2014, and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities for the financial statements

Responsibilities of 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. 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 members of the board of directors are 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 material errors and fraud.

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.

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 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 a company to cease 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

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.

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. In this respect we also submit a report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and 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 to 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.

Rotterdam, 26 April 2018

Ernst & Young Accountants LLP

Signed by W.P. de Pater

1 Conditions

Authorization to publish the auditor's report is granted subject to the following conditions:

- ▶ Further consultation with the auditor is essential if, after this authorization has been granted, facts and circumstances become known which materially affect the view given by the financial statements.
- ▶ The authorization concerns inclusion of the auditor's report in the annual report to be tabled at the Annual General Meeting (hereafter AGM) incorporating the financial statements as drawn up.
- ▶ The authorization also concerns inclusion of the auditor's report in the annual report to be filed with the Trade Registrar, provided consideration of the financial statements by the AGM does not result in any amendments.
- ▶ Financial statements for filing at the offices of the Trade Registrar which have been abridged in accordance with Section 397 of Book 2 of the Dutch Civil Code must be derived from the financial statements adopted by the AGM and a draft version of these financial statements for filing purposes must be submitted to us for inspection.
- ▶ The auditor's report can also be included if the financial statements are published electronically, such as on the internet. In such cases, the full financial statements should be published and these should be easily distinguishable from other information provided electronically at the same time.
- ▶ If the published financial statements are to be included in another document which is to be made public, authorization to include the auditor's report must again be granted by the auditor.

2 Explanations to the conditions

2.1 Board of supervisory directors and board of executive directors

The auditor usually forwards his report to the board of supervisory directors and to the board of executive directors. This is pursuant to Book 2 of the Dutch Civil Code, section 393 which stipulates inter alia: "The auditor sets out the outcome of his examination in a report". "The auditor reports on his examination to the board of supervisory directors and the board of executive directors".

2.2 Annual General Meeting (AGM)

Publication of the auditor's report will only be permitted subject to the auditor's express consent. Publication is understood to mean: making available for circulation among the public or to such group of persons as to make it tantamount to the public. Circulation among shareholders or members, as appropriate, also comes within the scope of the term "publication", so that inclusion of the auditor's report in the annual report to be tabled at the AGM similarly requires authorization by the auditor.

2.3 Auditor's reports and financial statements

The authorization concerns publication in the annual report incorporating the financial statements that are the subject of the auditor's report. This condition is based on the auditors' rules of professional practice, which state that the auditor will not be allowed to authorize publication of his report except together with the financial statements to which this report refers.

The auditor will also at all times want to see the rest of the annual report, since the auditor is not allowed to authorize publication of his report if, owing to the contents of the documents jointly published, an incorrect impression is created as to the significance of the financial statements.

2.4 Events between the date of the auditor's report and the AGM

Attention should be paid to the fact that between the date of the auditor's report and the date of the meeting at which adoption, as appropriate, of the financial statements is considered, facts or circumstances may have occurred which materially affect the view given by the financial statements. Under COS 560, the auditor must perform audit procedures designed to obtain sufficient audit evidence to ensure that all events occurring before the date of the auditor's report that warrant amendment of or disclosure in the financial statements have been identified.

If the auditor becomes aware of events that may be of material significance to the financial statements, the auditor must consider whether those events have been adequately recognized and sufficiently disclosed in the notes to the financial statements. If between the date of the auditor's report and the date of publication of the financial statements, the auditor becomes aware of a fact that may have a material impact on the financial statements, the auditor must assess whether the financial statements should be amended, discuss the matter with management and act as circumstances dictate.

2.5 Trade Registrar

The financial statements are tabled at the AGM (legal entities coming within the scope of Title 9 of Book 2 of the Dutch Civil Code table the directors' report and the other information as well). The AGM considers adoption of the financial statements. Only after the financial statements have been adopted, do they become the statutory (i.e., the company) financial statements. As a rule, the statutory financial statements will be adopted without amendment. The auditor's report must be attached to the statutory financial statements as part of the other information. As a rule, the text of this report will be the same as that issued earlier. The documents to be made public by filing at the offices of the Trade Registrar will consist of the statutory financial statements, the directors' report and the other information. The auditor's report which refers to the unabridged financial statements will then have to be incorporated in the other information. If consideration of the financial statements by the AGM does not result in any amendments, the auditor's report may be attached to the financial statements adopted, by the AGM and, provided the annual report and financial statements are filed promptly at the offices of the Trade Registrar, published as part of these annual report and financial statements.

2.6 Other manner of publication

The financial statements may also be published other than by filing at the offices of the Trade Registrar. In that event, too, inclusion of the auditor's report is permitted, provided the financial statements are published in full. If publication concerns part of the financial statements or if the financial statements are published in abridged form, publication of any report the auditor has issued on such financial statements will be prohibited, unless:

- a. He has come to the conclusion that, in the circumstances of the case, the document concerned is appropriate
- Or
- b. Based on legal regulations, publication of the document concerned is all that is required

If less than the full financial statements are published, further consultation with the auditor is essential. If the financial statements and the auditor's report are published on the internet, it should be ensured that the financial statements are easily distinguishable from other information contained on the internet site. This can be achieved, for example, by including the financial statements as a separate file in a read-only format or by including a warning message when the reader exits the financial statements document.

2.7 Inclusion in another document

If the published financial statements are to be included in another document which is to be made public, this is considered a new publication and authorization must again be obtained from the auditor. An example of this situation is the publication of an offering circular which includes the financial statements, after these financial statements have been filed at the office of the Trade Registrar together with the other annual reports. For each new publication, authorization must again be obtained from the auditor.

2.8 Events after the AGM

Even if facts and circumstances have become known after the adoption of the financial statements as a result of which they no longer give the statutory true and fair view, the auditor must stand by the report issued on the financial statements as adopted and by the auditor's report filed at the offices of the Trade Registrar. In that event, the legal entity is required to file a statement at the offices of the Trade Registrar on these facts and circumstances accompanied by an auditor's report. In this situation, too, further consultation with the auditor is essential.



BCRE

BRACK CAPITAL REAL ESTATE

Annual Report
2017



ANNUAL REPORT IN RESPECT OF THE YEAR ENDED 31 DECEMBER 2017

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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:

“On behalf of the Board and our shareholders, I would like to thank our management team and all our colleagues for the hard work in delivering the financial results set out in this annual report.

The financial results for the 12 months to 31 December 2017 reflect the benefits of our strategy of consolidation on growth economies and our efforts to stabilize the emerging market portfolios.

The Board announced its Business Plan in early 2018 including its new strategic plan going forward for the Company, the fundamentals of which are summarized as follows: a policy with a focus on de-risking, deleveraging and improving balance sheet quality, reducing asset exposure and cutting costs. In addition, this policy entails no new investments in emerging and/or non-core markets and being extremely selective in new investments while taking into consideration shareholders' distributions time horizon expectations.

The Board is confident that BCRE will continue to exercise its strategy with financial discipline with conservative liquidity policy and overhead reduction thus creating a better match with the modified balance sheet and activities profiles.

Management continues to remain focused on funding and liquidity management in what appears to be uncertain times with the threats of interest rates rising and inflation raising its heads.

All capital commitments will continue to be made in a disciplined manner and will remain subject to rigorous strategic and financial considerations.

On behalf of all shareholders, the Board continues to monitor BCRE's performance in important areas such as compliance, risk management and remuneration.

BCRE puts an emphasis to the quality of its people at every level including the Board. As part of this commitment to quality, we will continuously evaluate our own Board and that of our investee companies. The Board welcomes the promotions of interim co-CEOs of Nansia Koutsou and Shai Shamir and the promotion of Yiannis Peslikas to CFO as of 6 February 2018.

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 and other affiliates which are controlled by BCRE are 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 with a standard listing.

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 2017 is shown in the chart below.



The Group operates through its key geographical platform in the US and also operates through its important platform in Russia. The Group currently has an interest (through various holding percentages) in income producing residential units and residential and commercial projects as follows:

	31 December 2017	31 December 2016*
<u>Income producing:</u>		
Residential units	852	516
Commercial properties	6	5
Total built area (both commercial and residential)	252,000m ²	211,000m ²
<u>Residential and commercial projects:</u>		
Total number	3	3
Various stages of development and refurbishment	34,000m ²	34,000m ²

*For the purposes of this analysis, the figures of 2016 have been adjusted to exclude the figures of Brack Capital Properties N.V. ("BCP").

The Group operates through highly experienced and on the ground management teams. For each property, the relevant local team performs the entire project cycle of activities; from market research and deal sourcing, negotiating and financing, to asset and property management. The Group is also active in running the

development process and closely supervises the construction phase of its developments. The Group did not undertake any R&D activities during the period under review.

1.2.2 Key highlights

The key highlights for 2017 and 2018 until the signing of this annual report are as follows:

Financial:

- The Group generated revenues of €16.2 million from rental income during the period (31 December 2016: €11.22 million).
- The net asset value ("NAV") of the Group amounted to €201.7 million as at 31 December 2017 (31 December 2016: €254.1 million).
- As at 31 December 2017, the aggregate value of total assets in which the Company has a holding interest in different percentages was approximately €762 million (31 December 2016: €947 million). The significant decrease in the aggregate value of total assets compared to last year is due to the sale of the entire holding in BCP.
- The revaluation gains of investment property for the period amounted to €4.8 million (31 December 2016: loss of €38 million). In addition, the impairment of assets held for sale for the period amounted to €19.3 million (31 December 2016: nil).
- The share in the loss of the associates and joint ventures for the period amounted to €16.4 million (31 December 2016: loss of €53.5 million).
- On 14 June 2017, the Company completed the transaction for the sale of its entire holding in the issued and outstanding share capital of BCP (investing in real estate in Germany), for a total gross consideration of approximately NIS695 million (approximately €174.8 million). Until the date of disposal and following the deconsolidation of BCP effected at 30 September 2016, the Company has accounted for its investment in BCP using the equity method of accounting. The net profit from the discontinued operations of BCP amounted to €4.9 million.

USA:

- 720 West End Avenue project is being let to the Salvation Army and serves as senior housing facility. The building will be vacated once the replacement facility that is being built on 125th street is completed, expected by early 2019. As of now the steel structure of the 125th street building is almost completed and the mechanical, electrical, plumbing and façade work is underway. Once the 720 West End Avenue project is vacant, the Company will have a number of options, among others, a conversion of the existing building to a major residential building in the Upper West Side of Manhattan.
- Development at 90 Morton Street, a high end residential development in the West Village Manhattan, is continuing to progress on schedule and is approximately 70% complete. Marketing and sales campaign was launched in April 2018 together with the official opening of the on-site sales office.
- IHG's flagship Indigo hotel, opened in November 2015 and was fully operational by mid-2016. In 2017, its first fully operational year, the hotel was still stabilizing and capturing its share in the lower east side.

submarket while its F&B outlet is continuing to perform extremely well by increasing the total revenues by 15% of the year before. The hotel's overall performance represents a substantial ramp up as compared to 2016 with occupancy increasing 11% and gross rooms revenue increasing 15%. On 8 March 2018, the Group signed a letter of intent with a third party for the sale of the property owned by BCRE IHG 180 Orchard Holdings LLC which is classified as held for sale as at 31 December 2017. The 230 room CitizenM Hotel in Times Square performance is stabilized. The construction of the 300 room CitizenM Hotel at Bowery Street is progressing well and is scheduled to be completed by the end of 2018. On 27 March 2018, the Group signed an agreement with its partner for the sale of the Group's total shareholding in OSIB-BCRE Bowery Street Holdings LLC which is classified as held for sale as at 31 December 2017.

- The acquisition of 336 multifamily units (approximately 334,000 sf) in January 2017 by the (private) BCRE REIT (Real Estate Investment Trust) for a total consideration of US\$26.5 million in Preserve at Sagebrook, in Dayton, Ohio, brought the multifamily portfolio in Ohio, US to over 850 units. The performance of the US multifamily residential portfolio continues to run steadily with an overall average occupancy of around 95%.

Russia:

- Despite the persisting signs of recovery in Russian economy, including the recent trend reversal in private consumption (retail sales increasing in the past few months), the still dire state of the Russian household and consumers continues to impact our Russia operation. The Company continues the efforts of stabilizing the Russian platform, as the shopping centers in Dmitrov and Lyubertsy, the logistic warehouse in Lobnia and Kazan's main retail module are almost fully occupied, whereas the two additional modules in Kazan are still ramping up and the difficulties in filling them has not eased.
- In December 2016, certain subsidiaries/associates of BCRE Russia entered into agreements with the existing financing bank concerning four major projects in Russia (Kazan, Lyubertsy, Lobnia and Dmitrov). The main loan terms have been amended and the corporate structure of the subsidiaries/associates will be revised as mentioned below. The aggregate principal amount of the restructured loans is approximately US\$267 million. The key amendments to the existing loan facilities and to the corporate structure of the subsidiaries/associates, include among other things, prolonging the final maturity dates by 3 to 5 years, amortisation payment schedules shall be postponed towards the maturity dates, improved interest rates, significant loan covenants have been relaxed and the financing bank shall obtain a 'golden' share in each project, which provides the financing bank with a veto right in respect of material decisions at the level of the subsidiaries/associates. The 'golden' shares can be repurchased subject to meeting certain conditions such as simultaneously meeting of certain figures of loan to value and debt service coverage ratios. On 22 March 2018, the above deal was completed.

Corporate:

- In May 2017, Midroog, the credit rating agency accredited by Israel and a subsidiary of Moody's Investor Service Inc. (Midroog), placed under credit review with negative implications the rating of Company's Bonds currently rated A2 on a local Israeli scale with negative outlook.
- In December 2017, Midroog, has reaffirmed the credit rating of the Company's Series B and C bonds of A2 on a local Israeli scale and changed the outlook from negative to stable. The Company has fully redeemed Series C and B bonds in December 2017 and in January 2018, respectively. In addition, Midroog changed the credit rating of the Company's Series A bonds from A2 to A3 on a local Israeli

scale and changed the outlook from negative to stable. Following the Series, A bonds' scheduled payment on 19 December 2017, the outstanding principal amount of Series A bonds due on 19 December 2018 will amount approximately to NIS75 million (approximately €18 million).

- The share capital of the Company was reduced by approximately 1.5 million and 479 thousand shares by means of a cancellation of these shares following the purchase of shares under the share buyback programme (which was completed on 31 December 2016), effected on 10 January 2017 and 6 September 2017 respectively.
- A total amount of approximately US\$19 million, net of expenses, has been raised under the bond programme (US\$180 million) during the first half of 2017.
- During December 2017, the Company has early repaid the whole outstanding principal amount of around US\$93.1 million of Series C bonds along with the accrued interest and early repayment fee. On 26 January 2018, the Financial Conduct Authority ("FCA") cancelled the Series C bonds from the Official List of the London Stock Exchange.
- On 15 December 2017, the Company announced that the Board continues to examine and analyse, together with its advisers, a potential De-Listing as well as alternative methods that could, amongst others, provide liquidity with respect to the ordinary shares, taking into consideration the interests of the Company and all its stakeholders.
- On 3 January 2018, the Company repaid early the whole outstanding principal amount of around US\$23.8 million of Series B bonds including accrued interest and early repayment fee.
- On 6 February 2018, CEO Ariel Podrojski resigned from his position but remains as a consultant to the Company. In addition, Board member Daniel Aalsvel (independent non – executive) announced his wish to resign from his position but agreed to continue as a Board member and chairman of the Audit Committee until the approval of the Company's 2017 annual report. On the same day Nansia Koutsou and Shai Shamir were appointed as interim co – CEOs and Yiannis Peslikas as CFO of the Company.
- On 14 February 2018, the Company entered into a financing agreement with a group of individual lenders for the total amount of US\$20 million (€16.7 million). BCRE borrowed the amount of US\$3 million from a trust having Ronen Peled as its beneficiary, and the amount of US\$500 thousand from a trust having (relatives of) Shimon Weintraub (a majority shareholder) as its beneficiaries. The facility carries interest of 6.5% and matures on 30 June 2020. The Company agreed with the group of lenders that any proceeds received from certain Group's investments, either through dividend payments or through sale proceeds, should be used for the repayment of the loan facility.
- No distribution will be made for the year ended 31 December 2017, with a view to increasing the Company's liquidity.

1.2.3 Investment philosophy

BCRE's investment policy includes an analytical approach to the investment decisions throughout the life cycle of a project.

As part of our business model, we control and manage our deals by establishing our own proprietary local investment management 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 Objective and strategy

The Group has announced on 6 February 2018 its new strategic plan. Its objective and new strategy of the Company is to follow a policy with a focus on de-risking, deleveraging and improving balance sheet quality, reducing asset exposure and cutting costs. In addition, this policy entails no new investments in emerging and/or non-core markets and being extremely selective in new investments while taking into consideration shareholder's distributions time horizon expectations. Subject to a conservative liquidity policy, in particular with cash reserves and financing requirements for its development projects, the Company will consider distributions to shareholders, by way of share buyback, dividend or otherwise.

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.

Focus on known markets and sectors

The Group has been active in its key Manhattan market since 1994 (initially, as Brack Capital Group). The Group focused its attention mostly on specific sectors such as conversion, renovation and development (mainly in the residential and hospitality sectors). The Company believes this enables the Group to analyse the real risks and opportunities of each project.

Substantial "on the ground" platforms

The Company believes that real estate is a local business and believes the foundation of its strength is real, local experience and expertise. The Group's local teams in each market are managed by dedicated, specialised and experienced professionals with a local knowledge and an understanding of the business they are carrying out.

Experienced management team

Most of the senior executives of the Group's platforms have years of experience in real estate transactions in their local market and most of them have been with the Group for many 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 long periods. The Group believes the depth of its management expertise in its key markets gives it a competitive advantage over its competitors and enables it to better manage its portfolio even in adverse conditions. For instance, our local team in Russia has been instrumental in keeping our assets operational and in addressing various challenges on the ground.

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 (across hospitality, residential, retail, office and logistics segments) with significant lettable/saleable areas.

1.2.6 Outlook

BCRE believes that under the current global economic and financial conditions, the probability of a reduction in the pace of growth has increased relative to the past few years. These circumstances prescribe, in the Company's view, a policy with a focus for 2018 on de-risking, deleveraging of our investment portfolio by discontinuing certain non-core activities, disposals and improving balance sheet quality, reducing asset exposure and cutting costs. With significant profit expected in the next few years from the US (as previously announced), the execution and optimization of its considerable development portfolio is a key focus. In Russia the macro environment is improving slowly and the Group will focus on the continuing stabilization and gradual improvement in property metrics. We will be further focusing on reducing exposure to rising rates, refinancing the bank loans or any other loan arrangements which will be maturing in the next 12 – 24 months from the signing of this report and raise further equity or bonds if this is necessary. Subject to a conservative liquidity policy, in particular cash reserves and financing requirements for its development projects, the Company will consider distributions to shareholders by way of share buyback, dividend or otherwise. We do expect some but not significant reduction to the workforce of the Group in its main locations, subject to the above. BCRE will continue to examine and analyse, together with its advisers, a potential De-Listing as well as alternative methods that could, amongst others, provide liquidity with respect to the ordinary shares, taking into consideration the interests of the Company and all its stakeholders.

1.2.7 Sustainability

Stakeholder involvement is fundamental to our business. We are successful in making our portfolio more attractive because our employees work closely together with our key stakeholders: visitors, local communities, tenants, investors and suppliers. For the Group sustainability means investing time, effort and money in our assets and employees, in order to strengthen the relationship with all stakeholders. The Group expects this to lead to more sustainable and profitable returns on capital in the short and long term. BCRE wants to combine sustainability and commercial business in an integrated approach, investing not only in projects, but at the same time in our employees, partners, and the society.

1.3 BUSINESS OVERVIEW

1.3.1 CEO's statement

Shai Shamir and Nansia Koutsou, co- Chief Executive Officers, said:

"Following the Company's strategic plan which states that "under the current global economic and financial conditions, the probability of a downturn of the current cycle has increased relative to the past few years", we will focus on de-risking, deleveraging and improving balance sheet quality, reducing asset exposure and cutting costs. We will only consider any new investments if it provides an attractive opportunity with an extraordinary low risk profile to the Company and its shareholders."

1.3.2 Our key markets

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

US

The Company has an interest in BCRE USA of 100% as of 31 December 2017. Currently BCRE USA mainly focuses on residential conversions and hotels in Manhattan, in addition to income producing activity that includes acquiring and owning multifamily residential properties outside New York.

BCRE USA continued the advancement in both major residential projects in Manhattan, 720 West End Avenue and 90 Morton Street.

The programme of the replacement facility which is being built on 125th street in Manhattan for the 720 West End Avenue project, a major residential building with a gross area of approximately 240,000 sq ft in the Upper West Side of Manhattan, is progressing well. The completion date of the replacement facility is expected by early 2019.

Following the approval, by the New York City attorney general, of the condo offering plan for 90 Morton Street, a major development in the West Village, Manhattan with a net area of approximately 90,000 sq. ft., construction is expected to be completed during the second half of 2018. Marketing and sales campaign will be launched in April 2018 together with the official opening of the on-site sales office.

IHG's flagship Indigo hotel, opened in November 2015 and was fully operational by mid-2016. In 2017, its first fully operational year, the hotel was still stabilizing and capturing its share in the lower east side submarket while its F&B outlet is continuing performing extremely well by increasing the total revenues by 15% of the year before. The hotel's overall performance represents a substantial ramp up as compared to 2016 with occupancy increasing 11% and gross rooms revenue increasing 15%. In March 2018, the Group signed a letter of intent with a third party for the sale of the property owned by BCRE IHG 180 Orchard Holdings LLC which is classified as held for sale as at 31 December 2017.

The 230 room CitizenM Hotel in Times Square performance is stabilized. The construction of the 300 room CitizenM Hotel at Bowery Street is progressing well and is scheduled to be completed by the end of 2018. In March 2018, the Group signed an agreement with its partner for the sale of the Group's total shareholding in OSIB-BCRE Bowery Street Holdings LLC which is classified as held for sale as at 31 December 2017.

In line with its strategy, BCRE USA commenced more than four years ago investing in the multifamily real estate market in the US (primarily in Ohio), using the Group's extensive experience of this asset class in

Germany and in Manhattan. As at 31 December 2017, the total number of multifamily units under management in Cincinnati, Ohio area stands at 852. The performance of the portfolio aligns with BCRE's business plan with an overall average occupancy of more than 94% for the year 2017. Early 2017 the REIT purchased a new property, Preserve at Sagebrook. The property performance in 2017 well aligned with BCRE's original business plan.

Russia

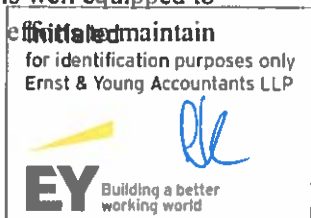
The Company, with around 85% interest in the Russian platform, is continuing with its hands-on management approach and focus on the stabilization of its projects in Russia. Supported by the pickup in energy prices, several 2017 macroeconomic indicators seem to provide positive tailwinds to the Russia economy in general and the Russian median household and consumer in particular. These indicators include resumed growth (albeit still relatively below at sub 2%), reduced inflation, very reasonable fiscal -spending and substantially increasing foreign exchange reserves. The Central Bank of the Russian Federation has gradually reduced the interest rates from a crisis high of 17% to the current 7.5% and Russia has successfully raised sovereign bonds in the international markets. Retail sales continued to decline during the first half of 2017 even after economic GDP growth resumed, but that lag has ended and retail sales has been growing in the past few months – at a modest year on year pace. The Company's management views the change in trend as positive, but moderate at best, and foresees the Russian consumer market to remain under pressure for a longer period, as households gradually rebuild their net worth.

The effect of the current economic situation in Russia is being reflected in the valuations of December 2017 (for further details refer to Section 1.4.1), thus reducing the Company's exposure to this geography.

However, the Group has managed to keep its assets in Russia fully operational, reduce overall risk profile by completing projects under progress, restructure the bank loans of its 4 main assets by, among others, improving the interest rates and postponing the amortization payments and have shifted from development risk to the domain of income producing assets. During 2017 the Company also started a process of carefully improving tenant mix – especially in Lyubertsy (where the food anchor was replaced) and Lobnia.

The Company continues to focus on stabilizing the Russian platform, as the shopping center in Dmitrov, the logistic warehouse in Lobnia and Kazan's main retail module are income producing assets almost fully occupied, whereas the Lyubertsy shopping center, 27,000 sq m, opened in December 2015 and benefits from signed leases and term sheets nearing 90% occupancy and the two additional modules in Kazan are still ramping up. In addition, BCRE Russia successfully entered into agreements with the existing financing bank concerning four major projects in Russia (Kazan, Lyubertsy, Lobnia and Dmitrov), whereby the main terms have been amended (prolonging the final maturity dates by 3 to 5 years, amortization payment schedules shall be postponed towards the maturity dates, improved interest rates, significant loan covenants have been relaxed) and the corporate structure of the subsidiaries/associates have been revised. The financing bank obtained a 'golden' share in each project, which provides the financing bank with a veto right in respect of material decisions at the level of the subsidiaries/associates. The 'golden' shares can be repurchased subject to meeting certain conditions such as simultaneously meeting of certain figures of loan to value and debt service coverage ratios. The Company expects that the amendments of the existing loan facilities will have a positive impact in the debt servicing obligations and on the liquidity of BCRE Russia.

Overall, 2017 was an improvement relative to 2016 but the overall economic and retail environment is still very challenging and uncertain. However, our team in Russia with its proactive approach is well equipped to monitor and react to the various challenges on the ground. The Company believes that its efforts to maintain and stabilize its Russian position will turn fruitful in the long run.



1.3.3 Other markets and activities

In line with the Group strategy over the past two years, BCRE continued to focus on its key growth economies and stabilization of its emerging market portfolio. In parallel, the Group continued to reduce or discontinue activities in its non-core markets.

The BCRE India Fund closure has been extended by 24 months until March 2019 to provide for the time necessary for an orderly disposition of the fund's investments in India and the investments in the USA held through the BCRE India Fund.

In relation to the Marconi project in Rome, Italy, the Group is also exploring ways to monetize the investment. The Group proceeded with the winding down of the small ticket lending business in the US during the first quarter of 2018.

1.4 FINANCIAL OVERVIEW

1.4.1 CFO's statement

Yiannis Peslikas, Chief Financial Officer, said:

"The strategy of the Company to focus on de-risking, deleveraging and improving its balance sheet quality continues. During the period we have fully repaid the bonds under series B and C.

The economic environment in Russia continued to influence our financial results during 2017."

Financial review

Consolidated income statement

In €1,000		
Particulars for consolidated income statement	Year ended 31 December	
	2017	2016
Gross rental income	16,200	11,221
Service charge, management and other income	8,689	8,432
Revaluation of investment property	4,862	(38,046)
Impairment of asset held for sale	(19,337)*	-
Share of loss of associates and joint ventures	(16,420)*	(53,507)
Profit from discontinued operations, net	4,847	116,372
Net profit (loss) for the year	(44,443)	3,047
Loss attributable to equity holders of the Company	(33,963)	(3,749)

*The impairment of asset held for sale and the share of loss of associates and joint ventures are explained in the section of the consolidated statement of financial position below.

The Group prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) and the requirements of the Dutch law.

The gross rental income and the service charge, management and other income of the Group increased by approximately 44% to €16.2 million and by approximately 3% to €8.7 million, respectively (31 December 2016: €11.2 million and €8.4 million, respectively) due to the acquisition of the multifamily residential property in Dayton, Ohio and the growth from existing rented properties.

The loss recognized from the sale of the entire holding in BCP shares amounted to €11.8 million (net of transaction costs) which was included in the "Profit from discontinued operations, net". The remaining amount of €16.7 million included in the "Profit from discontinued operations, net" relates to the results of BCP for the period from 1 January 2017 up to 14 June 2017, the disposal date of the entire holding in BCP.

The Management and the Board of Directors monitor 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, impairment loss of assets held for sale and share of profit/(loss) of associates and joint ventures. Also, the Group financing (including interest and dividend income and expenses), administration and other expenses and income taxes are recognized on a Group basis and are not allocated to operating segments.



The loss for the year amounted to €44.4 million (2016: profit of €3 million). The loss (2016: profit) can be analysed as follows:

	Year ended 31 December	
	2017	2016
	€000	€000
Segment results	(26,263)	(94,754)
Administrative and other expenses, net	(13,731)	(14,338)
Financial expenses, net	(24,503)	(5,441)
Income tax benefit	15,207	1,208
Profit from discontinued operations, net	4,847	116,372
(Loss)/profit for the year	<u>(44,443)</u>	<u>3,047</u>

The results of each segment before the unallocated profit and loss items is as follows:

	Year ended 31 December	
	2017	2016
	€000	€000
Segment:		
USA	466	13,285
Russia	(25,392)	(99,784)
Other	(1,337)	(8,255)
Segment results for the year	<u>(26,263)</u>	<u>(94,754)</u>

The overall administrative expenses were €10.7 million for the year ended 31 December 2017 (31 December 2016: €8.7 million). Out of which the amount of approximately €4.9 million relates to general and administrative expenses relating to inventory of buildings under construction and investment property (approximately 31 December 2016: €2.5 million). The net financial expenses has increased for the year ended 31 December 2017 by €19.1 million to €24.5 million (31 December 2016: €5.4 million) due to the decrease by €14.5 million in foreign currency translation gains for the year ended 31 December 2017 compared to last year (gain of €5.5 million for the year ended 31 December 2017 compared to a gain of €20 million for the year ended 31 December 2016).

The loss from Russia derives mainly from the valuation loss of the investment properties (including currency translation impact) amounting to €15.7 million (31 December 2016: loss of €51.6 million) and from the share in the loss of its associates and joint ventures amounting to €16.9 million (31 December 2016: loss of €46.7 million), of which the latter mainly relates to the valuation loss of the Kazan project (including currency translation impact). The valuation losses of the investment properties and of the associates'/joint ventures' projects are mainly caused by the reduction of income derived from low tenant's turnovers, by the signing of new rent agreements, and by a slower increase in occupancy than expected, all in context of the Russia market situation.

The profit from USA derives mainly from the valuation gain of the investment properties (including currency translation impact) amounting to €21.1 million (31 December 2016: €15.2 million), partly offset by the impairment loss amounting to €19.3 million (31 December 2016: nil) relating to the investment in BCRE IHG 180 Orchard Holdings LLC classified as asset held for sale (further explained below). The valuation gain of the investment properties is due mainly from the improvements in the capitalisation rates of the 3 multifamily properties in Cincinnati and Dayton, Ohio, driven by the increase in demand and shortage of supply of similar

properties in this region, and the increase in the value of 720 West End Avenue project due to the increase in the total net saleable sq. ft., assuming residential condominium conversion.

Consolidated statement of financial position

In €1,000		
Particulars for consolidated statement of financial position	31 December	
	2017	2016
Investment property	412,715	389,606
Investments and loans to associates and joint ventures	23,442	197,374
Inventory of land, inventory of apartments under construction and other inventory	180,564	176,500
Cash and cash equivalents	37,437	21,853
Assets classified as held for sale	39,881	66,129
Other assets	68,309	95,536
Total assets	762,348	946,998
Interest bearing loans and borrowings	450,651	543,553
NAV attributable to equity holders of the Company	201,666	254,094

Investment property of the Group increased by €23.1 million to €412.7 million (31 December 2016: €389.6 million) primarily from the acquisition of the multifamily residential property in Dayton, Ohio amounting to €24.3 million, the acquisition of partner's share of a holding company in Russia owning a property amounting to €35.3 million and as a result its full consolidation, and from revaluation gains of €5.1 million (31 December 2016: €19.7 million). Translation losses for the year of €45.3 million (31 December 2016: translation gains of €32 million) decreased (2016: increased) the value of investment property of the Group.

Investments and loans to associates and joint ventures of the Group decreased by €173.9 million to €23.4 million (31 December 2016: €197.4 million) mainly due to the sale of the investment in BCP amounting to €160.3 million as of 31 December 2016.

Interest-bearing loans and borrowings of the Group decreased by €92.9 million to €450.7 million (31 December 2016: €543.6 million) primarily from the early full repayment of Series C bonds. The short-term part of interest-bearing loans and borrowings amounts to €248.2 million (31 December 2016: €200.5 million) and the long-term part amounts to €202.5 million (31 December 2016: €343.1 million). The increase in short-term part of €47.7 million includes mainly the commitment by the Company before year end for the early full repayment of Series B bonds amounting to €18.6 million which took place on 3 January 2018.

Furthermore, regarding the short-term part of interest-bearing loans and borrowings:

- (1) Interest bearing loans and borrowings in the amount of €120.8 million as of 31 December 2017, classified in the consolidated statement of financial position within short-term part in accordance with the Group's operating cycle, have actual contractual terms between the period from November 2019 to October 2021.
- (2) The maturity of interest bearing loans and borrowings in the amount of €45.7 million as of 31 December 2017 and with original maturity date on 1 November 2018, classified within short-term, has been extended subsequent to the year end until 1 July 2019.

- (3) Interest bearing loans and borrowings in the total amount of €20.3 million has been repaid prior to the date of the Annual Report.
- (4) Following the completion of the bank loans refinancing of Company's indirect subsidiaries in Russia on 22 March 2018, an amount of €25.5 million classified within short-term as of 31 December 2017, has been postponed towards the maturity dates of these loans which are after 31 December 2018.

The cash and cash equivalents of the Group increased by €15.6 million to €37.4 million (31 December 2016: €21.9 million) mainly due to the proceeds from the sale of the investment in BCP which were not fully utilised during the year.

Assets classified as held for sale decreased by €26.2 million to €39.9 million (31 December 2016: €66.1 million) mainly due to the impairment loss of €19.3 million recognised for the investment in BCRE IHG 180 Orchard Holdings LLC in order to reflect the agreed price for the sale of the property owned by the associate as per the letter of intent signed with a third party in March 2018, and due to translation losses of €7 million.

The NAV attributable to the equity holders decreased to €201.7 million during the year (31 December 2016: €254.1 million).

Consolidated statement of cash flows

The Group cash flow movements during 2017 and 2016 were as follows:

In €1,000		
Particulars for consolidated statement of cash flows	Year ended 31 December	
	2017	2016
Cash flows provided by/ (used in) operating activities	(29,349)	36,533
Cash flows provided by/ (used in) investing activities	155,894	(75,347)
Cash flows used in financing activities	(104,538)	(11,481)
Net cash inflow/(outflow)	22,007	(50,295)

The decrease in the cash flows provided by operating activities by approximately €65.9 million compared to last year relates mainly to the cash inflows amounting to €54.5 million from discontinued operations in 2016.

The cash outflows in the amount of €29.3 million from operating activities for 2017 relates mainly to the construction activity for the inventory of apartments under construction.

The increase in the cash flows provided by investing activities by approximately €231.2 million relates mainly to the proceeds from the sale of the investment in BCP. The decrease in the cash flows used in financing activities by €93 million relates mainly to the early repayment of Series C Bonds.

During the year, the Group repaid interest bearing loans and other borrowings amounting to €139.2 million (31 December 2016: €112.6 million) and received new interest-bearing loans and other borrowings in the amount of €53.6 million (31 December 2016: €98.9 million). Furthermore, the Group raised cash from the issue of new debentures amounting to €17.5 million (31 December 2016: €24.3 million) which were repaid before the year end.

1.4.2 Fund raising

On 17 February 2017 and 2 March 2017, the Company raised additional amounts of approximately US\$12 million and US\$7 million, respectively, net of expenses, under the programme. The proceeds were used to refinance existing or future debt upon or prior to their maturity, to make investments, to on-lend and/or for general corporate purposes. The bond issuances were undertaken within the A2/negative rating on a local Israeli scale by Midroog.

Towards the end of 2017, BCRE preliminary agreed with a group of lenders for the provision of a financing facility to the Company for the total amount of US\$20 million. On 14 February 2018, the Company finalized and signed the agreement with the group of lenders. The facility will bear interest of 6.5% per annum and will mature on 30 June 2020, on which date the whole outstanding amount of interest and principal will need to be paid. As at 31 December 2017 an amount of US\$6 million has been provided to the Company in respect of this facility.

1.4.3 Debt repayment

On 13 December 2017 and 3 January 2018, BCRE has early repaid the Series C bonds and Series B bonds respectively amounting to approximately US\$93.1 million (approximately €82.4 million) and approximately US\$23.8 million (approximately €19.9 million), respectively. The amount paid relates to the whole principal outstanding together with the accrued interest as of that date and the early repayment fee.

1.4.4 Distribution

No distribution was made during 2017.

No distribution will be made for the year ended 31 December 2017, with a view to increasing the Company's liquidity.

In accordance with article 30 of the Company's Articles of Association, the Board of Directors proposes to the General Meeting of the shareholders to add the 2017 loss of €33,963 thousand to the other reserves.

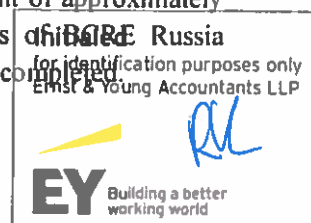
1.4.5 Share buyback programme

On 3 June 2016 BCRE announced a share buyback programme up to a maximum of €3 million. BCRE cancelled the shares upon repurchase. The purpose of the share buyback programme was to reduce the discount between the share price and the net asset value per share. The share buyback programme was completed on 31 December 2016.

The total number of shares repurchased under the share buyback programme was 2,013,165 for a total consideration of approximately €1.96 million. The share capital of BCRE was reduced in 2017 by means of a cancellation of all the shares repurchased under the share buyback programme. As a result, the issued share capital of BCRE to date consists of 159,596,899 ordinary shares.

1.4.6 Refinancing of bank loans in Russia

On 22 March 2018, the refinancing of the existing bank loan facilities in a total amount of approximately US\$267 million (approximately €222 million) entered into by subsidiaries/associates of BCRE Russia concerning the four projects in Russia (Kazan, Lyubertsy, Lobnia and Dmitrov) has been completed.



1.4.7 Sale of BCP

On 23 May 2017, BCRE entered into an agreement with a third party for the sale of the entire holding held in BCP. The sale was completed on 14 June 2017 for a total gross consideration of approximately NIS695 million (approximately €175 million). The loss from the sale amounting to €11.8 million has been included within "Profit from discontinued operations, net" together with the profit from the results of BCP for the period from 1 January 2017 until 14 June 2017 amounting to €16.7 million, resulting to a net profit from discontinued operations of €4.9 million.

1.4.8 Rating

In December 2017, Midroog, has reaffirmed the credit rating of the Company's Series B and C bonds of A2 on a local Israeli scale and changed the outlook from negative to stable. The Company has fully redeemed Series B and C bonds in January 2018 and December 2017, respectively. In addition, Midroog changed the credit rating of the Company's Series A bonds from A2 to A3 on a local Israeli scale and changed the outlook from negative to stable. Following the Series, A bonds' scheduled payment on 19 December 2017, the outstanding principal amount of Series A bonds due on 19 December 2018 amounts approximately to NIS75 million (approximately €18 million).

1.5 CORPORATE GOVERNANCE STATEMENT

1.5.1 Directors and senior managers

Directors of the Company (the “Directors”) as of 31 December 2017:

<p>Harin Thaker (63) Chairman Non-executive Director (non-independent) Member of Audit, Remuneration, Nomination, Investment Advisory and Risk Management Committees</p>	<p>Harin Thaker has been with the Group since April 2013 and is currently the Chairman of the Company. He was initially appointed as an Executive Director and was re-appointed as non-executive Director with effect from 15 May 2014. Since 2013, Harin has been Chief Executive of Aeriance Investments S.A., which is an independent multi-strategy and multi product Debt Manager, established in 2008. Aeriance has raised €600 million of equity across 4 closed-end funds focusing on commercial and residential lending such as whole loans, stretch senior, mezzanine and bridge financing across North western countries of Europe. Harin is also a non-executive director of an AIM listed company, Secure Property Development & Investment since 2012. Prior to 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. Harin Thaker holds an MBA from London Guildhall University.</p>
<p>Daniel Aalsvel (46) Non-executive Director (independent) Member of Audit, Remuneration, Nomination and Risk Management Committees</p>	<p>Daniel Aalsvel, has been an independent non-executive Director of the Company since 15 May 2014. Daniel has over 20 years of experience in the real estate industry including fund raising, developments, investments and asset management. Daniel is a co-founder of Coast Capital Partners (www.coastcapital.cz), a real estate investment and development company, which was founded in London in 1995 and later expanded with the establishment of its Czech Republic and Florida offices in 2004. In the Czech Republic Daniel is developing high-end luxury projects, specialising in historical heritage protected buildings in Prague’s old town. Between 1995 and 2007, Daniel was managing multiple joint-ventures investing in residential portfolios in the UK.</p>
<p>Michiel Olland (58) Executive Director Member of Audit, Nomination, Disclosure and Risk Management Committees</p>	<p>Michiel Olland has been an executive Director of the Company since 15 May 2014. Michiel is also the principal of MO Real Estate B.V., an investment, capital and finance services firm based in the Netherlands and is Investment Management Director at Collegiate AC, a UK based international Student Accommodation operating platform with management, development and investment services. He is appointed as a Supervisory Board member (“commissaris”), at Betaalbare Koopwoningen Zaanstad BV (BKZ BV), a municipality of Zaandam majority owned company providing financing structures for houses in this area to people with lower incomes (via long leasehold structures). 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 Global Co-head of the real estate investment division of</p>

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	<p>Dutch pension fund ABP (APG) and was also Chief Financial Officer at KFN, ABP's Dutch office fund. Between 1992 and 2001, he 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. Michiel has completed the general management program from INSEAD (CEDEP) (France) and holds a Master in Law degree from the University of Utrecht, Netherlands.</p>
<p>Luca Tomesani Melotti (34) Non-executive Director Member of Risk Management Committee</p>	<p>Luca Tomesani Melotti has been a non-executive Director of the Company since June 2017; he joined Brack Capital Group in January 2012 holding various positions and from June 2015 until June 2017 he served as an executive director of the Company. In the past Luca oversaw projects within various firms. He has been Lecturer of Real Estate Investment Strategy at LUISS Guido Carli Business School since 2015; he holds an Executive M.B.A. Global Network from Kellogg School of Management at Northwestern University and from Collier School of Management at Tel Aviv University after graduating cum laude in Political Science and International Relations at LUISS Guido Carli University.</p>

Senior managers of the Company (the “Senior managers”) as of 31 December 2017:

<p>Ariel Podrojski (50) Former CEO Former Member of Investment Advisory, Disclosure and Risk Management Committees Retired as CEO as of 6 February 2018</p>	<p>Ariel Podrojski had been with the Group for over a decade, he retired from his position as CEO of the Group on 6 February 2018. His key experience includes investments, financing, development and asset management and he has over 20 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 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. Ariel received a M.Sc. in Property Investment from City University (Cass Business School), London and a LLB from the University of London.</p>
<p>Nansia Koutsou (37) Co-CEO Member of Investment Advisory, Disclosure and Risk Management Committees Appointed as interim co-CEO as of 6 February 2018</p>	<p>Nansia Koutsou has been with the Group since 2007. On 6 February 2018 she was appointed as interim co-CEO of the Group after fulfilling the positions of the CFO and COO. Her key experience includes financial reporting, budgeting, control, corporate finance, audit and international accounting, and legal work and has over ten years of professional experience. Within the Group Nansia was responsible for the preparation of the Group’s financial reports, budgets and cash flows, facilitating payments. She was also responsible for supervising the financial operations of the Company’s regional activities. She is currently leading the corporate, legal and secretarial work of the Group and the investors’ relations department. Previously, Nansia worked as a Senior Associate with PricewaterhouseCoopers in Cyprus in the International Business Unit. Nansia holds a BA in Economic Analysis from the University of Cyprus and a Master of Science in Accounting from Fairleigh Dickinson University in the US. Nansia is a member of NJ Certified Public Accountant (CPA) (in the US) since 2006, a member of AICPA (in the US) since 2007 and a member of ICPAC (Institute of Certified Public Accountants of Cyprus) since 2012.</p>
<p>Shai Shamir (43) Co-CEO and CEO, US Operations Member of Disclosure and Risk Management Committees Appointed as interim co-CEO as of 6 February 2018</p>	<p>Shai Shamir has been with the Group since 2003 and is responsible for the Group’s operations in the US as the CEO since February 2016. On 6 February 2018 he was appointed as interim co-CEO of the Group. In his 14 years with the Group, he led the development of the various BCRE USA hotels, including the James New York and Orchard hotels in SoHo and the CitizenM hotel in Times Square, as well as 35th street hotel. Shai holds a Master of Science degree in Real Estate from Columbia University and a B.A. in Economics. He is an Adjunct Professor at NYU and Columbia University.</p>
<p>Yiannis Peslikas (38) CFO Member of Disclosure and Risk Management Committees</p>	<p>Yiannis Peslikas has been with the Group since 2014 and recently he was appointed as CFO of the Group. His key experience includes financial reporting, budgeting, corporate finance, taxation and audit and has over fifteen years of professional experience. Yiannis is responsible for the preparation of the Group’s financial reports, budgets and cash flows and tax matters. He is responsible for the supervision of the Amsterdam and Cyprus offices. Previously, Yiannis worked as a manager with PwC in Cyprus in the Assurance and Advisory department. He holds a B.A. in Accounting and Finance from the London School of Economics and Political Science. He is a member of the Institute of Chartered Accountants in England and Wales (ICAEW) and the Chartered Institute of Management Accountants (CIMA).</p>

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	ICAEW since 2006 and a member of ICPAC (Institute of Certified Public Accountants of Cyprus) since 2010.
Eyal Gutman (57) Member of Investment Advisory and Risk Management Committees	Eyal Gutman has been with the Group for over 15 years and worked on the acquisition of Haslemere in 2002. 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. Eyal holds a B.Sc. in Economics and Management from Technion, Israel Institute of Technology, a M.Sc. in Economics from Technion and a PhD from Technion and Haifa University.
Prof. Pradeep Dubey (67) Member of Investment Advisory Committee	Prof. Pradeep Dubey is leading professor and co-director at the Center for Game Theory at Stony Brook University, US, and specializes in Game Theory and Mathematical Economics. He is also a visiting professor at Yale University, and a fellow of the Econometric Society and a founding member of the Game Theory Society. Previously, through short academic visits, Prof. Dubey has been associated with the Hebrew University of Jerusalem, Israel; University Catholique de Louvain, Belgium; the International Institute for Applied Systems Analysis, Austria; the Indian Statistical Institute, India; and many other reputable institutions. Prof. Dubey holds a B.Sc. in Physics (Honours) from the University of Delhi and a Ph.D. in Applied Mathematics from Cornell University.
Yosef Levin (68) 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 40 years of real estate experience including over 20 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 hundreds of thousands m ² in about a 10-years' period. Prior to this, Yosef has also held various positions in other companies such as Solel Boneh and Even Ziv. Yosef is a qualified civil engineer from the Technion in Haifa, Israel.
Lior Shmuel (43) CEO, India Operations	Lior Shmuel joined the Group in 2008 with over 15 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 company dealing with investments in real estate and other asset classes with interests in the US 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

The Company is a public limited liability company incorporated under the laws of the Netherlands, and its shares were admitted to the standard listing segment of the Official List of the UK Listing Authority. The Dutch Corporate Governance Code 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. 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 2016 (the "UK 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 comply where considered appropriate with the UK Corporate Governance Code, alternatively to the Dutch Corporate Governance Code. The UK Corporate Governance Code and the Dutch Corporate Governance Code are mainly based upon the same or at least comparable principles of good corporate governance. In view of the listing of its shares on the London Stock Exchange, the Company complies voluntarily with aspects of the UK Corporate Governance Code considered appropriate to the Group instead of complying with the Dutch Corporate Governance Code.

The Board is committed to maintaining a high standard of corporate governance and intend to continue to comply with those aspects of the UK Corporate Governance Code which they consider appropriate, considering the size of the Company and the nature of its business.

The UK Corporate Governance Code consists of principles (main and supporting) and provisions and uses a "comply or explain" approach. Listed companies (with a premium listing, but not those with a standard listing, of shares on the London Stock Exchange) are required to apply the main principles of the UK Corporate Governance Code and report to shareholders on how they have done so. Listed companies are required to either confirm that they have complied with all provisions set out in the UK Corporate Governance Code or, where they have not, to provide an explanation where justified in particular circumstances if good governance can be achieved by other means. Companies with a standard listing can voluntarily comply with the aspects of the UK Corporate Governance Code that are appropriate to be adopted.

A current version of the UK Corporate Governance Code came into effect in 2016, applying to financial years beginning on or after 17 June 2016 and will apply, where considered appropriate for the Company to comply with it, to the Company from 1 January 2017. The UK Corporate Governance Code can be found on the FRC website at: www.frc.org.uk and the Dutch Corporate Governance Code (as revised on 8 December 2016) can be found at: www.commissiecorporategovernance.nl.

1.5.3 Board composition, roles and independence

The UK 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 UK Corporate Governance Code also recommends that the chairman should, on appointment, be independent. Jan van der Meer has resigned as non-executive Director effective as of 3 March 2017 for personal reasons, as a result of which the Company currently has four Directors (biographies are set out in Section 1.5.1), three of whom are non-executive Directors: Harin Thaker, Daniel Aalsvel and Luca Tomesani Melotti and one executive Director: Michiel Olland. Only one non-executive Director, Daniel Aalsvel, is regarded by the Company as being independent of management and free from any business or other relationships that could materially interfere with the exercise of his independent judgement. Daniel Aalsvel has expressed his intention to retire from the Company as a Director immediately following the approval of the Company's 2017 annual

report. Harin Thaker (non-executive Chairman) is not independent given that he was appointed as an executive Director of the Company in October 2013 before being appointed as a non-executive Director in 2014, 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. Luca Tomesani Melotti was re-appointed on 30 June 2017 as a non-executive Director. In addition, the number of independent non-executive Directors does not comply with the recommendation of the UK Corporate Governance Code that at least two of the directors, excluding the chairman, should be independent non-executive directors.

The independence of non-executive Directors is based on criteria suggested in the UK Corporate Governance Code. The UK 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 consider it appropriate to appoint any Director to fulfil this role (given the limited size of the Board) but may decide to do so in the future.

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 upon their re-appointment. 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.

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 UK 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 professional advice at the Company's expense should they wish to do so in relation to their duties. The Company offers to all the Directors the possibility to regularly update and refresh their skills and knowledge. Newly appointed Directors receive an induction training offered by the Company. Further details of the Board's powers and function are described in Section 1.5.13.

The Company is in process of assessing the appropriate balance of skills and experience, independence and knowledge of the Board, as part of its succession planning to ensure progressive refreshing of the Board and, in particular, following the implementation of Directive 2014/56/EU on statutory audits of annual accounts and consolidated accounts in the Netherlands and the announcement that Daniel Aalsvel is to retire as a non-executive Director from the Company immediately following the approval of the Company's 2017 annual report.

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.

The Board approved the diversity policy in 2017. This policy sets out the Company's position on providing equal opportunity in all aspects of employment, including recruitment and promotion, giving guidance and encouragement to employees at all levels to act fairly and prevent discrimination on the grounds of sex, race, colour, ethnic or national origins, physical ability, marital status, part-time and fixed contract status, educational or professional background, age, sexual orientation, religion, beliefs, perspective, experience, or other ideologies. This policy applies to all current and potential employees and directors. BCRE sees diversity as an asset to the organization and linked to better economic performance and it helps achieve its objectives. BCRE believes that diversity of competences and views of its Board members, facilitates a good understanding of the business organization and affairs of the Company. It enables Board members to constructively challenge the management decisions and to be more open to innovative ideas.

1.5.4 Board meetings and Committees attendance¹

Name	Role	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meetings
Harin Thaker(a)	Non-executive Chairman	30/35	10/12	5/5	9/9
Michiel Olland(b)	Executive Director	35/35	12/12	4/5*	9/9
Daniel Aalsvel(c)	Non-executive Director (independent)	35/35	12/12	5/5	9/9
Luca Tomesani Melotti	Non-executive Director	34/35	3/12*	2/5*	3/9*
Jan van der Meer(d)	Non-executive Director	0/35	N/A	0/5	N/A
Total meetings held		35	12	5	9

- a. Chairman of the Remuneration Committee.
- b. Chairman of the Nomination Committee.
- c. Chairman of the Audit Committee.
- d. Jan van der Meer resigned from the Board on 3 March 2017
- * Attended the meeting by invitation (not a Committee member)

The Board considers agenda items set 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

¹ Reference made only to the mandatory committees

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 2017 performance evaluation of the Board was undertaken in April 2018. During April 2018, the Chairman of the Board has reviewed the performance of the current Board based on the following factors and questions: i) the appropriate composition of the Board with the right mix of knowledge and skills; ii) the internal and external Board relationships; iii) the level of interaction between non-executive and executive Directors; iv) interaction between the Board and its main committees and between the committees themselves; v) interaction between the Board and the executive management; and vi) the operation of the Board, including the conduct of Board meetings. The outcome of the Board evaluation was determined to be satisfactory and appropriate. The evaluation of the individual Directors was conducted by the Board Chairman. The evaluation of the Chairman was led by Daniel Aalsvel in his capacity of independent non-executive director. The results of the evaluation of the individual Directors and of the Chairman were satisfactory and new targets were set. The evaluation of the Board committees was undertaken in April 2018 and concluded by the Board as being appropriate with some recommendations to take actions during 2018.

The roles of the Chairman and the interim co - Chief Executive Officers 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 interim co - Chief Executive Officers, for the management of the Group and the implementation of the Board strategy and policy on the Board's behalf. In discharging their responsibilities, the interim co - Chief Executive Officers are advised and assisted by the other members of the senior management. Biographies of the interim co - Chief Executive Officers and the other members of the senior management team are set out in Section 1.5.1.

During the financial year, the Board held thirty-five Board meetings. In addition, the Board held discussions with the senior management team on a regular basis during 2017. Several meetings of non-executive Directors were held, without the presence of the executive Directors, during 2017. The Board considered and discussed, inter alia, the sale of the all the shares held in the issued and outstanding share capital of BCP, the exploration of the possible cancellation of the standard listing of the Company's ordinary shares from the Official List of the United Kingdom Listing Authority and the cancellation of trading in the shares on the Main Market of the London Stock Exchange, as well as, alternative methods that could amongst others provide liquidity to the Company's shares. In addition, the strategic plan going forward and the repayment of the corporate debts have been considered and discussed.

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 of the Company in respect of liabilities incurred as a result of their office.

1.5.9 Board Committees

In accordance with the UK 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, Disclosure Committee and a Risk Management 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 the 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 been appointed as a committee member due to his recent and relevant financial experience. The composition of the Audit Committee is expected to be changed to comply with Regulation 537/2014/EC, which came into effect on 17 June 2016 (and applies as from 1 January 2017 in the Netherlands), and Article 2(1) of the Royal Decree of 26 July 2008. There have been twelve Audit Committee meetings during 2017.

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

The Remuneration Committee is comprised of Harin Thaker (non-executive Chairman) and Daniel Aalsvel (independent non-executive Director). Harin Thaker chairs this committee, contrary to the recommendation of the UK 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. His experience and knowledge on this area adds value to the Company.

The Remuneration Committee advises the Board on an overall remuneration policy. The Remuneration Committee also proposes individual remuneration of the interim co - Chief Executive Officers, Chief Financial Officer, Company Secretary and the Chairman of the Board (if the Chairman is an executive Director), the executive Directors, 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 on 2 February 2015, 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 five Remuneration Committee meetings during 2017.

Further details in respect of the remuneration of the Directors are contained in the Remuneration Report in Section 1.7 and in Note 31 in the explanatory notes to the Consolidated financial statements.

Nomination Committee

The Nomination Committee is comprised of 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 voting 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 in 2015 and his re-appointment as a non-executive Director in 2017.

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 regards to any changes. The Nomination Committee also gives consideration to succession planning for Board members and senior management and keeps leadership needs of the Company under review.

Under Dutch law effective as of 13 April 2017, 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 woman. Between 2014 and 2017, 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 nine Nomination Committee meetings during 2017.

Investment Advisory Committee

Harin Thaker (non-executive Chairman), as the only board member, is one of the members of the Investment Advisory Committee. The rest of the members are the interim co-Chief Executive Officers, (the former CEO Ariel Podrojski has been a member to this Committee until his retirement), and another senior manager. An Investment Advisory Committee has been established, (although not required under the UK 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. and the acquisition and disposal of shares in BCP. The committee provides an independent evaluation on market movements, assessing their impact on the Group's portfolio over the medium to long term and makes recommendations to the Board concerning potential investments and/or the management of risks associated with the Group's investments.

There have been several Investment Advisory Committee meetings during 2017.

Disclosure Committee

Michiel Olland (executive Director), as the only board member, is one of the members of the Disclosure Committee. The rest of the members are the interim co-Chief Executive Officers, (the former CEO Ariel Podrojski has been a member to this Committee until his retirement), Chief Financial Officer and Corporate Secretary.

A Disclosure Committee has been established, (although not required under the UK Corporate Governance Code), to lead the disclosure process of inside information and to prevent insider dealing, unlawful disclosure of inside information and market manipulation.

There have been several Disclosure Committee meetings during 2017.

Risk Management Committee

The Risk Management Committee is comprised of all the Directors of the Company who are members in its various sub committees. In addition, the interim co-Chief Executive Officers, (the former CEO Ariel Podrojski has been a member to this Committee until his retirement), Chief Financial Officer, Corporate Secretary and Eyal Gutman are members in the various sub committees of the Risk Management Committee. A Risk Management Committee has been established, (although not required under the UK Corporate Governance Code), to assist the Board in the discharge of its statutory and fiduciary responsibilities of governance, ethics, integrity and risk management.

There have been several Risk Management Committee meetings during 2017.

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, governance and strategy of the Company to understand their issues and concerns.

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 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 Audit Committee discusses and examines with the senior managers on a quarterly basis regarding the internal policies and procedures. The Audit Committee reviews as well the results of the external auditors' audit findings concerning the audit of the financial statements and proposes recommendations accordingly.

The Group's internal control procedures include Board approval for all significant capital investment projects. All major and/or extraordinary 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 1.9.2 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 (i.e. certain committees were created in order to review the financial and operational performance of the Group) 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, examine whether the system of internal control operated effectively throughout

the financial year and up to the date the financial statements were signed and will make recommendations when appropriate.

1.5.12 Share dealing code

The Company adopted on 10 January 2017 a new share dealing code which is compliant with the Market Abuse Regulation (i.e. Regulation (EU) No 596/2014). The share dealing code imposes restrictions on conducting transactions in or relating to Company securities beyond those imposed by law. Its purpose is to ensure that PDMRs (persons discharging managerial responsibilities) and PCAs (persons closely associated with a PDMR) do not abuse, and do not place themselves under suspicion of abusing, inside information that they may be thought to have (in particular during periods leading up to an announcement of the Company's results).

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 executives 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 2017, 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) At the General Meeting at which the appointment at hand is made was convened by or at the request of BCI; or
- (b) If 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) At the General Meeting at which the resolution is adopted was convened by or at the request of BCI;
- (b) If 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 BCRC 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. On 24 June 2016, the General Meeting approved to extend the authority to issue shares in the capital of BCRC or grant rights to subscribe for shares to the Board up to 10% of the issued share capital of the Company at the date of the annual General Meeting of 2016 (being equivalent to 16,161,006 shares that ends on the day of the annual General Meeting held in 2017. On 3 November 2016 the shareholders of the Company resolved in an Extraordinary General Meeting ("EGM") to designate the Board as the authorised body to issue shares, grant rights to subscribe for shares and to restrict pre-emptive rights by another ten percent 10% (therefor 20% in the aggregate) of the issued share capital of the Company at the date of the annual General Meeting in 2016 (equivalent to 32,332,012 shares), in order to facilitate the issuance of the Company of further convertible bonds. On 30 June 2017, the General Meeting approved to prolong the designation of the Board as the body authorised to resolve to (i) issue shares in the capital of BCRC and (ii) limit or exclude pre-emptive rights related to the issuance of shares or the granting of rights to acquire shares to the Board up to 10% of the issued share capital of the Company at the date of the annual General Meeting of 2017 (being equivalent to 16,007,664 shares) 12 until the first day following the annual General Meeting of 2018.

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 authorised the Board thereto. This authorisation shall remain valid for a maximum of 18 months. On 24 June 2016 and at the EGM this authorisation was approved to extend for a period that ends on the first day of the following Annual General Meeting which will be held in 2017.

At the General Meeting on 30 June 2017 the Board was authorised until the first day following the Annual General Meeting of 2018 to acquire fully paid up shares or DI's (as defined in paragraph 1.5.19), provided that:

- (a) the purchase price per share or depositary interest shall not be less than the nominal value and not higher than 110% of the market price at the time of transaction;
- (b) the aggregate nominal amount of the shares or DI's to be acquired together with the shares or DI's which are already held and the shares or DI's on which a right of pledge is held, by the Company or by its subsidiaries, shall not exceed the maximum amount as prescribed by law and regulations;
- (c) all other regulations of the Articles and law shall be adhered to; and
- (d) market price at the time of the transaction is determined in such case by reference to the previous day's closing price of the Daily Official List of the London Stock Exchange.

No authorisation 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 transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. 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 Link Market Services Trustees Limited (former 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 for the Financial Markets, as at 26 April 2018 this interest was as follows: S. Weintraub 46.67%, Medinol Ltd 8.72% and L.R. 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:

- BCRC has an authorised share capital consisting of 700,000,000 ordinary shares. On 31 December 2016, 161,610,064 shares with a nominal value of €0.01 were issued and fully paid up. Following the repurchase of shares under the share buyback programme as announced on 3 June 2016 and further extended on 14 September 2016, the Company had reduced its share capital by means of cancellation of 1,533,415 of its own shares on 10 January 2017. The Company's entire issued share capital following the share cancellation consisted of 160,076,649 ordinary shares, including 479,750 shares purchased under the share buyback program which were not yet cancelled. At the General Meeting on 30 June 2017 it was resolved to further reduce the Company's share capital by means of cancellation of 479,750 of its own shares, which was effected on 6 September 2017. On 31 December 2017, 159,596,899 shares with a nominal value of €0.01 were issued and outstanding.
- There are no restrictions on the transfer of shares.
- Information on major shareholders can be found above in Section 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 Section 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 17 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 Section 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 Section 1.5.17 and 1.5.18.
- The bonds issued by the Company in November 2014 and the convertible bonds issued in September 2016 include change of control provisions. A change of control event occurs in case any person other than BCI will have an interest 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% of the voting rights normally exercisable at a General Meeting. The bonds issued by the Company in November 2014 had been fully repaid on 13 December 2017. Please refer to the bonds prospectus and to the terms and conditions of the

convertible bonds that are available on the Company's website at www.brack-capital.com. Under the update bond programme similar provisions apply for the new issuance of bonds.

- 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 established a remuneration committee of one independent non-executive Director and two non-independent non-executive Directors. Currently after the resignation of Jan van der Meer, effective as of 3 March 2017 the Remuneration Committee consists of one independent non-executive Director and one non-independent non-executive Director. 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 proposing to the Board its recommendation on the remuneration packages for individual Directors, co-Chief Executive Officers, Chief Financial Officer and Company Secretary.

Executive Directors

The remuneration package for the executive Directors is fixed and consists of a basic annual salary and an additional fee for the participation in the Board's committee as described below.

Michiel Olland and Luca Tomesani Melotti (until his re-appointment as a non-executive director on 30 June 2017) are both entitled to a basic annual salary of €47,000 (less any tax and / or social security contributions) payable monthly in arrears.

Executive Directors are entitled to receive a fee for the participation in the Board's committees, as follows: (a) for being a member of the Audit Committee, an annual fee of €5,000, (b) for being a member of the Nomination Committee, an annual fee of €3,250 (c) for being a member of the Remuneration Committee, an annual fee of €3,250 and (d) for being a member of the Disclosure Committee, an annual fee of €3,250. The fees are payable yearly in arrears calculated according to the actual participations in the committee meetings.

Michiel Olland is entitled to a total annual fee of €11,500 for his participation in the Audit Committee, the Nomination Committee and Disclosure Committee.

Luca Tomesani Melotti is not participating in any of the committees and therefore he is not entitled to any additional fee.

Non-executive Directors

The remuneration package for the non-executive Directors is fixed, except for Harin Thaker, and consists of a basic annual salary and an additional fee for the participation in the Board's committees as described below. 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 UK.

Harin Thaker, Daniel Aalsvel, Luca Tomesani Melotti (after his re-appointment as a non-executive Director on 30 June 2017) and Jan van der Meer (until his resignation from the Board on 3 March 2017) are each entitled to an annual fee of €36,000 (less any tax and / or social security contributions) payable monthly in arrears.

Non-executive Directors are entitled to receive a fee for the participation in the Board's committees, as follows: (a) for being a member of the Audit Committee, an annual fee of €5,000, (b) for being a member of the Nomination Committee, an annual fee of €3,250 (c) for being a member of the Remuneration Committee, an annual fee of €3,250 and (d) for being a member of the Disclosure Committee an annual fee of €3,250. The fees are payable yearly in arrears calculated according to the actual participations in the committee meetings.

Harin Thaker and Daniel Aalsvel are entitled to a total annual fee of €11,500 each for the participation in the Audit Committee, in the Nomination Committee and in the Remuneration Committee. Jan van der Meer was entitled to an annual fee of €3,250 for his participation in the Remuneration Committee, until his resignation on 3 March 2017.

Luca Tomesani Melotti is not participating in any of the committees and therefore he is not entitled to any additional fee as defined in the company's remuneration policy. In addition, he, in his capacity as a consultant for Maraconi project in Italy, received an additional amount of €150,000 from a Company's subsidiary for 2017.

In addition, Harin Thaker, in his capacity as a member of the Investment Advisory Committee, receives an additional annual fixed fee of GBP122,500 (€139,776).

Variable income

Harin Thaker, the Chairman of the Board, had an option to purchase 2.5% of the equity of any transaction 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 transaction; (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 Harin Thaker at the time of the exercise.

Remuneration summary table

The total remuneration, as intended in section 2:383 (1) of the Dutch Civil Code, amounted to €545 thousand (2016: €425 thousand) for Directors. The composition of Directors remuneration is as follows:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Michiel Olland (executive)	59	52
Luca Tomesani Melotti ^a (executive)	24	45
Luca Tomesani Melotti ^a (non-executive)	18	-
Jan van der Meer ^b (non-executive)	9	36
Harin Thaker ^c (non-executive)	187	250
Daniel Aalsvel (non-executive)	48	42
	345	425

- Luca Tomesani Melotti was an executive director until 30 June 2017 and he was re-appointed as a non-executive director on the same day.
- Jan van der Meer resigned from the Board on 3 March 2017.
- Harin Thaker is entitled for an additional annual fixed fee of £122,500 (€139,776) in his capacity as a member of the Investment Advisory Committee (besides his fee as a non-executive director). This additional fee is included in the total amount in the above table.

Director fees in relation to Company's subsidiaries for the year ended 31 December 2017 amounted to €234 thousand (31 December 2016: €33 thousand). The increase from last year is due to the payment made to Luca Tomesani Melotti as described above.

Remuneration policy

The remuneration policy regarding the remuneration of the Board, as proposed by the Company's remuneration committee, was adopted by the General Meeting on 2 February 2015.

The fundamental principle of the remuneration policy is that remuneration and other terms of employment for the members of the Board shall be in line with the market and in accordance with services and time commitment of the Directors, in order to ensure that the Company will be able to attract, motivate and retain necessary individuals to enable the Board to promote the interests of the Company in the medium and long term. The total remuneration to the Directors may consist of a fixed salary, remuneration for additional services and other benefits.

The remuneration policy is available on Company's website at www.brack-capital.com.

Remuneration Committee attendance and meetings

The Remuneration Committee met five times during 2017. All members of the Remuneration Committee attended all meetings. Certain other Board members also attended some of the Remuneration Committee meeting by invitation.

Throughout the year, the Remuneration Committee, among others, reviewed and considered the following:

- The determination of the realization of the achievement of the targets based on the general and year specific parameters for the 2016 incentive scheme for the former Chief Executive Officer, Chief Financial Officer and Corporate Secretary; and
- The determination of the realization of the achievement of the targets based on the general and specific parameters for the 2017 incentive scheme for the former Chief Executive Officer.

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. The composition of the Audit Committee is expected to be changed to comply with Regulation 537/2014/EC, which came into effect on 17 June 2016 (and applies as from 1 January 2017 in the Netherlands) and Article 2(1) of the Royal Decree of 26 July 2008.

Role

The Audit Committee assists the Board in observing its responsibility of ensuring that the Group's financial systems provide accurate and up-to-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

Ernst & Young Accountants LLP is the Company's current external auditor.

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.

Ernst & Young Accountants LLP 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. The maximum term the external auditor can be appointed is 10 years. 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.

In accordance with corporate governance requirements, the Audit Committee reviewed on 7 November 2017 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 17 and 26 April 2018 for the approval of the accounts. The Audit Committee recommended to the Board that:

- (a) the consolidated financial statements for the year ended 31 December 2017 give a true and fair view of the assets and liabilities, the financial position and profit or loss of BCRE and the undertakings included in the consolidation taken as a whole;
- (b) the Company financial statements for the year ended 31 December 2017 give a true and fair view of the assets and liabilities, the financial position and profit or loss of BCRE;
- (c) the additional management information report provided in the annual report gives a true and fair view of the situation on the balance sheet date and the state of affairs at BCRE during the financial year 2017 and the undertakings included in the consolidation taken as a whole; and
- (d) the principal risks to which BCRE is exposed are described in the annual report. For a description of these risks, see Section 1.9 below.

The amount of €21 thousand have been paid to EY Russia for providing advisory services to the Company's subsidiaries/associates. The Audit Committee concluded that this did not impair the auditor's independence in relation to the audit of the consolidated financial statements.

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 the 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 and the senior management also review the reports to shareholders and any other public announcement concerning the Group's financial position and corporate governance statements.

During August 2017, the Audit Committee met in order to discuss and recommend to the Board to approve the valuations of the major investments in Russia in relation to 2017 interim reports. During March 2018, the Audit Committee met in order to discuss and recommend to the Board to approve the valuations of all investments in Russia and the major investments in the US in relation to the 2017 annual report. During the above meetings, the Audit Committee has held detailed discussions with the senior management and the Russia valuator in the presence of the external auditors with regards to the assumptions and methodology used in valuating these investments. The Audit Committee has also considered the external auditor's approach to the valuation of these investments. Based on their above review and analysis the Audit Committee concluded that they are satisfied with the valuation of investments and recommended them for approval to the Board.

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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.
For the period under review, no incidents have been reported.

Audit Committee attendance and meetings

The Audit Committee met twelve times during 2017 and received regular financial updates from the Chief Financial Officer on the Group's performance. All members of the Audit Committee attended all meetings except Harin Thaker who was not present in two of the meetings due to personal reasons. Luca Tomesani Melotti also attended some of the Audit Committee meetings by invitation.

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

- Monitor the statutory audit of the annual and consolidated financial statements in particular its performance, taking into account any findings and conclusions by the Authority for the Financial Markets pursuant to Article 26(6) of Regulation (EU) No 537/2014;
- The financial information that is publicly disclosed, which included the accounts for the year ended 31 December 2016; and the interim results for the period ended 30 June 2017;
- The annual report 2016;
- The performance of the Group's assets throughout the year;
- The adequacy and effectiveness of the Group's internal control policies and procedures as per Section 1.5.11;
- Discussion of valuations of Russia and US assets;
- Discussion of 3 years' projected cash flow;
- The selection and recommendation of the external auditors;
- The independence and objectivity of the external auditors; and
- The fees for the external auditors.

On behalf of the Board

Daniel Aalsvel
CHAIRMAN OF THE AUDIT COMMITTEE

1.9 RISK MANAGEMENT

The following section describes the Group's risk management and control system.

The risk management and control system forms an essential part of the business operations and reporting, and aims to ensure with a reasonable degree of certainty that the risks to which the Group is exposed are identified and controlled adequately within the margins of a conservative risk profile.

1.9.1 Risk Appetite

Under regular market risk conditions, BCRE's 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. In addition to following an analytical approach to the investment decisions throughout the life cycle of a project, BCRE focuses on value addition to its properties through proactive asset and property management. Rigorous research & analysis and risk management are cornerstones to BCRE's business philosophy. However, BCRE's very cautious current market view (see macro view below in the section *Risks related to Changes in macroeconomic conditions*) necessitates an ad hoc diversion from its usual asset allocation and diversification – oriented methodology and focus on rapid risk reduction. As the company's Board and management believe that current global market circumstances are of an increased risk level, BCRE's current short and medium business plan includes mostly de-risking by deleveraging, divestment of non-core and some stabilized properties and cost cutting. BCRE believes execution time is of the essence, and has started to pursue the execution of the business plan with rigour since there is no clear timing or probability when the global market conditions will get riskier.

BCRE, as part of its strategy which involves conservative underwriting, carries out continues high-level reviews of the real estate sector in the markets in which it is present to ensure that it understands the opportunities they offer and reviews its existing portfolio in line with market movements. The Group's teams in the markets where the Group operates are vertically integrated and comprise of professionals with many years of experience in the real estate sector and ensures that Group operations, follow high standards of governance, procedures and documentation. The Group's highly experienced management team monitors the industry movements in their respective markets and globally to understand the impact of variables such as interest rates, investor demand, occupier demand, consumer demand and hospitality trends on the Group's portfolio and potential opportunities under consideration.

The business in which BCRE is engaged inevitably involves risks. However, as mentioned in this Section 1.9 and other sections, the Company makes continuous efforts to balance and mitigate these risks through, among others, the use of different transaction and investment structuring methods. The Group has formulated guidelines for adhering to various compliance requirements and has implemented those through internal codes and regulations to ensure laws and regulations are adhered to.

The Risk Appetite of the Group varies from zero to low depending on the risk category as follows:

Risk Appetite Table		
Risk Category	Category Description	Risk Appetite
Business Strategic & Operational – Geographic Risks	Strategic and operational focus on ongoing review and assessment of relative and absolute position in the US, not seeking to increase exposure to emerging markets, and disposal of non-core and stabilized assets.	Very Low
Business Strategic & Operational – Real Estate Activity Risks	Current strategic and operational focus on the major development assets (one yet to be determined whether to be developed) in the USA seeking only very “special situation” projects with unusually low basis and hedged equity. Hedge operational risk through minimum guaranteed returns where possible.	Very Low
Financial Risks – Interest Rate	Partially hedged interest rate exposure across asset level to reduce the borrowing risks.	Low
Financial Risks – Currency	Focus on matching currency for both sources and liabilities.	Low
Financial Reporting and Compliance Risks related to regulation and taxation issues	Strict compliance with applicable laws and regulations and financial reporting issues. Adherence to all relevant policies and procedures.	Zero – low tolerance

1.9.2 Business Strategic & Operational – Real Estate Activity Risks

The key business risk factors relating to the strategy and operating activities aspect of the Group relating to the real estate activity risks include the following:

Risks relating to the real estate sector

The Group is exposed to a number of specific real estate factors, including all of the risks inherent in the business of acquiring, developing, owning, managing and using real estate, 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 (partly in emerging markets), type (requiring intensive management and/or deterring institutional investors) and their stage 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. This illiquidity shortcoming might become especially limiting in case of a financial crisis, where in addition to the natural illiquidity of the underlying asset, the crisis itself is typically characterized by a sharp drain in liquidity. The Group operates in highly competitive markets for investment opportunities. Competition in the real estate markets in the countries in which the Group invests may reduce investment opportunities and affect sale prices and occupancy and rental rates of the Group’s properties.

The Group carries out continuous high-level reviews and research of the real estate sector in the markets in which it is present to ensure that it understands the opportunities they offer and reviews its existing portfolio in line with the market movements. Regular interaction and updates are presented by the local teams to senior management to gauge economic trends and analyse its impact on the Group’s portfolio. The Group’s teams in



the markets where the Group operates are vertically integrated and comprise professionals with many years of experience in the real estate sector. According to the new strategic plan the Group follows a de-risk, deleverage and improving its balance-sheet quality, reducing asset exposure policy.

Risks relating to the Group's business

The Group's financial performance depends, amongst other things, on the economic situation in the markets in which it operates. There is uncertainty, and there will always be uncertainty, regarding whether real estate markets in these countries will continue to develop, or develop at the rate anticipated by the Group, or that the market trends anticipated by the Group will materialise.

The Group's portfolio suffers from a relatively high exposure level to large developments and re-developments, which are, a conversion project (as well as another large potential conversion project) in Manhattan, New York, United States (the Company's equity value as of December 2017 is approximately €36 million and a retail and wholesale market development project in Kazan, Russia (the Company's part in the loss for 2017 is approximately €10 million). A deterioration in any of these projects or global and / or local markets or economies, as well as the Group's failure to achieve its business objectives in any of them, might have a material negative effect on the Group's value, business and prospects. The Group's revenues from retail properties, Manhattan Hotels, and multifamily residential properties are exposed to the risk of changes in retail economic conditions, fluctuations in the value, occupancy levels, regulation and other factors.

The Group relies on its years of experience across asset classes and across geographies in which it is operating to manage the risks associated with the industry. The Group's highly experienced management team monitors the industry movements in their respective markets and globally to understand the impact of variables such as interest rates, investor demand, occupier demand, consumer demand and hospitality trends on our portfolio and potential opportunities under consideration. In accordance with the new strategic plan of BCRE, it has been decided that (i) no new investments in emerging markets will be undertaken, (ii) if new investment opportunities arise, which have abnormally low risk profiles – especially when taking advantage of Group's key proficiencies – consider to invest, (iii) reduce exposure to stabilized assets in the US and (iv) when possible, without a fire sale, reduce exposure to emerging markets and non-core assets/non-core sectors.

Risks relating to property development

The real estate development projects executed by the Group require significant capital outlays for the land acquisition, the obtaining of various permits and investment preparation as well as during the construction stages. The Company's part in future development cost (to be incurred over the next few years assuming 720 West End Avenue project may potentially be developed) in the Company's current development assets is currently estimated at around US\$160 million (under the assumption that all developments are completed and none are sold). Hence, a 10% – 15% cost overrun in all of the development would result in an additional cost of around US\$16 million – US\$24 million. The decision whether 720 West End Avenue project may be potentially developed is subject to the market conditions and depending on the prevailing financing availability and construction financing terms at the time of such future decision. In case of a development there may be a demand of an additional equity investment. This project represents a relatively high proportion of the Company's NAV, and as such, creates an inherent exposure to a single property.

Due to (*inter alia*) extensive financing requirements and long market exposure during the development, such ventures are typically associated with considerable, and multifaceted, risks. The Group relies on subcontractors for all of its construction and development activities. If the Group cannot enter into subcontracting arrangements on terms acceptable to it or at all, the Group will incur additional costs which will have an adverse effect on its business. The revenue stream in the business plan of developments is difficult to project

long term, and estimation thereof exposes the Group to significant fluctuations to the projected profitability of a development project. Sites that meet the Group's criteria must be zoned for the activity designated in the business plan (such as retail, residential or any other relevant designation). In instances where the existing zoning is not suitable or in which the zoning has yet to be determined, the Group will apply for the required zoning classifications. If the Group does not receive zoning approvals or if the procedures for the receipt of such zoning approvals are delayed, the Group's costs will increase, which will have an adverse effect on the Group's business.

The Group works across its platforms with strong and experienced management teams and keeps control over most of its projects. Project execution is controlled through in-house teams and performed through contractors / sub-contractors with proven track-records. The Group, with years of experience, maintains regular engagement with relevant authorities at regional level to ensure development proposals are in accordance with regulatory requirements.

Risks associated with the Group's investment property business

The Group's operations include the letting of business premises for commercial purposes and letting of residential units to occupiers. If the premises intended for this purpose are not completed on time, are different from those stipulated in the lease agreements, or are damaged, the Group may be exposed to the risk which may have a material adverse effect on the operations, financial standing or results of the Group. The Group may be subject to the risk in maintenance of the properties and increases in operating and other expenses. The Group may also take on additional costs and liabilities associated with existing lease obligations, and is dependent on attracting third parties to enter into lease agreements.

The Group continuously monitors its exposure to key tenants across income generating properties, including upcoming vacancies and breaks. It undertakes comprehensive analysis of the market in which properties are located with a deep understanding of market terms (such as rent, breaks, and tenant incentives.) and compare those with the Group's properties to see the advantage and potential value addition the Group's properties offer. The Group makes sure that its properties are offering competitive terms in the market and tenants are given incentives to continue their engagement with the Group. The Group's properties are managed internally through its dedicated highly experienced teams in order to keep control over the operations.

Risks related to Changes in macroeconomic conditions

Real estate in general, and the Group's property portfolio in particular, are exposed to changes in the macroeconomic environment, as was strongly evidenced by the sharp negative impact of the downturn in Russia on the groups operation, performance, and assets. The Company analysed and identified what it currently believes to be a relatively disconcerting combination of global conditions, including (i) interest rate environment (negative nominal and real rates in Europe, very flat curve in the US, historically tight junk bond spreads) (ii) inflated valuations in major asset classes (equities, fixed income, real estate and more) (iii) high levels of global debt combined with deteriorating debt underwriting quality and a high level of debt derivatives held by banks and non-banking institutions (iv) exceedingly unsettling debt and property markets situation in China (v) an evident, announced, trend of reduction in global quantitative easing (especially by the Fed and ECB, and more recently Bank of Japan) a new, (vi) multiple end-of- cycle evidence in the US combined with ETF trade dominance and crisis untested trade strategies such as risk parity and low volume (vii) disturbing indications of disregard to risk in asset pricing globally, similar to those seen in 2006-2007.

1.9.3 Business Strategic & Operational – Geographic Risks

The key business risk factors relating to the strategy and operating activities aspect of the Group relating to the geographic risks include the following:

Risks related to the geographic markets in which the Group operates

The Group is subject to various risks related to its operations in Russia and India, including economic and political instability, political and criminal corruption and the lack of experience and unpredictability of the civil justice system. Operating in developing economies may be subject to various risks, which may include instability or changes in national or local government authorities, land expropriation, changes in taxation legislation or regulation, changes in the terms and conditions of permits, changes to business practices or customs, changes to laws and regulations relating to currency repatriation and limitations on the level of foreign investment or development.

The Group, while operating in its markets ensures that its operations, follow high standards of governance, procedures and documentation. In order to achieve this, the Group utilises its years of experience and operations across geographies, and avails services of top professional advisors in each of the markets it operates. According to the new strategic business plan, the Group will dispose its investment in emerging markets.

Risks related to the hotel portfolio of the Group

The Group's revenues from hotel properties are exposed to the risk of changes in economic conditions, lodging demand, fluctuations in the value, occupancy levels and daily room rate. The hotel portfolio in which the Group has an interest in, is subject to certain risks common to the hotel industry. The Group currently has interests in one hotel development property in Manhattan (regarding which a sale contract was signed after the reporting period) and two operating hotels in Manhattan. The Group's operations and the results of its operations are subject to a number of factors that could adversely affect its business, many of which are common to the hotel industry and beyond the Group's control. The impact of any of these factors (or a combination of them) may adversely affect room rates and occupancy levels in the Group's hotels, or otherwise cause a reduction in the Group's rental streams generated from its hotel properties. Such factors (or a combination of them) may also adversely affect the value of the Group's hotels and in either such case would have a material adverse effect on the Group's business, financial condition and results of operations.

Risks related to Changes in the Manhattan residential Condo Market

The Group has a relatively high exposure to 90 Morton Street, a Manhattan development project, and 720 West End Avenue, a Manhattan investment property, if potentially will be developed as described above, but whose value is correlated to the Manhattan condo market prices. The values and potential profits from both assets may drop in case of a continuing decrease in the demand and / or sale prices of Manhattan residential condo market – in particular the luxury segment. One of the potential causes for such future decreases may be a decline in the availability of retail acquisition mortgages and / or a continuing increase in the interest rates on such mortgages. As a result, the values of the two projects is also dependent upon the terms of mortgages.

Risks relating to the Group's operations in Russia

Supported by the pickup in energy prices, several 2017 macroeconomic indicators seem to indicate positive tailwinds to the Russia economy in general and the Russian median household and consumer in particular. These indicators include resumed growth (albeit still relatively below at sub 2%), reduced inflation, very

reasonable fiscal spending and substantially increasing foreign exchange reserves. The Central Bank of the Russian Federation has gradually reduced the interest rates from a crisis high of 17% to the current 7.25% and Russia has successfully raised sovereign bonds in the international markets. Retail sales continued to decline during the first half of 2017 even after economic GDP growth resumed, but that lag has ended, and retail sales has been growing in the past few months – at a modest year on year pace. The Company's management views the change in trend as positive, but moderate at best, and foresees the Russian consumer market to remain under pressure for a longer period, as households gradually rebuild their net worth. Most recently the latest rounds of US sanctions added sharp downwards pressure on both Russia capital markets and currency. BCRE is carefully monitoring the situation, which can potentially dent the fragile economic recovery. The Group may be subject to various risks relating to the imposition of additional rounds of sanctions by various regimes on Russia. Such sanctions currently include, among others, the imposition of visa bans, the blocking of property and interests in property, trade and investment restrictions and other sanctions including sectoral sanctions against state owned banks and capital raises in the EU and the US.

The economic deterioration in Russia impacted the overall operations of our Russian assets during the period and resulted in their reduction of valuation of our assets.

The Group is operating with a hands-on approach in Russia with its local team. The Group's management is closely monitoring developments at macro level in Russia and at micro level in its assets. The local team in Russia continue to work closely on the ground with tenants in Group's properties. In light of the overall economic situation, necessary adjustments to be made with tenants are continuing.

1.9.4 Financial risks – Interest Rate Currency

The Company's key financial risks and risk factors relating to the financial position of the Group regarding the interest rates and currency risks can be summarised as follows:

The Group may be subject to interest rate risk

To the extent that the Group incurs floating rate indebtedness, changes in interest rates may increase its cost of borrowing, impacting on its profitability and having an adverse effect on the Group's free cash flow, property valuation and the Group's ability to pay interest and principal (as the case may be) under the bonds issued by the Group and other loans.

Currently the Group undertakes various hedging arrangements, including interest rate 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 net value.

As mentioned above in 1.9.2, the negative impact of rising interest rate is not limited to direct increased borrowing cost. There is also a potential correlation between rising rates and property values – in particular income producing assets. Thus, an increase in rates may reduce the values of the Group's property portfolio in the US.

For further details regarding the impact on Group's profitability from changes on the interest rates, please refer to Note 28 in the explanatory notes to the consolidated financial statements.

The Group is exposed to changes in foreign currency exchange rates

The Group's reporting currency is the Euro but a number of the Group's subsidiaries and affiliates operate in

jurisdictions outside the Eurozone. In many of the Group's properties and developments, particularly in the US, Russia and India, the entire cash flow of the project is denominated in non-Euro currencies, including the purchase of a plot or property, all the investment, development and operating costs, financing and revenues. The exchange rates between these currencies and the Euro may fluctuate significantly. Weakening of one or more of these non-Euro currencies against the Euro, and in particular the US dollar, may have a negative impact on the financial position of the Group and its results of operations.

The Group seeks to reduce these 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 profits and cash flows. In some cases, the Group may succeed in matching the currency in lease agreements to the currencies of the loans (for example, both may be in US dollars for a Russian retail project), but the income of the tenant would still be in local currency (Russian rouble in that example). In such cases, a weakening of the local currency, while legally not affecting the tenant's obligation to pay in US dollars, 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. This phenomenon occurred most recently in Russia, whereby the ability to pay rent of tenants with leases denominated in US dollars have been severely compromised by the strong devaluation in the Russian rouble / US dollar rate of exchange, creating a situation where BCRE Russia – as most other landlords – had no choice but to reduce the required payment to adjust to the market reality. There is also a risk due to a US dollar denominated loan and income which is inherently linked to the Rouble: if the Rouble weakens, the equivalent value of the income in US dollar terms is reduced, but the obligation to repay the principal remains constant. Additionally, the loan coverage ratio (the rent divided by the loan) is reduced.

For further details regarding the impact on Group's profitability from changes in the exchange rates, please refer to Note 28 in the explanatory notes to the consolidated financial statements.

Risks relating to the Group's borrowings

The Group's borrowings and any outstanding bonds issued by the Company could have a significant impact on the Group's business, financial condition and/or results of operations. Until December 2018, approximately €18 million will be fully redeemed under the Series A Notes. The Group has fully redeemed its Series B and C as of the date of this Annual Report.

The Group's existing bank borrowings could have a significant impact on the Group's business, financial condition and/or results of operations. The ability of the Group to operate its business largely depends on being able to raise funds. There can be no assurance that the Group will be able to find lenders who are willing to lend on similar terms to those which apply to existing financing arrangements, or at all, or that existing financing arrangements will be able to be refinanced on similar terms, or at all, upon maturity. The Group operates at a certain level of leverage which it assesses to be suitable to its needs. An increase in the leverage could cause the risk level of the Group's business to increase.

However, the Group maintains relationships with a wide range of both banking and non-banking institutions/lenders, in each of its markets. Long-term relationships established in our main market the US, assists the Group to achieve financing for its assets. Also the Group reviews and analyses the maturity of all the loan facilities at least twice a year and take decisions accordingly.

For further details on the bonds issued by the Company, please refer to Note 18 in the explanatory notes to the consolidated financial statements.



1.9.5 Financial Reporting and Compliance Risks related to regulation and taxation issues

The Company's key financial reporting and compliance risks relating to taxation and regulation compliance risks of the Group can be summarised as follows:

Risks relating to the Group's Financial Reporting

The Group operates across many financial jurisdictions and ensuring that all financial departments within the Group are reporting based on the same financial policies and delivering the same quality of reporting with trained, experienced finance staff is very important. The consolidated financial reports of the Group are being prepared in accordance with IFRS as adopted by the European Union (IFRS as adopted by the EU). A material misrepresentation of the Group's financial performance and reports may cause restatements on the financial reports which can have severe impact on the Group's reputation.

Some important risks which are associated with the preparation of the financial reports of the Group are the revenue recognition (revenues may be subject to improper recognition, inflating or misappropriating), the measurement of the fair value of investment property and investment property under construction and the meeting of the loan covenants.

Maintaining a sound financial control system over the financial reporting, setting up clear accounting policies within the Group and hiring professional finance staff to ensure to reduce the risk that the financial reporting does not contain any errors of material importance. In addition, the risk that the properties in the Group's portfolio are incorrectly valued is mitigated by executing all property valuations by internationally reputed external appraisers. All the properties of the Group are being appraised once a year and if market conditions change the properties of the Group are being appraised every 6 months.

Risks relating to regulation and taxation

The Group currently operates in several highly regulated markets. A variety of laws and regulations of local, regional, national and EU authorities, including planning, zoning, environmental, health and safety, tax and other laws and regulations must be complied with by the Group. If the Group fails to comply with these laws and regulations, it may have to pay penalties or private damage awards. In addition, changes in existing laws or regulations, or their interpretation or enforcement, could require the Group to incur additional costs in complying with those laws, alter its investment strategy, operations or accounting and reporting systems, leading to additional costs or loss of revenue, which could materially adversely affect the Group's business, results of operations and financial condition.

The Group and its subsidiaries conduct its business and structure their respective property investments in each relevant country in a manner which, based on professional advice, complies with the regulations and seeks to optimise their respective tax position in those countries.

Please note that the risks that the Company may incur are not limited to the risks as set forth in the Risk Management section. For further details, please refer to the Company's bonds prospectus dated 3 March 2016 and the Company's listing prospectus dated 21 May 2014 as available on the Company's website at www.brack-capital.com.

1.9.6 Risk and Control Framework

The set-up and functioning of the related internal risk management and control systems are periodically evaluated and discussed with the Risk Management Committee, Audit Committee and the Board. The Group's risk management framework is transparent in capturing the main risks which are relevant to the Group's business. Methodologies used in the Group's risk management framework are continuously assessed.

The comprehensive risk and risk framework is divided into three risk areas: business, financial, and legal and regulatory risks. The framework identifies the probability that a risk occurs, the impact and the mitigated actions to be taken.

During 2016, a risk management committee was established by the Board as a committee of the Board with the authority, powers and duties as set out in its terms of reference. The purpose of this committee is to assist the Board in the discharge of its statutory and fiduciary responsibilities of governance, ethics, integrity and risk management. The committee regularly report to the Board and provide assessment of the existing and potential risks, along with the effectiveness of the risk management systems and internal controls.

Among other, the committee has the following responsibilities:

1. Assisting the Board in formulating a strategic approach for risk management across the Group;
2. Ensuring that the appropriate tools and processes are in place to identify, asses and manage various risks from strategic and operational perspective;
3. Ensuring that the appropriate procedures are in place to monitor and review the effectiveness and adequacy of the implementation of risk management procedures;
4. Review and formulate recommendations to the Board on risks and risk management; and
5. Consider and recommend to the Board on Group's risk appetite.

The risk management committee created a risk matrix and a control process of continuous updating and monitoring in order to ensure that all major risks are being identified and dealt with on time.

The committee shall be assisted in its work by working subcommittees which are a business risks subcommittee, a financial risks subcommittee and a legal and regulatory subcommittee.

1.10 STATEMENTS

1.10.1 Going concern

The Directors, consisting of Harin Thaker (non-executive), Daniel Aalsvel (non-executive), Michiel Olland (executive) and Luca Tomesani Melotti (non-executive) have reviewed the current and projected financial position of the Group, making reasonable assumptions about future performance. The Board has a reasonable expectation that the Company and the Group have adequate resources to continue as in operational existence for at least the next 12 months from the approval of this annual report. This has led the Board to conclude that it is appropriate to prepare the 2017 financial statements on a going concern basis.

As in previous years, the company bases its assessment, among others, on the current cash balances, including marketable securities, and its available assets as well as considering cash from future operations and transactions. The repayments of the obligations of the Company are likely to be funded by a combination of one or more of the following, existing cash balances, including marketable securities, its ongoing development activity and operations, cash generated from the repayment of certain shareholder's loans by some of the Company's associates/joint ventures, cash generated through sale of certain assets in accordance with the Group's strategy on developed and stabilized projects (like IHG Orchard and Bowery assets held for sale at year end 2017) and on non-core assets, raising bonds and loans or equity transactions within the existing limits, partial refinancing of existing obligations, dividend distributions from associates/joint ventures. The Board regularly reviews and discusses the cash flow forecast and funding. However, although these forecasts have been made with due care, there is always an inherent risk that results will not materialize as forecasted and reality may differ, taking into consideration the risks identified as described in detail in Section 1.9.

Viability statement

In addition to the going concern assessment, the Board has considered the longer-term viability of its business. Provision C2.2 of the 2016 version of the UK Corporate Governance Code requires that the Board assess the prospects of the Group over an appropriate period of time selected by the Board. The Board has considered whether the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period from approval of this annual report, taking into account the Group's current position, strategic plan, business plan and budgets relevant to the Group's projects ("Business Plan") and the main risks stated in section the risk management in Section 1.9 above.

The assessment, which reflects the Group's strategy, Business Plan and associated main risks of the various business units across the Group, is underpinned by a detailed cash flow projection model which is based on a variety of assumptions about the key drivers of profit and cash flow. The cash flow projection model has been subject to sensitivity testing, which involves flexing a number of the main assumptions underlying the Business Plan and evaluation of the potential impact of the Group's main risks. Against these stress scenarios, the potential mitigation actions, which are expected to be available to the Group over the relevant timeframe, have also been considered. The sensitivity testing described above allows testing of the cash flow with respect to the Company's solvency and general performance based on a range of scenarios.

On this basis, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they mature over the three-year period from approval of this annual report.

1.10.2 Directors' statement

The Directors, consisting of Harin Thaker (non-executive), Daniel Aalsvel (non-executive), Michiel Olland (executive) and Luca Tomesani Melotti (non-executive), declare that to the best of their 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), as amended by Directive (2013/50/EU), and section 5:25c paragraph 2 under c of the Dutch Financial Supervision Act (Wet op het financieel toezicht), the Directors confirm that to the best of their knowledge:

- (a) the Consolidated financial statements for the year ended 31 December 2017 give a true and fair view of the assets and liabilities, the financial position and profit or loss of BCRE and the companies included in the consolidation taken as a whole;
- (b) the Company financial statements for the year ended 31 December 2017 give a true and fair view of the assets and liabilities, the financial position and profit or loss of BCRE;
- (c) the director's report provides a true and fair view of the situation on the balance sheet date and of the developments during the financial year 2017 of the Company and of its affiliated companies whose information has been included in its financial statements, together with a description of the main risks the Company faces;
- (d) the principal risks to which BCRE is exposed are described in the annual report. For a description of these risks, see Section 1.9 above; and
- (e) the subsequent events are described in the notes 32 and 23 in the consolidated and company financial statements for the year ended 31 December 2017 respectively.

Shareholder enquiries

For information about the management of shareholdings please contact:

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

**BCRE - BRACK CAPITAL REAL ESTATE INVESTMENTS N.V.
CONSOLIDATED FINANCIAL STATEMENTS**

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December	
		2017	2016
	Note	Euro in thousand	
ASSETS:			
<u>Non-current assets:</u>			
Investment property	5	412,715	389,606
Investments and loans to associates and joint ventures	7a	23,442	197,374
Available for sale financial assets	4b	9,101	8,795
Property, plant and equipment, net	10	8,860	13,043
Other investments and loans	11a	20,504	24,319
Restricted bank accounts and deposits	11c	1,601	1,853
Deferred tax assets	12d	2,527	1,559
Total non-current assets		478,750	636,549
<u>Current assets:</u>			
Inventory of land, inventory of apartments under construction and other inventory	9	180,564	176,500
Trade and other receivables	14	18,812	20,819
Other investments and loans	11b	3,312	20,166
Restricted bank accounts and deposits	11c	1,122	2,296
Financial assets at fair value through profit or loss	13	2,470	2,686
Cash and cash equivalents	15	37,437	21,853
Total current assets		243,717	244,320
Assets classified as held for sale	7e	39,881	66,129
Total assets		762,348	946,998

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December	
		2017	2016
	Note	Euro in thousand	
EQUITY:			
<u>Attributable to the equity holders of the Company:</u>			
Share capital and premium	16	141,648	142,210
Convertible loans and bonds	16	31,084	31,084
Other reserves		(76,901)	(58,998)
Retained earnings		105,835	139,798
		201,666	254,094
Non-controlling interests	6	69,449	94,445
Total equity		271,115	348,539
LIABILITIES:			
<u>Non-current liabilities:</u>			
Derivative financial instruments measured at fair value	19	8,083	8,947
Interest-bearing loans and borrowings	18	202,497	343,096
Other non-current liabilities	20	1,312	1,482
Deferred tax liabilities	12d	15,469	27,721
Total non-current liabilities		227,361	381,246
<u>Current liabilities:</u>			
Tax provision		1,981	1,266
Trade and other payables	21	13,737	14,168
Interest-bearing loans and borrowings	18	248,154	200,457
Advances from buyers		-	1,322
Total current liabilities		263,872	217,213
Total liabilities		491,233	598,459
Total equity and liabilities		762,348	946,998

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

26 April 2018

Date of approval of the
consolidated financial
statements

Harin Thaker
Chairman of
Board

Shai Shamir
Co-CEO

Nansia Koutsou
Co-CEO

Yiannis Peslikas
CFO

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2017	2016
		Euro in thousand	
Gross rental income		16,200	11,221
Service charge, management and other income	22	8,689	8,432
Property operating and other expenses	23	(19,704)	(18,679)
Rental, management and other income, net		5,185	974
Proceeds from sale of residential units		-	1,867
Cost of sales of residential units		-	(2,552)
Gross loss from sale of residential units		-	(685)
Interest and other related income from lending business		858	1,625
Costs related to lending business		(247)	(293)
Gross profit from lending business		611	1,332
Gross profit before impairment of inventory and depreciation of property, plant and equipment		5,796	1,621
Impairment of inventory and depreciation of property, plant and equipment		(1,164)	(4,822)
Total gross profit/(loss)		4,632	(3,201)
Revaluation of investment property, net	5	4,862	(38,046)
General and administrative expenses	24	(5,852)	(6,119)
General and administrative expenses relating to inventory of buildings under construction and investment property	24	(4,860)	(2,547)
Other income/(expenses), net	27	(512)	1,718
Impairment of assets held for sale	7e	(19,337)	-
Fair value loss of property, plant and equipment	10	(1,313)	(5,747)
Share based compensation	17	(1,194)	(1,643)
Share of loss of associates and joint ventures	7a	(16,420)	(53,507)
Operating loss		(39,994)	(109,092)
Financial income	25	3,975	6,106
Financial expenses	26	(34,017)	(31,555)
Exchange rate differences, net	1d	5,539	20,008
Financial expenses, net		(24,503)	(5,441)
Loss before tax		(64,497)	(114,533)
Tax benefit	12b	15,207	1,208
Loss from continuing operations		(49,290)	(113,325)
Profit from discontinued operations, net	4c	4,847	116,372
Net profit/(loss) for the year		(44,443)	3,047

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CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2017	2016
		Euro in thousand	
Note	(except for per share data)		
Profit/(loss) for the year attributable to:			
		(33,963)	(3,749)
Equity holders of the Company		(10,480)	6,796
Non-controlling interests		(44,443)	3,047
Profits/(losses) per share attributable to equity holders of the Company	29		
Basic net profit/(loss):			
		(0.24)	(0.49)
Loss from continuing operations		0.03	0.47
Profit from discontinued operations		(0.21)	(0.02)
Total loss			
Diluted net profit/(loss):			
		(0.24)	(0.49)
Loss from continuing operations		0.03	0.47
Profit from discontinued operations		(0.21)	(0.02)
Total loss			

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2017	2016
		Euro in thousand	
Profit/(loss) for the year		(44,443)	3,047
Other comprehensive income/(loss):			
Items to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations, net	1d	(26,173)	4,011
Share of other comprehensive income/(loss) of associates and joint ventures	7	(3,545)	14,122
Gain/(loss) on available for sale financial assets		1,160	(239)
Items not to be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive income of associates and joint ventures	7	-	2,407
Total other comprehensive income/(loss)		(28,558)	20,301
Total comprehensive income/(loss) for the year		(73,001)	23,348
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		(52,419)	6,180
Non-controlling interests		(20,582)	17,168
		(73,001)	23,348

Items in the consolidated statement of comprehensive income are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 12.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to equity holders of the Company							Non-controlling interests	Total equity
	Share capital and premium	Convertible loans and bonds	Foreign currency translation reserve	Share-based payment reserve	Reserves from transactions with non-controlling interests	Revaluation and fair value reserve	Retained earnings		
	Euro in thousand								
Balance as at 1 January 2016	149,020	16,575	(63,829)	3,156	(13,213)	5,395	143,547	240,651	698,700
Profit/(loss) for the year	-	-	-	-	-	-	(3,749)	6,796	3,047
Other comprehensive income	-	-	9,643	-	-	286	-	9,929	20,301
Total comprehensive income/(loss)	-	-	9,643	-	-	286	(3,749)	6,180	23,348
Share based compensation	-	-	-	15	-	-	-	15	2,667
Issue of convertible bonds (1)	-	14,509	-	-	-	-	-	14,509	14,509
Share buyback (1)	(1,962)	-	-	-	-	-	-	(1,962)	(1,962)
Capital reduction (1)	(4,848)	-	-	-	-	-	-	(4,848)	(4,848)
Transactions with non-controlling interests, net (1)	-	-	-	-	(451)	-	-	(451)	(10,129)
Distributions to non-controlling interests, net	-	-	-	-	-	-	-	(18,121)	(18,121)
Deconsolidation of BCP (2)	-	-	-	-	-	-	-	(355,625)	(355,625)
Balance as at 31 December 2016	142,210	31,084	(54,186)	3,171	(13,664)	5,681	139,798	254,094	348,539
Loss for the year	-	-	-	-	-	-	(33,963)	(33,963)	(44,443)
Other comprehensive income (loss)	-	-	(19,616)	-	-	1,160	-	(18,456)	(28,558)
Total comprehensive income/(loss)	-	-	(19,616)	-	-	1,160	(33,963)	(52,419)	(73,001)
Share based compensation	-	-	-	-	-	-	-	1,194	1,194
Capital reduction (3)	(562)	-	-	-	-	-	-	(562)	(562)
Transactions with non-controlling interests, net (1)	-	-	-	-	553	-	-	553	(1,097)
Distributions to non-controlling interests, net	-	-	-	-	-	-	-	(4,511)	(4,511)
Balance as at 31 December 2017	141,648	31,084	(73,802)	3,171	(13,111)	6,841	105,835	201,666	271,115

(1) See Note 16.

(2) See Note 4.

(3) See Note 16c.

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2017	2016
		Euro in thousand	
Cash flows from operating activities:			
Net (loss)/profit for the year		(44,443)	3,047
Adjustments for:			
Depreciation of property, plant and equipment	10	917	1,100
Impairment of inventory		247	3,722
Profit from discontinued operations	4	(4,847)	(116,372)
Revaluation of investment property, net		(4,862)	38,046
Share of loss of associates and joint ventures	7a	16,420	53,507
Tax benefit	12b	(15,207)	(1,208)
Share based compensation	17	1,194	1,643
Other income/(expenses)		1,981	(2,734)
Interest income from lending business		(858)	(1,423)
Fair value loss of property, plant and equipment	10	1,313	5,747
Impairment of assets held for sale	7e	19,337	-
Financial expenses, net		24,503	5,441
Cash flow used in operating profit before changes in working capital and provisions		(4,305)	(9,484)
Increase/(decrease) in advances from buyers		(108)	1,090
Increase in inventories of apartments under construction		(22,635)	(5,459)
Increase in trade and other receivables		(770)	(5,483)
Increase/(decrease) in trade and other payables		(1,055)	1,457
		(24,568)	(8,395)
Cash flows used in operating activities from continued operations		(28,873)	(17,879)
Tax paid		(476)	(132)
Cash flows provided by operating activities from discontinued operations	4	-	54,544
Total cash flows provided by/(used in) operating activities		(29,349)	36,533
Cash flows from investing activities:			
Obtaining control in companies previously accounted for using equity method, net (a)	10	-	-
Additions to investment and loans to associates and jointly controlled entities		(5,339)	(7,797)
Receipts from investment and loans to associates and jointly controlled entities		-	10,180
Additions to other investments		(308)	(820)
Receipts from other investments		8,017	10,983
Additions to property, plant and equipment		-	(1,210)
Acquisitions of investment property		(24,250)	-
Additions to investment property		(2,428)	(4,961)
Changes in short-term and long-term deposits, net		1,426	3,145
Interest received		858	1,423
Proceeds from disposal of marketable securities		909	-
Deconsolidation of BCP (b)		-	(36,917)
Proceeds from disposal of BCP	4	174,815	-
Proceeds from disposal of assets held for sale		-	6,063
Distribution from assets held for sale	7e	2,931	-
Proceeds from available-for-sale financial assets		1,743	-
Receipts from loans from related parties		-	4,509
Loans granted to related parties		(2,490)	(965)
Cash flows provided by/(used in) investing activities from continued operations		155,894	(16,367)
Cash flows used in investing activities from discontinued operations	4	-	(58,980)
Total cash flows provided by/(used in) investing activities		155,894	(75,347)

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2017	2016
		Euro in thousand	
Cash flows from financing activities (1):			
Payment in relation to capital reduction	16	(562)	(4,848)
Share buyback	16	-	(1,962)
Receipt of loans	28	53,639	98,938
Issue of convertible bonds	16	-	13,609
Issue of debentures	28	17,540	24,315
Repayment of long-term loans and debentures	28	(139,201)	(112,576)
Interest paid	28	(30,729)	(31,181)
Purchase of rights from non-controlling interests of subsidiaries		(544)	(1,739)
Repayment of other non-current liabilities	28	(170)	(150)
Distributions to non-controlling interests, net		(4,511)	(13,070)
Cash flows used in financing activities from continued operations		(104,538)	(28,664)
Cash flows provided by financing activities from discontinued operations	4	-	17,183
Total cash flows used in by financing activities		(104,538)	(11,481)
Increase/(decrease) in cash and cash equivalents		22,007	(50,295)
Foreign exchange differences, net		(6,423)	558
Cash and cash equivalents at the beginning of the year		21,853	71,590
Cash and cash equivalents at the end of the year	15	37,437	21,853

(1) For the changes in liabilities arising from financing activities see Note 28.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
		2017	2016
		Euro in thousand	
	Note		
(a) <u>Obtaining control in companies previously accounted for using equity method:</u>			
Working capital (excluding cash and cash equivalents), net		3,181	-
Investment property		(35,280)	-
Investment in associate		(140)	-
Interest bearing loans and borrowings		31,200	-
Loan netted off with consideration		1,049	-
		<u>10</u>	<u>-</u>
(b) <u>Deconsolidation of BCP (Note 4):</u>			
Working capital (excluding cash and cash equivalents), net		-	(17,591)
Non-current assets		-	1,197,359
Non-current liabilities		-	(751,048)
Non-controlling interests		-	(355,625)
Investment in associate		-	(151,348)
Available-for-sale financial assets		-	(9,194)
Gain on disposal of part of holding in BCP		-	6,739
Gain from loss of control		-	43,791
		<u>-</u>	<u>(36,917)</u>
(c) <u>Material non-cash transactions:</u>			
Issue of convertible bonds to a related party		-	900
Exercise of options	4a(1)	<u>8.322</u>	<u>-</u>

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, incorporated and domiciled in the Netherlands. The address of its registered office is 201 Barbara Strozziilaan, 1083HN, Amsterdam, the Netherlands.

The consolidated financial statements of the Company for the year ended 31 December 2017 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 significant investees of the Group are listed below:

Significant investees	Investee	Country of incorporation	Ownership interest	
			31 December	
			2017	2016
Brack Capital Properties N.V. (1)	Associate	The Netherlands	-	28.74%
Brack Capital First B.V.	Subsidiary	The Netherlands	100%	100%
BCRE Russian Properties Ltd	Subsidiary	Cyprus	85.07%	85.07%
Brack Capital USA B.V.	Subsidiary	The Netherlands	100%	100%

The Group is an international development and investment group, interested in, develops and operates an international portfolio of real estate assets predominantly located in the US and Russia.

- (1) During the year ended 31 December 2017, the Company has sold all of its holding in BCP. For further information, see Note 4.

- b. Definitions:

In these consolidated financial statements:

The Company	- BCRE - Brack Capital Real Estate Investments N.V.
The Group	- The Company and its investees.
Subsidiaries	- Companies that are controlled by the Group (as defined in IFRS 10) and whose accounts are consolidated with those of the Company.
BCP	- Brack Capital Properties N.V.
Entities under joint control	- Companies owned by various entities that have a contractual arrangement for joint control and are accounted for using the equity method.
Associates	- Companies over which the Group has significant influence and which are accounted for using the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL (Cont.)

b. Definitions (Cont.):

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 dollar	- \$
New Israel Shekels	- NIS

c. The statutory financial statements, comprising the consolidated financial statements, and related notes and the Company separate financial statements, and related notes and the Board of Directors' report, Corporate Governance statement and Other Information were authorized for issuance in accordance with a resolution of the Board of Directors on 26 April 2018.

d. The exchange rates used in the preparation of these consolidated financial statements were as follows (see also Note 28):

	31 December		Average for year ended 31 December	
	2017	2016	2017	2016
€ : \$	1.1979	1.0516	1.1299	1.1067
€ : NIS	4.1580	4.0417	4.0575	4.2441
€ : Russian Rubble	68.8668	64.3878	65.9014	74.054

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation:

The consolidated financial statements have 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 of Book 2 of the Netherlands Civil Code.

The Board has reviewed the current and projected financial position of the Group, making reasonable assumptions about future performance. The Board has the expectation that the Company and the Group have adequate resources to continue as in operational existence for at least the next 12 months from the date of approval of these consolidated financial statements. As in previous years, the Company bases its assessment, among others, on the current cash balances, including marketable securities, and its available assets as well as considering cash from future operations and transactions. See also Note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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, investment property and property, plant and equipment 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. Significant accounting judgments, estimates 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, income 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 made by the Group are discussed below.

- Investment property and property, plant and equipment:

Investment property and property, plant and equipment (measured using revaluation model) are presented at fair value at the reporting date. Changes in its fair value are recognized in profit or loss and revaluation reserve (or profit or loss when related revaluation reserve is nil), respectively.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Significant accounting judgments, estimates and assumptions (Cont.):

1. Estimates and assumptions (Cont.):

- Investment property and property, plant and equipment (Cont.):

In determining the fair value of investment property and property, plant and equipment, 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 and property, plant and equipment. See also Note 5.

- 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. See also Note 28.

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 from management services on a gross or net basis:

In cases where the Group acts as an 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. Management and consultancy fees are recognized on a gross basis since the Group is acting as the principal. Service charge from tenants is recognized either on a gross or a net basis depending on whether the Group is acting as a principal or as an agent, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Significant accounting judgments, estimates and assumptions (Cont.):

2. Judgments (Cont.):

- 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. Among other things, the number of assets acquired, the nature of processes involved and whether the management company has been acquired are considered to determine if an acquisition represents a business combination.

- Classification of properties as inventory or as property, plant and equipment or as investment property:

The Group evaluates whether an asset or property should be classified as inventory based on IAS 2, or as property, plant and equipment based on IAS 16 or as investment property based on IAS 40. In particular, an asset is accounted for as an investment property, when it is held to earn rentals, or for capital appreciation, or both.

- Classification of investments in associate as a discontinued operation:

The Group evaluates whether an investment in associate should be classified as discontinued operation in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". During 2017, the Group classified the result of the investment in BCP prior to its sale as discontinued operations after having considered the size of the investment, the fact that the investment was a separate geographical segment, which the Group no longer invests in, and whether it was presented as a separate operating segment prior to the classification. See also note 4.

e. Consolidated financial statements:

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 its 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)****e. Consolidated financial statements (Cont.):**

Profit or loss and each component of other comprehensive income are allocated 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 were eliminated in full on consolidation.

f. 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 its 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.

Assets and liabilities are translated at the closing rate at the end of each reporting period. Profit and loss items are translated at average exchange rates for all the relevant periods. All resulting translation differences are recognized as a separate component of other comprehensive income.

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.

2. Transactions, assets and liabilities in foreign currency:

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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.

g. Interest in joint arrangements and associates:

Under IFRS 11 the Group classifies its joint arrangements as joint ventures based on the contractual rights and obligations. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group does not have an interest in a joint operation.

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 recognize 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 Group's interest in the associates and joint ventures.

The Company has adopted the hypothetical liquidation approach in determining the allocation of earnings from certain of its investees. This method has been applied to reflect the waterfall (promote) mechanisms included in the agreements entered into with the co-investors in these projects. According to these mechanisms, certain companies of the Group are entitled to an additional return, over and above the pro-rata return of the capital invested, in case a project generates the targeted return on the initial capital invested.

The financial statements of associates and joint ventures are prepared for the same reporting period as the other entities consolidated within the Group. Accounting policies have been changed where 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 h.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Losses of an associate or a joint venture in amounts which exceed its equity are recognized by the Group to the extent of its investment in the associate or the joint venture plus any losses that the Group may incur as a result of a guarantee or other financial support provided in respect of the associate or of the joint venture. 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.

h. 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 investment in associates 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.

i. 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 is 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.)

i. Fair value measurement (Cont.):

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of 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.

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

k. 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 estimated selling costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. 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 statement of financial position as current assets and liabilities based on the operating cycle.

m. Investment property:

Investment property is measured initially at cost, including costs directly attributable to the acquisition of the property. 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 value 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.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to inventory, the deemed cost for subsequent accounting is the fair value at the date of the change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of the change in use. 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.

n. Property, plant and equipment:

Property, plant and equipment comprise mainly of operating hotels and owner occupied commercial centers which are measured using the revaluation model. Other property, plant and equipment items such as machinery and equipment are measured at cost less depreciation and impairment. Depreciation is calculated on a straight-line basis over the useful life of the assets, mainly assessed as 30 years, at annual rates. A decrease in value of a revalued asset is recognized directly in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. Any additional reduction, if any, is recognized in profit or loss. If an asset's carrying amount is increased as a result of the revaluation, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. Any subsequent increase is recognized in the revaluation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. 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 of financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. 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.

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 and receivables 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 a group of financial assets as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Financial instruments (Cont.):

2. Impairment of financial assets (Cont.):

Financial assets carried at amortized cost:

There is objective evidence of impairment of debt instruments and 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.

Assets classified as available-for-sale:

For debt securities, if any evidence of impairment exists the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognized in the consolidated income statement, is removed from equity and is recognized in the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial assets previously recognized in the consolidated income statement, is removed from equity and recognized in the consolidated income statement.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Financial instruments (Cont.):

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.

5. Derecognition of financial instruments:

a) Financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Group has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party.

b) Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged, cancelled or expired. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services, or is legally released from the liability. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated income statement.

p. Trade and other receivables:

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. An impairment loss is recorded when collection of the amount is no longer probable.

q. 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.)

r. 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.

s. Revenue recognition:

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

Revenues from the sale of residential units:

Revenues from the sale of residential units 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 unit delivered. These criteria are usually met when construction has effectively been completed, the residential unit has been delivered to the buyer and the buyer has paid the entire consideration for the unit.

Rental income from operating lease:

Rental income is recognized on a straight-line basis over the lease term. 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, 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, revenues are presented on a gross basis. Service revenues include, inter alia, real-estate tax, water supply, cleaning, electricity, heating.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Non-current assets or disposal groups held for sale and discontinued operations:

Non-currents assets or disposal groups are classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets must be available for immediate sale in their present condition, the Group must be committed to sell, there must be a program to locate a buyer and it is highly probable that a sale will be completed within one year from the date of classification. From the date of such initial classification, these assets are no longer depreciated and are presented separately as current assets at the lower of their carrying amount and fair value less costs to sell. Other comprehensive income in respect of an asset or a group of non-current assets that are classified as held for sale is presented separately in equity. An entity that is committed to a sale plan involving loss of control of a subsidiary classifies all the assets and liabilities of that subsidiary as held for sale when the criteria set in the standard are met, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

A discontinued operation represents a separate major line of business or geographical area of operation that either has been disposed of or is classified as held for sale. The operating results relating to the discontinued operation are presented separately in the consolidated income statement, net of the tax effect.

u. Leases:

The basis for classifying leases as finance or operating depend on the substance of the agreements. 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:

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.

Operating leases:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

u. Leases (Cont.):

The Group as lessor:

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 the consolidated income statement on a straight-line basis over the lease term.

v. Business combinations:

Business combinations are accounted for using 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, the liabilities incurred and the 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 the consolidated income statement.

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 acquiree's identifiable assets and liabilities based on their relative fair values on the acquisition date and 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.

w. 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 tax 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

w. Taxes on income (Cont.):

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 reporting 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.

x. Share based payment transactions:

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

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at the 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 in which the performance and/or service conditions are to be satisfied and 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.

y. Earnings per share:

Earnings per share are calculated by dividing the net profit/(loss) attributable to equity holders of the Company by the weighted number of ordinary shares outstanding during the period. Basic earnings/(losses) per share only include shares which 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 the loss per share from continuing operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

z. Convertible loans and bonds:

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

aa. Disclosure of main new standards effective in future periods:

1. IFRS 15 "Revenue from Contracts with Customers":

IFRS 15 ("the new Standard") was issued by the IASB in May 2014.

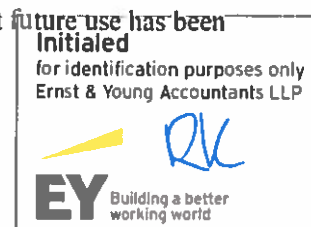
The new Standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", IFRIC 13 "Customer Loyalty Programs", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfers of Assets from Customers" and SIC-31 "Revenue - Barter Transactions Involving Advertising Services".

The new Standard introduces a five-step model that will apply to revenue earned from contracts with customers. The new Standard will be applied retrospectively for annual periods beginning on 1 January 2018.

IFRS 15 will only be affecting revenues from the sale of residential units. Other revenue streams, like rental income, earned interest and income from lending activities are either outside the scope of IFRS 15 or are immaterial for the consolidated financial statements.

Service charge income and management fee income relate to services provided and paid on a short-term basis, i.e. usually on a monthly basis and therefore no impact is expected regarding these revenue streams. Service charge from tenants is recognized either on a gross or a net basis depending on whether the Group is acting as a principal or as an agent, respectively. The Group evaluated the impact of the application of IFRS 15 on the basis of recognition of these revenue streams, i.e. on whether the Group is acting as a principal or as an agent and does not expect any material impact from the application of the new standard.

The Group currently recognizes revenue from the sale of residential units, according to IAS 18 and IFRIC 15, when the unit is delivered to the customer. According to the new Standard, the Group considered whether revenues can be recorded over time or whether revenues shall be recorded at a point in time (similar to current treatment). As at 31 December 2017, the Company through indirect subsidiaries in USA, entered into financing agreements with individual lenders that provide to the lenders the option to convert the amounts advanced to the subsidiaries to designated units in the residential building acquired by different Company's subsidiaries, in case that these projects will be potentially developed (where no decision about future use has been taken).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

aa. Disclosure of main new standards effective in future periods (Cont.):

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

Following the assessment performed, the Group concluded that as per the terms of these existing agreements there are no sale contracts in place and sale contracts can only be signed following the exercise of the conversion options by the individual lenders. Thus, the Group believes that the application of the new Standard will not affect materially the consolidated financial statements.

Finally, the disclosures in the consolidated financial statements under IFRS 15 may be different than the current disclosures. In this respect, the Company is preparing for the new enhanced disclosures under IFRS 15.

2. IFRS 9 "Financial Instruments":

In July 2014, the IASB issued the final and complete version of IFRS 9 "Financial Instruments" ("IFRS 9"), which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. Furthermore, the basis of conclusions with regard to the accounting for modification of financial liabilities was clarified. The Group evaluated the effects of the adoption of IFRS 9 and will adopt IFRS 9 retrospectively as of 1 January 2018 by using the retrospective modified approach.

Classification and measurement of financial liabilities and modifications:

The initial application of IFRS 9 will impact the Group's accounting treatment for modification of financial liabilities without this resulting in derecognition of bank loans obtained for the Group's projects in Russia, a process initiated during the year ended 31 December 2016. Under IAS 39, no gain or loss was recognized at the date of the modification of the loans' terms, instead the difference between the original and modified cash flows was amortized over the remaining term of the modified liability by re-calculating the effective interest rate. Under IFRS 9 gains or losses should be recognized recognised in profit or loss. These gains or losses, under IFRS 9, will be calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. Thus, the initial application of IFRS 9 will result in an increase of \$6.9 million (€5.8 million) in the Group's total equity as of 1 January 2018, a decrease in interest bearing loans and other borrowings of \$7.2 million (€6 million), an increase in investment in associate of \$1.1 million (€0.9 million) and an increase in deferred tax liability of \$1.4 million (€1.2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

aa. Disclosure of main new standards effective in future periods (Cont.):

2. IFRS 9 "Financial Instruments" (Cont.):

Classification and measurement of financial assets:

Regarding the classification and measurement of financial assets, the Group concluded that the impact of the requirements of IFRS 9 will be immaterial, as the classification and measurement of the Group's financial assets (marketable securities and other short-term investments, other investments and loans and trade and other receivables) under the new standard will be consistent with the current classification.

Marketable securities and other short-term investments relate to investments in equity shares which will continue to be measured as fair value through profit and loss.

Other investments and loans represent loans with specified cash flows of principal and accrued interest. These facilities are held by the Group for collecting the contractual cash flows, rather than selling it prior to maturity date. Therefore, these financial assets will be continued to be measured at amortized cost. Trade and other receivables are also held for collecting the contractual cash flows and thus these will be also continued to be measured at amortized cost.

For the loans provided to associate companies and joint ventures, there will be a change in classification but no material impact is expected since the relevant loan agreements do not include certain contractual terms which give rise to cash flows on specific dates.

Regarding the items included within the available for sale financial assets category, the Company will undertake the option provided by IFRS 9 to designate these items as fair value through other comprehensive income.

Impairment of financial assets:

Finally, the impact of the requirements of IFRS 9 for the impairment of financial assets - based on expected losses instead of incurred losses as under IAS 39 - was considered to be immaterial, as following the application of the new model for measurement of impairment of financial assets provided by the standard, the expected credit losses for all the material financial assets of the Group are expected to be approximately equal to nil. This conclusion was reached after assessing the credit risk, the probability of default and the value of the pledged securities of the financial assets which fall under the scope of the new impairment model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

aa. Disclosure of main new standards effective in future periods (Cont.):

3. IFRS 16 "Leases":

In January 2016, the IASB issued IFRS 16 "Leases" ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

According to the new Standard:

- Lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17 "Leases".
- Lessees are required to initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset. Lessees will also recognize interest and depreciation expense separately.
- Variable lease payments that are not dependent on changes in the Consumer Price Index or interest rates, but are based on performance or use (such as a percentage of revenues) are recognized as an expense by the lessees as incurred and recognized as income by the lessors as earned.
- The accounting treatment by lessors remains substantially unchanged, namely classification of a lease as a finance lease or an operating lease.

The new Standard is effective for annual periods beginning on or after 1 January 2019.

The Group has signed lease contracts, whereby is acting as the lessee, for the lease of land for certain projects. Regarding these projects, all the properties held under leases are presented at fair value. In this respect, the application of the new requirements of IFRS 16 regarding lessees, are not relevant to the consolidated financial statements as all lease payments are already reflected in the asset's fair value. Under the new Standard all leases will be presented in the consolidated statement of financial position, as if the leases were finance leases. Since, as explained above under IAS 17, the Group also chose to present its investment properties under operating leases, in accordance with the fair value model under IAS 40, the new Standard will not have an effect on the financial position of the Group and on the consolidated financial statements. It should be noted that all the land amounts are immaterial.

The Group will complete in 2018 the analysis around the application of the new Standard, which is currently not expected to have a material impact on the consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

aa. Disclosure of main new standards effective in future periods (Cont.):

4. Amendments to IAS 40 "Investment Property" - Transfers of Investment Property:

In December 2016, the IASB issued amendments to IAS 40 "Investment Property" ("Amendments"). The Amendments provide guidance and clarifications on the application of the provisions of IAS 40 regarding transfers to or from investment property. The Amendments clarify that a change in management's intention, in and of itself, does not evidence a change in use. The Amendments are to be applied retrospectively in the financial statements for annual periods beginning on 1 January 2018. The Amendments allow application using a partial retrospective basis, according to which the Amendments are to be applied to transfers that occurred in the period of initial application with no restatement of comparative data. In this situation, the adjustments to the carrying amounts of the assets as of the date of initial application of the Amendments will be recorded directly in equity.

Management has evaluated the possible effects of the Amendments and expects that there will be no impact on the consolidated financial statement following the application of these Amendments.

5. IFRIC 23 "Uncertainty over Income Tax Treatments" ("IFRIC 23"):

In June 2017, the IASB issued IFRIC 23 which clarifies the application of the recognition and measurement requirements of IAS 12 "Income Taxes" when there is uncertainty over income tax treatments. IFRIC 23 specifically addresses the following:

- a) Whether an entity considers uncertain tax treatments separately.
- b) The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- c) How an entity determines taxable profit/(taxable loss), tax bases, unused tax losses, unused tax credits and tax rates.
- d) How an entity considers changes in facts and circumstances.
- e) IFRIC 23 is applicable for annual reporting periods beginning on or after 1 January 2019.

The Group is currently assessing the potential effects, if any, of IFRIC 23 on its consolidated financial statements.

ab. New standards, amendments and interpretations applicable for annual periods beginning on 1 January 2017:

The Group applied for first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has initially adopted any standards, interpretations or amendments that have been issued for identification purposes only but are not yet effective. The nature and the impact of each amendment is described below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- ab. New standards, amendments and interpretations applicable for annual periods beginning on 1 January 2017 (Cont.):

Amendments to IAS 7 "Statement of Cash Flows" regarding additional disclosures of financial liabilities:

The Group applies the amendments to IAS 7 "Statement of Cash Flows" ("the amendments") which require disclosure of the changes between the opening balance and the closing balance of financial liabilities, including changes from cash flows, changes arising from obtaining or losing control of subsidiaries, the effect of changes in foreign exchange rates and changes in fair value. See Note 28.

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Amendments to IFRS 12 "Disclosure of Interests in Other Entities", regarding clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

As at 31 December 2017 the Group classified its interests in BCRE IHG 180 Orchard Holdings LLC, a joint venture of the Group in the USA and in OSIB-BCRE Bowery Street Holdings LLC, an associate company of the Group in the USA, as held for sale. The Group provided the required disclosures in Note 7e.

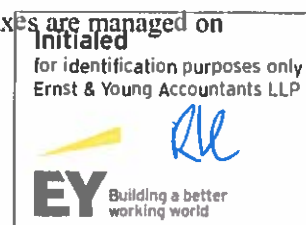
NOTE 3: SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on its geographical segments, as follows:

- Russia
- USA
- Other segments

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

Management and the Board of Directors monitor the operating results of the Group's business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on gross profit/(loss) including revaluation of investment properties, impairment of assets held for sale and share of profit/(loss) of associates and joint ventures. Also, the Group financing (including financial expenses and income), investments, receivables, payables, cash and cash equivalents and income taxes are managed on a Group basis and are not allocated to operating segments.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SEGMENT INFORMATION (Cont.)

<u>Year ended 31 December 2017</u>	<u>Russia</u>	<u>USA</u>	<u>Others</u>	<u>Total</u>
	<u>Euro in thousand</u>			
Gross rental income	9,559	6,641	-	16,200
Service charge, management and other income	7,551	1,138	-	8,689
Property operating and other expenses	(8,700)	(9,720)	(1,284)	(19,704)
Rental, management and other income, net	8,410	(1,941)	(1,284)	5,185
Interest and other related income from lending business	-	858	-	858
Costs related to lending business	-	(247)	-	(247)
Gross profit from lending business	-	611	-	611
Gross profit/(loss) before impairment of inventory and depreciation of property, plant and equipment	8,410	(1,330)	(1,284)	5,796
Impairment of inventory and depreciation of property, plant and equipment	(1,164)	-	-	(1,164)
Gross profit/(loss)	7,246	(1,330)	(1,284)	4,632
Revaluation of investment property, net	(15,717)	21,133	(554)	4,862
Impairment of assets held for sale	-	(19,337)	-	(19,337)
Share of profit/(loss) of associates and joint ventures	(16,921)	-	501	(16,420)
Segment results	(25,392)	466	(1,337)	(26,263)
Administrative and other expenses, net				(13,731)
Financial expenses, net				(24,503)
Income tax benefit				15,207
Profit from discontinued operations, net				4,847
Loss for the year				(44,443)

<u>Year ended 31 December 2016</u>	<u>Russia</u>	<u>USA</u>	<u>Others</u>	<u>Total</u>
	<u>Euro in thousand</u>			
Gross rental income	7,159	4,062	-	11,221
Service charge, management and other income	7,175	1,257	-	8,432
Property operating and other expenses	(10,284)	(6,815)	(1,580)	(18,679)
Rental, management and other income, net	4,050	(1,496)	(1,580)	974
Proceeds from sale of residential units	1,867	-	-	1,867
Cost of sales of residential units	(2,552)	-	-	(2,552)
Gross loss from sale of residential units	(685)	-	-	(685)
Interest and other related income from lending business	-	1,625	-	1,625
Costs related to lending business	-	(293)	-	(293)
Gross profit from lending business	-	1,332	-	1,332
Gross profit/(loss) before impairment of inventory and depreciation of property, plant and equipment	3,365	(164)	(1,580)	1,621
Impairment of inventory and depreciation of property, plant and equipment	(4,822)	-	-	(4,822)
Gross loss	(1,457)	(164)	(1,580)	(3,201)
Revaluation of investment property, net	(51,642)	15,203	(1,607)	(38,046)
Share of loss of associates and joint ventures	(46,685)	(1,754)	(5,068)	(53,507)
Segment results	(99,784)	13,285	(8,255)	(94,754)
Administrative and other expenses, net				(14,338)
Financial expenses, net				(5,441)
Income tax benefit				1,208
Profit from discontinued operations, net				116,372
Profit for the year				3,047

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: SEGMENT INFORMATION (Cont.)

As of 31 December 2017	Russia	USA	Others	Total
	Euro in thousand			
Segment assets	140,940	499,234	35,178	675,352
Unallocated assets:				
Other investments and loans (*)				23,027
Restricted bank accounts and deposits				2,723
Deferred tax assets				2,527
Trade and other receivables				18,812
Financial assets at fair value through profit or loss				2,470
Cash and cash equivalents				37,437
Total assets as per the consolidated statement of financial position				<u>762,348</u>
Segment liabilities	132,075	269,862	2,503	404,440
Unallocated liabilities:				
Interest-bearing loans and other borrowings (**)				54,294
Other non-current liabilities				1,312
Deferred tax liabilities				15,469
Tax provision				1,981
Trade and other payables				13,737
Total liabilities as per the consolidated statement of financial position				<u>491,233</u>

(*) An amount of €789 thousand has been allocated to the USA segment.

(**) An amount of €396,357 thousand has been allocated to the Russia, the USA and the Others segments.

As of 31 December 2016	Russia	USA	Others	Total
	Euro in thousand			
Segment assets	151,442	516,516	193,720	861,678
Unallocated assets:				
Other investments and loans (*)				34,254
Restricted bank accounts and deposits				4,149
Deferred tax assets				1,559
Trade and other receivables				20,819
Financial assets at fair value through profit or loss				2,686
Cash and cash equivalents				21,853
Total assets as per the consolidated statement of financial position				<u>946,998</u>
Segment liabilities	120,281	272,245	8,150	400,676
Unallocated liabilities:				
Interest-bearing loans and other borrowings (**)				153,146
Other non-current liabilities				1,482
Deferred tax liabilities				27,721
Tax provision				1,266
Trade and other payables				14,168
Total liabilities as per the consolidated statement of financial position				<u>598,459</u>

(*) An amount of €10,231 thousand has been allocated to the USA segment.

(**) An amount of €390,407 thousand has been allocated to the Russia, the USA and the Others segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- DISCONTINUED OPERATIONS

a. Sale of entire holding in BCP:

On 23 May 2017, the Company entered into an agreement with a third party for the sale of all the shares held by the Group in the issued and outstanding share capital of BCP, representing a holding of 27.83% as of that date.

On 14 June 2017, the Company completed the above transaction for a total gross consideration of approximately NIS695 million (approximately €174.8 million). Until the date of disposal and following the deconsolidation of BCP on 30 September 2016, the Company has accounted for its investment in BCP using the equity method of accounting. Since the investment in BCP was significant based on its size and the fact that it was presented as an operating segment prior to its disposal, the Group concluded that the investment in BCP should be considered as a discontinued operation.

The net profit from discontinued operations of €4.9 million for the year ended 31 December 2017 was comprised by the profit from the operations of BCP until the disposal date amounting to €16.7 million less loss from the sale amounting to €11.8 million, all which is included within "Profit from discontinued operations, net" in the consolidated income statement. See Note 4c.

The movement in the investment in BCP from the date of classification as an investment in associate company up until the date of sale is as follows:

	Period from 1 January 2017 to 14 June 2017	Period from 30 September 2016 to 31 December 2016
	Euro in thousand	
Balance at the beginning of the period/initial recognition	160,306	151,348
Additions (1)	8,322	2,060
Share of profit for the period (2)	16,674	6,898
Sale of remaining holding in BCP (3)	(185,302)	-
Balance at the end of the period	-	160,306

(1) On 16 February 2017 and on 22 May 2017, a direct subsidiary of the Company exercised the options provided in the loan agreements with subsidiaries of BCH, to acquire 29,556 and 78,557 shares of BCP, respectively, instead of receiving the principal amounts and the accrued interest under these facilities. Following these acquisitions, the Group's share in BCP amounted to 26.74% and 27.83%, respectively. See Notes 31a(3) and 31a(4).

(2) Included within "profit from discontinued operations, net". See Note 4c(1).

(3) See Note 4c(1).

b. Loss of control in BCP during 2016:

Until 28 September 2016, the Group directly held 34.76% of the issued and outstanding share capital of BCP, and until that date, it had determined that it had the fact of control of BCP. On that date, the Group sold part of its holding in BCP, reducing its holding rights to 28.31% following this transaction.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- DISCONTINUED OPERATIONS (Cont.)

b. Loss of control in BCP during 2016 (Cont.):

Following and taking into consideration the new size of the Group's holding in the voting rights of BCP, relative to the size and dispersion of the holdings of the other shareholders of BCP and the uncertainty on whether the rights being held by the controlling shareholder can further enable the Group to exercise the majority of the voting power that participates in the shareholders' meetings of BCP, the Group concluded that from 28 September 2016 onwards, the de facto control over BCP was lost. Thus, from this date onwards, the Group has accounted for its investment in BCP using the equity method of accounting. It should be noted that to the best knowledge of the Group, the deconsolidation of BCP is not expected to have an effect on the classification of the controlling shareholders of BCP, in accordance with the applicable Israeli securities law, 1968.

As a result of the loss of control over BCP, and based on the related requirements of IFRS 10, the Group had derecognized the entire 34.76% investment in BCP and remeasured the remaining stake initially at fair value on the date when control was lost. The fair value was based on the share price of the BCP share, listed on the Tel Aviv Stock Exchange ("TASE") on that date. As a result, the Group recognized a gain of €43.8 million in its consolidated financial statements, included in the consolidated income statement within "Profit from discontinued operations, net". The gain is exempt from corporation tax. Part from the gain due to re-measurement of remaining investment in BCP at fair value related to the Group's direct holding in a BCP's investment which was recorded as "Available-for-sale financial assets". This direct investment was measured at fair value resulting in a gain of €1.7 million, included within "Profit from discontinued operations, net". See Note 4c. The fair value of the Group's direct holding in the BCP's investment as at 31 December 2017 amounted to €9.1 million (2016: €8.8 million).

BCRE's share of the results of BCP after the deconsolidation up until 31 December 2016 was recorded within "Profit from discontinued operations, net".

c. Analysis of "Profit from discontinued operations, net" as per the consolidated income statement for the years ended 31 December 2017 and 31 December 2016:

	Year ended 31 December	
	2017	2016
Loss on disposal of entire holding in BCP (1)	(11,827)	-
Profit of BCP until deconsolidation date (2)	-	58,944
Profit of BCP until disposal	16,674	6,898
Gain from loss of control due to re-measurement of remaining investment in BCP at fair value (3)	-	43,791
Gain on disposal of part of holding in BCP (6.45% shareholding disposal) (4)	-	6,739
Total profit from discontinued operations, net	4,847	116,372

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- DISCONTINUED OPERATIONS (Cont.)

- c. Analysis of "Profit from discontinued operations, net" as per the consolidated income statement for the years ended 31 December 2017 and 31 December 2016 (Cont.):

- (1) The loss on disposal has been calculated by deducting the net proceeds received from the disposal which amounted to €173.5 million (net of expenses) and the net assets value of the investment in BCP as of that date, as per the table below:

	14 June 2017
	<u>Euro in thousand</u>
Gross proceeds received (i)	174,815
Less: expenses incurred on disposal	(1,340)
Less: net assets value of the investment	(185,302)
Loss on disposal of entire holding in BCP	<u>(11,827)</u>

- (i) Part of the proceeds received were used to replace the BCP shares securing loans and bonds issued by the Company.
- (2) According to IFRS 5, the profit of BCP from 1 January 2016 up until 28 September 2016, has been included within "Profit from discontinued operations, net".
- (3) The gain from loss of control in BCP due to re-measurement of remaining investment in BCP at fair value has been calculated based on the share price of the BCP share as per TASE on the date control was lost.
- (4) The gain on disposal of part of holding in BCP has been calculated by deducting the net proceeds received from the disposal which amounted to €31.7 million (net of expenses) and the net assets value of the related holding sold as of that date as per the table below:

	28 September 2016
	<u>Euro in thousand</u>
Gross proceeds received	32,372
Less: expenses incurred on disposal	(625)
Less: net assets value of the holding disposed	(25,008)
Gain on disposal of part holding in BCP	<u>6,739</u>

- d. Below is data of the net cash flows provided by/(used in) the discontinued operation:

	Year ended 31 December 2017	Period from 1 January 2016 to 30 September 2016
	<u>Euro in thousand</u>	
Operating activities	-	54,544
Investing activities	-	(58,980)
Financing activities	-	17,183
Net increase in cash and cash equivalents	<u>-</u>	<u>12,747</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- INVESTMENT PROPERTY

a. Movement:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Balance at the beginning of the year	389,606	1,618,132
Initial consolidation of newly consolidated subsidiaries and acquisitions of investment property (1) – (4)	59,530	75,481
Additions	2,490	22,736
Revaluation of investment property, net (5)	5,105	19,710
Foreign exchange differences (6)	(45,306)	31,982
Sale of investment property	-	(10,963)
Classified as held for sale in BCP	-	(61,479)
Reclassified to inventory (7)	-	(152,271)
Reclassified from property, plant and equipment	1,290	-
Deconsolidation of BCP (8)	-	(1,153,722)
Balance at the end of the year	412,715	389,606
Location:		
Russia	124,104	110,930
USA	277,911	268,176
Italy	10,700	10,500
	412,715	389,606

- (1) In accordance with the Group's related accounting policies and the requirements of IFRS 3, as explained in Note 2v, all acquisitions made during the years ended 31 December 2017 and 31 December 2016 were considered as asset acquisitions and not as business combinations.
- (2) During the year ended 31 December 2017, the Group acquired the control of the holding company of the Dmitrov project in Russia for a total consideration of \$500 thousand (€438 thousand). As a result of this acquisition, the assets and liabilities of the project have been fully consolidated in the consolidated financial statements of the Company. On the date of acquisition of control, the carrying amount of the property in Dmitrov amounted to \$40.3 million (€35.3 million).
- (3) On 17 January 2017, an indirect subsidiary of the Company in the USA has acquired a property for a total consideration, including related transaction costs, of \$25.5 million (€24.3 million).
- (4) During 2016, BCP through indirect subsidiaries acquired residential, commercial and office units in Germany for a total consideration of €75.5 million.
- (5) "Revaluation of investment property, net" in the consolidated income statement also includes a fair value loss of €243 thousand (2016: €819 thousand) in respect of the revaluation lenders' conversion option rights (see Note 19).
- (6) See Note 1d and Note 28 for the exchange rates used in the preparation of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- INVESTMENT PROPERTY (Cont.)

a. Movement (Cont.):

(7) During 2016 and following the decision of management to proceed with the construction, the approval of the offering plan by the Attorney General and the commencement of construction work on the property located at 90 Morton Street, Manhattan, New York, the property, which was previously classified as investment property has been reclassified to inventory in accordance with the requirements of IAS 40 due to management decision to develop the property, the start of the construction work and the beginning of intensive marketing activities. The fair value of the property at the time of transfer amounted to \$169.1 million (€152.3 million).

(8) Refer to Note 4b with respect to deconsolidation of BCP.

- b. The three multifamily projects in the USA consist of income generating residential real estate with lease agreements shorter than one year. As of 31 December 2017, the Group's residential lease agreements represent annual revenues of approximately €6.6 million (2016: approximately €4.1 million).

In addition, the Group owns through its subsidiaries in Russia, income generating commercial real estate consisting of assets leased to third parties. The future revenue from existing tenants in the income generating commercial real estate is expected to be as follows:

	31 December	
	2017	2016
	Euro in thousand	
First year	10,064	9,614
Second year to the fifth year	19,208	18,218
Sixth year and onwards	7,595	7,262
	<u>36,867</u>	<u>35,094</u>

c. Securities:

All the properties with the total carrying amount of €412.7 million (2016: €389.6 million) are subject to registered pledges to secure bank loans (see also Note 18).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- INVESTMENT PROPERTY (Cont.)

d. Reconciliation of fair value:

	Investment property				Total
	USA		Italy	Russia	
	Residential properties	Properties for capital appreciation *)	Property for development	Commercial properties	
	Euro in thousand				
Balance as of 1 January 2017	39,941	228,235	10,500	110,930	389,606
Additions and acquisitions	25,056	298	754	632	26,740
Initial consolidation of newly consolidated subsidiaries	-	-	-	35,280	35,280
Revaluation/(devaluation)	9,283	12,093	(554)	(15,717)	5,105
Reclassifications	-	-	-	1,290	1,290
Foreign exchange differences	(8,413)	(28,582)	-	(8,311)	(45,306)
Balance as of 31 December 2017	65,867	212,044	10,700	124,104	412,715

*) It is noted that currently no decision on the actual future use of these properties has been taken yet.

	Investment property				Total
	Russia	USA	Italy	Germany	
	Euro in thousand				
Balance as of 1 January 2016	137,827	387,513	11,511	1,081,281	1,618,132
Additions and acquisitions	52	9,621	596	87,948	98,217
Revaluation/(devaluation)	(51,642)	16,024	(1,607)	56,935	19,710
Sale of properties	-	-	-	(10,963)	(10,963)
Reclassifications	-	(152,271)	-	-	(152,271)
Classified as held for sale in BCP	-	-	-	(61,479)	(61,479)
Deconsolidation of BCP	-	-	-	(1,153,722)	(1,153,722)
Foreign exchange differences	24,693	7,289	-	-	31,982
Balance as of 31 December 2016	110,930	268,176	10,500	-	389,606

Description of valuation techniques used and key inputs used in the valuation of investment properties as at 31 December 2017 and 31 December 2016 are as follows:

	Valuation technique	Significant unobservable inputs	2017	2016
			Weighted average	
Russia				
Commercial properties	DCF	Estimated rental value per sq m per month (in €)	20.8	20.5
		Rent growth p.a. (%)	4	4.6
		Discount rate (%)	13.95	14.54
		Cap rate (%)	10.35	10.9
USA	ICA/			
Residential properties	DCF	Estimated average net rental income per sq ft (in \$)	10.99	10.98
		Cap rate (%)	6.09	6.64
		Discount rate (%)	8.01	n/a
Properties for capital appreciation *)	Residual method	Projected net sellout per sq ft (in \$)	2,357	2,381
		Construction costs per sq ft (in \$)	513	513
		Discount rate (%)	8	8

*) It is noted that currently no decision on the actual future use of these properties has been taken yet.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- INVESTMENT PROPERTY (Cont.)

d. Reconciliation of fair value (Cont.):

Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy:

The significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy of the portfolios of investment property are (a) the Estimated Rental Value ("ERV"), (b) the rent growth, (c) the discount rate and (d) the cap rate. Significant increases/(decreases) in the ERV (per sq m/ft per annum) and the rent growth per annum in isolation would result in a significantly higher/(lower) fair value measurement. Significant increases/(decreases) in the cap rate and discount rate in isolation would result in a significantly lower/(higher) fair value measurement. Generally, a change in the assumption made for the ERV (per sq m/ft per annum) is accompanied by a similar change in the rent growth per annum, discount rate and cap rate.

Sensitivity analysis:

The following disclosures demonstrate the sensitivity to a reasonably possible change in the most material relevant variables, with all other variables held constant, of the Group's profit before tax:

1. USA:

Regarding residential properties, any change in the capitalization rate of 25 points results to a fair value adjustment of \$3.2 million (€2.6 million). Also, any 10% change in the estimated average net rental income per sq ft results to a fair value adjustment of \$13.1 million (€10.9 million).

Regarding properties for capital appreciation, any change of \$100 per sq ft in the projected net sellout per sq ft results to a fair value adjustment of \$16 million (€13.3 million). Also, any change in the discount rate of 100 points results to a fair value adjustment of \$2.2 million (€1.8 million).

2. Russia:

Regarding commercial properties, any change in the capitalization rate of 25 points results to a fair value adjustment of \$2.45 million (€2.05 million). Also, any change in the discount rate of 25 points results to a fair value adjustment of \$1.3 million (€1.1 million). Also, any change of 25 points in the estimated average net rental income per sq m per month results to a fair value adjustment of \$1.4 million (€1.2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Information about the three subsidiaries of the Group with the most significant non-controlling interests is disclosed below:

1. Non-controlling interests of BCRE Brack Orchard Member LLC:

Non-controlling interests in the total amount of €14.6 million as of 31 December 2017 (2016: €35.2 million), relate to a Group's investment in a project located in USA, for an effective share of 77% for non-controlling interests. The project is being accounted for in the consolidated financial statements of the Group as an investment in joint venture and is classified within assets held for sale in the consolidated statement of financial position. The non-controlling interests relate to the holding companies of the joint venture which are consolidated.

Summarized statement of comprehensive income:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Property operating expenses, net	(64)	(453)
General and administrative expenses	(22)	(4)
Share of profit of joint venture	-	6
Impairment of asset held for sale (1)	(19,337)	-
Other expenses	-	(748)
Loss before tax	(19,423)	(1,199)
Tax benefit	3,175	-
Loss for the year	(16,248)	(1,199)
Other comprehensive income/(loss)	(5,195)	3,774
Total comprehensive income/(loss)	(21,443)	2,575
Attributable to non-controlling interests on Group's level	(15,870)	1,774
Distributions paid to non-controlling interests	2,213	7,297

(1) See Note 7e for the impairment of asset held for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Cont.)

1. Non-controlling interests of BCRE Brack Orchard Member LLC (Cont.):

Summarized statement of financial position:

	31 December	
	2017	2016
	Euro in thousand	
Cash and cash equivalents	14	66
Other current assets	13	9
Investment in joint venture	24,746	48,882
Other non-current assets	1,920	2,187
Current liabilities	(127)	(156)
Total equity	26,566	50,988
Attributable to (on Group's level):		
Equity holders of parent	11,957	15,761
Non-controlling interests	14,609	35,227

Summarized statement of cash flows:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Operating activities	(52)	42
Investing activities	2,931	8,153
Financing activities	(2,931)	(8,153)
Net increase/(decrease) in cash and cash equivalents	(52)	42

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Cont.)

2. Non-controlling interests of BCRE 627 Greenwich Third LLC:

Non-controlling interests in the total amount of €22.2 million as of 31 December 2017 (2016: €25.6 million), relate to a Group's investment in a project located in USA, for an effective share of 48% for non-controlling interests.

Summarized statement of comprehensive income:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Other income/(expenses)	21	(48)
Financial income/(expenses), net	6	(690)
Income/(loss) before tax	27	(738)
Tax benefit	-	-
Profit/(loss) for the year	27	(738)
Other comprehensive income/(loss)	(7,204)	2,126
Total comprehensive income/(loss)	(7,177)	1,388
Attributable to non-controlling interests on Group's level	(3,208)	685
Distributions paid to non-controlling interests	-	-

Summarized statement of financial position:

	31 December	
	2017	2016
	Euro in thousand	
Inventory	181,404	171,718
Cash and cash equivalents	5	186
Other current assets	843	2,928
Other non-current assets	2,053	9,671
Interest-bearing loan and borrowings	(120,760)	(111,378)
Other current liabilities	(3,382)	(4,048)
Non-current liabilities	(15,065)	(18,588)
Total equity	45,098	50,489
Attributable to (on Group's level):		
Equity holders of parent	22,936	24,897
Non-controlling interests	22,162	25,592

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Cont.)

2. Non-controlling interests of BCRE 627 Greenwich Third LLC (Cont.):

Summarized statement of cash flows:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Operating activities	(17,344)	(17,629)
Investing activities	-	(2,865)
Financing activities	17,163	19,799
Net decrease in cash and cash equivalents	(181)	(695)

3. Non-controlling interests of BCRE USA MF Holdings LLC:

Non-controlling interests in the total amount of €15.4 million as of 31 December 2017 (2016: €7.1 million), relate to a Group's investment in a project located in USA, for an effective share of 49% for non-controlling interests.

Summarized statement of comprehensive income:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Gross rental income	6,641	4,062
Service charge, management and other income	870	810
Property operating and other expenses	(3,674)	(2,989)
Revaluation of investment property, net	9,283	3,604
Administrative expenses	(466)	(244)
Other income	12	28
Financial expenses, net	(1,707)	(1,082)
Profit before tax	10,959	4,189
Tax expense	(189)	(1,261)
Profit for the year	10,770	2,928
Other comprehensive income/(loss)	(3,116)	578
Total comprehensive income	7,654	3,506
Attributable to non-controlling interests on Group's level	3,653	1,872
Distributions paid to non-controlling interests	739	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Cont.)

3. Non-controlling interests of BCRE USA MF Holdings LLC (Cont.):

Summarized statement of financial position:

	31 December	
	2017	2016
	Euro in thousand	
Investment property	65,867	39,941
Cash and cash equivalents	1,144	1,193
Restricted cash	1,103	580
Other current assets	70	916
Other non-current assets	14	11
Interest-bearing loan and borrowings	(33,524)	(22,218)
Other current liabilities	(3,197)	(3,859)
Non-current liabilities	(1,345)	(1,328)
Total equity	30,132	15,236
Attributable to (on Group's level):		
Equity holders of parent	14,697	8,179
Non-controlling interests	15,435	7,057

Summarized statement of cash flows:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Operating activities	1,664	1,578
Investing activities	(25,324)	(623)
Financing activities	23,611	(996)
Net decrease in cash and cash equivalents	(49)	(41)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES

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

Investments in associates and joint ventures located in	Share of profit/(loss) of associates and joint ventures		Investment in associates and joint ventures (1)	
	Year ended 31 December		31 December	
	2017	2016	2017	2016
	Euro in thousand			
Russia (b)	(15,968)	(49,744)	13,163	25,268
USA	-	(1,754)	-	-
India (2)	(452)	(2,009)	10,279	11,800
BCP (*)	-	-	-	160,306
	(16,420)	(53,507)	23,442	197,374

- (*) An amount of €16,674 thousand is included within "Profit from discontinued operations, net" in relation to the Group's share of profit from the investment in BCP up until the date of sale of the entire holding in BCP (2016: €6,898 thousand). See Note 4c.
- (1) The carrying amount of investment in associates and joint ventures includes an amount of €12.4 million as at 31 December 2017 (2016: €16.5 million), which relates to loans provided to associates and an amount of €25.3 million (2016: €26.6 million) as of 31 December 2017 which relates to loans provided to joint ventures. See Note 31d.
- (2) Investment of 20.92% in the associate BCRE India Fund (2016: 20.92%) which invests in real estate in India and USA (the "Fund"). With respect to the commitment made to invest in the Fund see also Note 30b(1). The Fund measures its investment in associates and joint ventures in its separate financial statements at fair value through profit or loss.

- 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 ("joint venture") of approximately 38% (2016: approximately 38%), a jointly controlled entity which holds together with its partners a project company in Kazan, Republic of Tatarstan, Russia. The Group's interest in the joint venture is accounted for using the equity method.

The Group's value of the investment in the project amounted to €9 million (including loans given to joint venture in the amount of €24 million) and €24 million (including loans given to joint venture in the amount of €25 million) as of 31 December 2017 and 31 December 2016, respectively. After deducting the non-controlling interest at subsidiaries in the project structure above the joint venture which are fully consolidated, the Group's effective share in the project amounted to €6 million and €17 million as of 31 December 2017 and 31 December 2016, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES (Cont.)

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

The movement in the investment in the joint venture for the years ended 31 December 2017 and 2016 is as follows:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Balance at the beginning of the year	23,468	54,230
Additional investment	2,550	5,138
Share of loss for the year	(16,802)	(43,199)
Share of other comprehensive income/(loss)	(578)	7,299
Balance at the end of the year	8,638	23,468

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:

	31 December	
	2017	2016
	Euro in thousand	
Cash and cash equivalents	74	109
Other current assets	891	776
Non-current assets	111,699	154,504
Current liabilities	(39,102)	(39,930)
Current financial liabilities	(37,563)	(21,544)
Non-current liabilities	(7,094)	(11,734)
Non-current financial liabilities	(55,263)	(84,005)
Non-controlling interests (1)	2,451	(27)
Equity	(23,907)	(1,851)
Attributable to (on Group's level):		
Equity holders of parent	(15,437)	(1,179)
Non-controlling interests	(8,470)	(672)
	(23,907)	(1,851)

(1) See Note 30a(12).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES (Cont.)

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

Reconciliation of Group's share in total equity to carrying amount of investment as at 31 December 2017 and 31 December 2016:

	31 December	
	2017	2016
	Euro in thousand	
Group's share in equity of the joint venture	-	-
Loans provided to the joint venture	8,638	23,468
Group's investment in the joint venture	8,638	23,468

Loans provided to the joint venture bear interest at rates of 4% to 8% per annum and are repayable within 5 years from the date of grant. The loans were granted during the years from 2013 to 2015.

As of 31 December 2017, based on the requirements of IAS 28 the Company had considered the need to record an additional impairment on the investment in the joint venture over and above the Group's share of total comprehensive loss for the year. This assessment was based on, among others, the fair value of the underlying assets and liabilities of the joint venture. As such, following the recognition of the Group's share of total comprehensive loss for the year, it was assessed that the recoverable amount of the investment equals its carrying amount. Thus, the Company concluded that there is no need to record an additional impairment for the investment in this joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES (Cont.)

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

Summarized statement of comprehensive income of the joint venture:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Gross rental income and service charge	6,555	6,870
Depreciation and amortization	(37)	(35)
Operating expenses	(1,806)	(2,403)
Revaluation of investment property	(33,150)	(98,394)
General and administrative expenses	(403)	(1,121)
Financial income	30	69
Financial expenses	(8,049)	(10,469)
Exchange differences	4,115	15,319
Other income	25	211
Loss before tax	(32,720)	(89,953)
Tax benefit	4,054	9,368
Loss for the year from continued operations	(28,666)	(80,585)
Loss for the year from discontinued operations	-	-
Loss for the year	(28,666)	(80,585)
Other comprehensive income	2,419	13,470
Total comprehensive loss	(26,427)	(67,115)
Attributable to:		
Equity holders of parent	(23,804)	(60,412)
Non-controlling interests	(2,623)	(6,703)
Total comprehensive loss	(26,427)	(67,115)
Distributions paid during the year	-	-
Group's share of total comprehensive income for the year in the joint venture	(17,380)	(35,900)

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

Year ended 31 December 2017	Profit/(loss) from continued operations	Profit from discontinued operations	Other comprehensive income/(loss)	Total comprehensive income/(loss)
	Euro in thousand			
Joint ventures	(119)	-	676	557
Associates	501	-	(3,643)	(3,142)
	382	-	(2,967)	(2,585)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES (Cont.)

- c. Summarized financial information in aggregate for immaterial entities accounted for using the equity method (Cont.):

Year ended 31 December 2016	Loss from continued operations	Profit from discontinued operations	Other comprehensive income	Total comprehensive income/(loss)
Euro in thousand				
Joint ventures	(3,338)	-	6,458	3,120
Associates	(6,970)	-	2,772	(4,198)
	(10,308)	-	9,230	(1,078)

- d. Carrying value of immaterial entities accounted for using the equity method:

	31 December	
	2017	2016
Euro in thousand		
Joint ventures	-	-
Associates	14,804	13,600
	14,804	13,600

- e. Investments and loans to associates and joint ventures classified as held for sale:

On 31 December 2016, the Group classified its investment in BCRE IHG 180 Orchard Holdings LLC, a joint venture of the Group in the USA with carrying amount of €45.4 million as at 31 December 2016 (including loans amounting to €4.1 million) and its investment in OSIB-BCRE Bowery Street Holdings LLC, an associate company of the Group in the USA, with carrying amount of €20.7 million as at 31 December 2016 (including loans amounting to €13.5 million), as assets held for sale in a total amount of €66.1 million.

The classification of these investments as assets held for sale, was made after the actions undertaken in order to realize it and after the assessment performed to conclude on whether the criteria of IFRS 5 for the classification as held for sale were met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES (Cont.)

e. Investments and loans to associates and joint ventures classified as held for sale (Cont.):

Specifically, management concluded that the classification as held for sale of the investment in BCRE IHG 180 Orchard Holdings LLC on 31 December 2016 was appropriate as:

- a) A group of potential buyers has been identified.
- b) A channel of communication, via the appointment of a broker, has been established with potential buyers as of that date.
- c) It was considered highly probable to complete the transaction within one year from the date of classification as held for sale.
- d) The Group's investment in BCRE IHG 180 Orchard Holdings LLC was available for immediate sale and was to be sold to the potential buyer in its current condition.

Regarding the investment in OSIB-BCRE Bowery Street Holdings LLC, management concluded that the classification as held for sale on 31 December 2016 was appropriate as:

- a) A potential buyer has been identified.
- b) Communication with potential buyer has been established.
- c) It was considered highly probable to complete the transaction within one year from the date of classification as held for sale.
- d) The Group's investment in OSIB-BCRE Bowery Street Holdings LLC was available for immediate sale and was to be sold to the potential buyer in its current condition.

Although the sale transactions for both investments were not completed within the one year requirement of IFRS 5, Management considers that the classification as held for sale is appropriate for both investments as of 31 December 2017, as the sale processes took longer to be completed than initially expected. The Company remained committed to its plan to sell these investments throughout the year and by the date of approval of these consolidated financial statements the developments described below took place which further support the classification of these investments as held for sale.

On 8 March 2018, the Group signed a letter of intent with a third party for the sale of the property owned by BCRE IHG 180 Orchard Holdings LLC. See Note 32(4). The carrying amount of the Group's investment in the associate has been modified to reflect the agreed price (Level 2 of fair value measurement hierarchy (see Note 8)). As a result, during the year ended 31 December 2017, a loss of €19.3 million has been recognized in the consolidated financial statements, regarding the investment in BCRE IHG 180 Orchard Holdings LLC, included in the consolidated income statement within "Impairment of assets held for sale".

On 27 March 2018, the Group signed an agreement with its partner, for the sale of the Group's total shareholding in OSIB-BCRE Bowery Street Holdings LLC. According to the agreed price, there was no modification to the carrying amount of the investment as at 31 December 2017 (Level 2 of fair value measurement hierarchy (see Note 8)). See Note 32(6).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES (Cont.)

e. Investments and loans to associates and joint ventures classified as held for sale (Cont.):

As at 31 December 2017, the carrying amount of the investment in BCRE IHG 180 Orchard Holdings LLC amounted to €21.7 million (including loans amounting to €3 million) and the investment in OSIB-BCRE Bowery Street Holdings LLC to €18.2 million (including loans amounting to €13.9 million).

The carrying amounts of the investments in BCRE IHG 180 Orchard Holdings LLC and OSIB-BCRE Bowery Street Holdings LLC as at 31 December 2017 and 31 December 2016 are presented in Note 3 within the segment assets of the USA geographical segment. Similarly, the impairment loss recognized in respect of these investments is also presented in the financial results of the USA geographical segment for the year ended 31 December 2017.

The movement in the investments and loans to associates and joint ventures classified as held for sale for the years ended 31 December 2017 and 2016 is as follows:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Balance at the beginning of the year	66,129	-
Classified as held for sale	-	66,129
Distributions	(2,931)	-
Impairment loss (1)	(16,162)	-
Foreign exchange differences	(7,155)	-
Balance at the end of the year	39,881	66,129

(1) The difference with the amount of "Impairment of assets held for sale" as per the consolidated income statement of €3,175 thousand relates to the reclassification of tax liability attributable to equity holders.

f. Investment in BCRE IHG 180 Orchard Holdings LLC:

The movement in the investment in the joint venture for the years ended 31 December 2017 and 2016 is as follows:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Balance at the beginning of the year	45,424	49,748
Distributions	(2,931)	(8,153)
Share of profit/(loss) for the year	(16,162)	6
Share of other comprehensive income/(loss)	(4,615)	3,823
Balance at the end of the year	21,7	45,424

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE 7:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES (Cont.)**

f. Investment in BCRE IHG 180 Orchard Holdings LLC (Cont.):

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:

	31 December	
	2017	2016
	Euro in thousand	
Cash and cash equivalents	8,506	6,941
Other current assets	918	2,512
Non-current assets	131,897	211,117
Current liabilities	(2,018)	(2,773)
Non-current liabilities	(2,909)	(27,603)
Non-current financial liabilities (1)	(99,743)	(109,251)
Equity	<u>36,651</u>	<u>80,943</u>

(1) For the guarantees and the covenants in respect of these financial liabilities see Note 30a(1).

Reconciliation of Group's share in total equity to carrying amount of investment as at 31 December 2017 and 31 December 2016:

	31 December	
	2017	2016
	Euro in thousand	
Group's share in equity of the joint venture	18,692	41,281
Loans provided to the joint venture	<u>3,024</u>	<u>4,143</u>
Group's investment in the joint venture	<u>21,716</u>	<u>45,424</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES (Cont.)

f. Investment in BCRE IHG 180 Orchard Holdings LLC (Cont.):

Summarized statement of comprehensive income of the joint venture:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Revenue	31,345	27,645
Depreciation and amortization	(2,606)	(3,080)
Operating expenses	(16,491)	(15,822)
General and administrative expenses	(4,125)	(2,861)
Impairment of property, plant and equipment	(53,352)	
Financial income	1	-
Financial expenses	(4,370)	(3,550)
Loss before tax	(49,598)	2,332
Tax benefit/(expense)	17,908	(2,320)
Profit/(loss) for the year from continued operations	(31,690)	12
Profit for the year from discontinued operations	-	-
Profit/(loss) for the year	(31,690)	12
Other comprehensive income/(loss)	(9,049)	7,496
Total comprehensive income/(loss)	(40,739)	7,508
Distributions paid during the year	(2,931)	(8,153)
Group's share of total comprehensive income/(loss) for the year in the joint venture	(20,777)	3,829

g. Investment in OSIB-BCRE Bowery Street Holdings LLC:

The movement in the investment in the associate for the years ended 31 December 2017 and 2016 is as follows

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Balance at the beginning of the year	20,705	21,831
Share of loss for the year	-	(1,840)
Share of other comprehensive income/(loss)	(2,540)	714
Balance at the end of the year	18,165	20,705

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- INVESTMENTS AND LOANS TO ASSOCIATES AND JOINT VENTURES (Cont.)

g. Investment in OSIB-BCRE Bowery Street Holdings LLC (Cont.):

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

	31 December	
	2017	2016
	Euro in thousand	
Cash and cash equivalents	552	95
Other current assets	1,275	606
Non-current assets	129,737	124,282
Current liabilities	(1,803)	(3,025)
Non-current liabilities	(27,947)	(29,350)
Non-current financial liabilities	(89,703)	(72,017)
Equity	12,111	20,591

Reconciliation of Group's share in total equity to carrying amount of investment as at 31 December 2017 and 31 December 2016:

	31 December	
	2017	2016
	Euro in thousand	
Group's share in equity of the associate	4,239	7,207
Loans provided to the associate	13,926	13,498
Group's investment in the associate	18,165	20,705

Summarized statement of comprehensive income of the associate:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Revaluation of asset under construction	-	(5,254)
Financial income	14	3
Financial expenses	(78)	-
Loss before tax	(64)	(5,251)
Tax expense	-	-
Loss for the year from continued operations	(64)	(5,251)
Profit for the year from discontinued operations	-	-
Loss for the year	(64)	(5,251)
Other comprehensive income/(loss)	(7,257)	2,040
Total comprehensive loss	(7,321)	(3,211)
Distributions paid during the year	-	-

Group's share of total comprehensive loss for the year in the associate

(2,540) Initialed (1,126)
for identification purposes only
Ernst & Young Accountants LLP



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- FAIR VALUE MEASUREMENT

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2017:

		Fair value hierarchy			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Date of valuation		Euro in thousand			
<u>Assets measured at fair value:</u>					
Investment property	31 December 2017	412,715	-	.	412,715
Property, plant and equipment (1)	31 December 2017	7,405	-	.	7,405
Assets classified as held for sale (2)	31 December 2017	39,881	-	39,881	-
Available-for-sale financial assets (3)	31 December 2017	9,101	-	.	9,101
Financial assets at fair value through profit or loss	31 December 2017	2,470	2,470	.	-
<u>Liabilities measured at fair value:</u>					
Derivatives	31 December 2017	8,083	-	.	8,083

- (1) Only a class of property, plant and equipment is measured at fair value (see Note 10). The remaining property, plant and equipment is accounted for in the consolidated financial statements in accordance with the related Group's accounting policy at historic cost (see Note 2n).
- (2) The fair value of the assets held for sale is determined based on the values reflected in the relevant sale transactions. See Note 7e.
- (3) Value based on the fair values of the underlying assets held by the investee as determined by external independent valuation specialists using valuation techniques and assumptions as to estimates of projected future cash flows from the assets and estimates of the suitable discount rate for the cash flows.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2016:

		Fair value hierarchy			
		Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Date of valuation		Euro in thousand			
<u>Assets measured at fair value:</u>					
Investment property	31 December 2016	389,606	-	-	389,606
Property, plant and equipment (1)	31 December 2016	10,686	-	-	10,686
Assets classified as held for sale (2)	31 December 2016	66,129	-	-	66,129
Other investments and loans	31 December 2016	9,152	-	-	9,152
Available-for-sale financial assets (2)	31 December 2016	8,795	-	-	8,795
Financial assets at fair value through profit or loss	31 December 2016	2,686	2,686	-	-
<u>Liabilities measured at fair value:</u>					
Derivatives	31 December 2016	8,947	-	-	8,947

- (1) Only a class of property, plant and equipment is measured at fair value (see Note 10). The remaining property, plant and equipment is accounted for in the consolidated financial statements in accordance with the related Group's accounting policy at historic cost (see Note 2n).
- (2) Value based on the fair values of the underlying assets held by the investee as determined by external independent valuation specialists using valuation techniques and assumptions as to estimates of projected future cash flows from the assets and estimates of the suitable discount rate for the cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8:- FAIR VALUE MEASUREMENT (Cont.)

There have been no transfers between Level 1 and Level 2 during the years ended 31 December 2017 and 31 December 2016.

NOTE 9:- INVENTORY OF LAND, INVENTORY OF APARTMENTS UNDER CONSTRUCTION AND OTHER INVENTORY

	31 December	
	2017	2016
	Euro in thousand	
Cost of land (2)	120,855	139,484
Apartments under construction (1) and (2)	59,449	35,368
Merchandise	260	1,648
	<u>180,564</u>	<u>176,500</u>

- (1) Includes accumulated capitalized borrowing costs of approximately €16,875 thousand as at 31 December 2017 (€9,390 thousand as at 31 December 2016). The average interest rate of the capitalized borrowing costs as at 31 December 2017 was 9.45% (2016: 6.65%).
- (2) Inventory amounting to €180,304 thousand at 31 December 2017 (2016: €171,568 thousand) relates to the property located at 90 Morton street Manhattan, New York which was reclassified to inventory during the year ended 31 December 2016. See Note 5a(7).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- PROPERTY, PLANT AND EQUIPMENT, NET

	31 December	
	2017	2016
	Euro in thousand	
Cost		
Balance at the beginning of the year	14,704	17,876
Additions	-	1,533
Reclassified to investment property	(1,290)	-
Fair value loss (2)	(1,313)	(5,747)
Deconsolidation of BCP (1)	-	(899)
Write-off	-	(1,467)
Foreign exchange differences	(603)	3,408
Balance at the end of the year	11,498	14,704
Accumulated depreciation		
Balance at the beginning of the year	1,661	685
Depreciation	917	1,100
Deconsolidation of BCP (1)	-	(340)
Write-off	-	(225)
Foreign exchange differences	60	441
Balance at the end of the year	2,638	1,661
Net book value (3)	8,860	13,043

- (1) See Note 4b with respect to BCP deconsolidation.
- (2) During the year ended 31 December 2017, a negative fair value movement was recognized in the amount of €1.3 million (2016: €5.7 million) for part of a property which is owner occupied, inter alia, due to the current economic situation in Russia and expectation on recovery period which impacted the expected rent value. For additional information about the main assumptions used in the valuation of property, plant and equipment in Russia, see Note 5d.
- (3) An amount of €7.4 million (2016: €10.7 million) relates to an area of the commercial shopping center in Lyubertsy, Moscow region, Russia, owner occupied by the Group. As per the related accounting policy in Note 2n, this class of property, plant and equipment is measured at fair value.

NOTE 11:- OTHER INVESTMENTS AND LOANS

- a. Composition of long term investments and loans:

	31 December	
	2017	2016
	Euro in thousand	
Employees (1)	6,761	6,200
Loans to companies investing in real estate projects	-	3,667
Other investments and loans	8,362	7,038
Related parties (2)	5,381	7,414
	20,504	24,319

- (1) The loans bear an annual interest rate of 3.5% - 4% and are repayable within 5 – 7 years. The loans are secured by their portion in the Group's investments.
- (2) Loans provided to related parties, see also Note 31c.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11:- OTHER INVESTMENTS AND LOANS (Cont.)

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

	31 December	
	2017	2016
	Euro in thousand	
Loans to companies investing in real estate projects (1)	789	10,231
Other investments and loans	75	541
Related parties (2)	2,448	9,394
	3,312	20,166

- (1) Short-term senior construction loans provided by the lending business of the Group. Construction loans provided to third parties bear annual interest within the range of 10% - 12% and are collateralized primarily by small residential development assets in the New York Metropolitan Area with a maximum of 50% LTV ratio. All loans are senior loans and are secured by personal guarantees and/or equity pledges. Lending business entered into dissolution mode during 2017 and no new loans have been provided to third parties during the year ended 31 December 2017.

- (2) Loans provided to related parties, see also Note 31c.

- c. Restricted bank accounts and deposits:

	31 December	
	2017	2016
	Euro in thousand	
Restricted bank accounts and deposits (1) and (2)	2,723	4,149
Less: current maturities	(1,122)	(2,296)
Total non-current restricted bank accounts and deposits	1,601	1,853

- (1) Represent amounts which can be used only for the repayment of interest accrued on the financing facilities obtained by Group's companies.
- (2) Short term and long term restricted bank accounts and deposits bear an annual interest rate within the range of 0% - 0.1% (2016: 0% - 0.1%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- TAX BENEFIT

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

<u>The Netherlands</u>	- Tax rate: 25% (20% on taxable profit up to €200 thousand) (2016: 25%)
<u>U.S.A - Federal tax (1)</u>	- Tax rate: 21% (calculated on a graduated basis), state and city taxes also apply (2016: 35%)
<u>Cyprus</u>	- Tax rate: 12.5% (2016: 12.5%)
<u>Russia</u>	- Tax rate: 20% (2016: 20%) (16.5% in certain instances)

- (1) On 22 December 2017, the United States ("U.S.") enacted significant changes to U.S. tax law following the signing of H.R. 1 "An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018" (previously known as "The Tax Cuts and Jobs Act"). The new tax law includes various changes with complex impact. The Company identified that the reduction in the U.S. federal tax rate from 35% to 21% affects the carrying amount of its deferred tax assets and liabilities.

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

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Current tax expenses	(1,201)	(1,110)
Deferred tax credit	16,408	2,318
Total tax benefit	<u>15,207</u>	<u>1,208</u>

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

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Loss before tax	<u>(64,497)</u>	<u>(107,635)</u>
Statutory tax rate (25%)	<u>(16,124)</u>	<u>(26,909)</u>
Increase/(decrease) in respect of:		
Company's share in loss of associates and joint ventures	3,203	9,242
Effect of different tax rates in foreign subsidiaries	(1,404)	4,209
Effect of changes in US tax rates	(10,174)	-
Differences for which deferred tax assets were not recorded	8,817	11,023
Income not subject to tax	475	1,227
Tax benefit	<u>(15,207)</u>	<u>1,208</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- TAX BENEFIT (Cont.)

d. Deferred taxes:

Analysis:

	31 December	
	2017	2016
	Euro in thousand	
<u>Deferred tax liabilities:</u>		
Deferred tax liability to be recovered after 12 months	(15,469)	(27,721)
<u>Deferred tax assets:</u>		
Deferred tax asset to be recovered after 12 months	2,527	1,559
Deferred tax liabilities, net (*)	(12,942)	(26,162)

(*) The decrease in the deferred tax liabilities, net during the year ended 31 December 2017 related mainly to the US tax reform. See Note 12a(1).

Composition:

	31 December	
	2017	2016
	Euro in thousand	
<u>Deferred tax liabilities:</u>		
Measurement of investment property, property, plant and equipment and inventory of land at fair value (*)	(30,852)	(45,867)
<u>Deferred tax assets:</u>		
Carry forward tax losses (**)	17,910	19,705
Deferred tax liabilities, net	(12,942)	(26,162)

(*) The decrease in the deferred tax liabilities during the year ended 31 December 2017 related mainly to the US tax reform. See Note 12a(1). A tax benefit of €10,174 thousand has been recognized in the consolidated income statement as a result of the US tax reform.

(**) An amount of €9.4 million relates to carried forward taxable losses of Russian companies of the Group and an amount of €8.5 million relates to carried forward taxable losses of US companies of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- TAX BENEFIT (Cont.)

d. Deferred taxes (Cont.):

Movement:

	31 December	
	2017	2016
	Euro in thousand	
Deferred tax assets:		
Balance at the beginning of the year	19,705	43,181
Charged to profit or loss of the year (continuing operations) (1)	(1,783)	(175)
Charged to profit or loss of the year (discontinued operations)	-	(17,522)
Deconsolidation of BCP (2)	-	(5,513)
Foreign exchange differences	(12)	(266)
Balance at the end of the year	17,910	19,705
Deferred tax liabilities:		
Balance at the beginning of the year	(45,867)	(113,599)
Credited to profit or loss of the year (continuing operations) (1)	15,016	2,493
Credited to profit or loss of the year (discontinued operations)	-	938
Deconsolidation of BCP (2)	-	65,024
Foreign exchange differences	(1)	(723)
Balance at the end of the year	(30,852)	(45,867)

(1) The difference with the deferred tax credit included in note 12b amounting to €3,175 thousand relates to the reclassification of tax liability attributable to equity holders.

(2) See Note 4b.

Losses carried forward:

As of 31 December 2017, the Group has taxable losses of €177.5 million, in the relevant jurisdictions where the Group operates.

The Company has taxable losses of €89.9 million (2016: €71.7 million) as reported to tax authorities, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- TAX BENEFIT (Cont.)

d. Deferred taxes (Cont.):

Losses carried forward (Cont.):

Taxable losses as of 31 December 2017 can be utilized as follows:

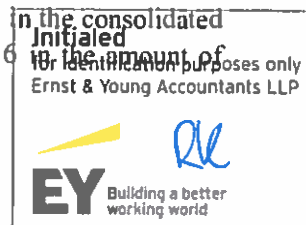
Year ended in which taxable losses incurred	Amount Euro in thousand	Usable until year ending
31.12.2009	3,632	31.12.2018
31.12.2010	5,674	31.12.2019
31.12.2011	4,480	31.12.2020
31.12.2012	6,029	31.12.2021
31.12.2013	14,902	31.12.2022
31.12.2014	4,240	31.12.2023
31.12.2015	15,913	31.12.2024
31.12.2016	13,475	31.12.2025
31.12.2017	21,559	31.12.2026
Total	89,904	

Taxable losses as of 31 December 2016 could have been utilized as follows:

Year ended in which taxable losses incurred	Amount Euro in thousand	Usable until year ending
31.12.2008	3,492	31.12.2017
31.12.2009	3,632	31.12.2018
31.12.2010	5,674	31.12.2019
31.12.2011	4,480	31.12.2020
31.12.2012	6,029	31.12.2021
31.12.2013	14,902	31.12.2022
31.12.2014	4,240	31.12.2023
31.12.2015	15,782	31.12.2024
31.12.2016	13,475	31.12.2025
Total	71,706	

Deferred tax assets have not been recognized in respect of these losses as it may not be used to offset future 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, for which deferred taxes were not recorded for, since there is no evidence of recoverability in the near future.

As of 31 December 2017, the Russian companies of the Group have business losses and capital losses carried forward for tax purposes, which can be utilized without any time restrictions, amounting approximately €47.2 million (2016: €74.1 million). In respect of these carried forward losses, deferred tax assets have been recognized in the consolidated financial statements as of 31 December 2017 and 31 December 2016 for an amount of approximately €9.4 million and €14.8 million, respectively.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- TAX BENEFIT (Cont.)

- d. Deferred taxes (Cont.):

Losses carried forward (Cont.):

As of 31 December 2017, the US companies of the Group have losses carried forward for tax purposes, which can be utilized without any time restrictions, amounting approximately €40.4 million (2016: €14 million). In respect of these carried forward losses, deferred tax assets have been recognized in the consolidated financial statements as of 31 December 2017 and 31 December 2016 in the amount of approximately €8.5 million and €4.9 million respectively.

- e. The tax benefit/(charge) relating to components of other comprehensive income/(loss) is as follows:

	Year ended 31 December 2017		
	Euro in thousand		
	Before tax	Tax charge	After tax
Share of other comprehensive loss of associates and joint ventures (exchange differences)	(3,545)	-	(3,545)
Exchange differences on translation of foreign operations	(26,173)	-	(26,173)
Gain on available for sale financial assets	1,160	-	1,160
Other comprehensive loss	(28,558)	-	(28,558)

	Year ended 31 December 2016		
	Euro in thousand		
	Before tax	Tax charge	After tax
Fair value gains of property, plant and equipment, net	3,704	(1,297)	2,407
Share of other comprehensive income of associates and joint ventures (exchange differences)	14,122	-	14,122
Exchange differences on translation of foreign operations	4,011	-	4,011
Loss on available for sale financial assets	(239)	-	(239)
Other comprehensive income	21,598	(1,297)	20,301

NOTE 13:- FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December	
	2017	2016
	Euro in thousand	
Marketable securities (1)	2,470	2,686

- (1) Relates to investment in equity instruments listed in TASE. Fair value as at 31 December 2017 was determined based on the share price of these securities as per TASE.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- TRADE AND OTHER RECEIVABLES

	31 December	
	2017	2016
	Euro in thousand	
Government authorities	7,429	8,239
Trade receivables (1)	2,344	2,580
Prepaid expenses	1,209	3,096
Related parties (2)	3,399	1,921
Other receivables	4,431	4,983
	<u>18,812</u>	<u>20,819</u>

(1) Trade receivables are presented after the deduction of provision for doubtful debts in the amount of €nil (2016: €nil).

(2) See Note 31e.

As at 31 December, the ageing analysis of trade receivables is, as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30-60 days	61-90 days	91-120 days	> 120 days
			Euro in thousand				
2017	2,344	1,099	423	209	63	58	492
2016	2,580	1,465	323	6	5	4	777

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.

NOTE 15:- CASH AND CASH EQUIVALENTS

a. Composition:

	31 December	
	2017	2016
	Euro in thousand	
Bank balances (1)	<u>37,437</u>	<u>21,853</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- CASH AND CASH EQUIVALENTS (Cont.)

b. By currency:

	31 December	
	2017	2016
	Euro in thousand	
In NIS	1,245	428
In Euro	1,777	189
In US dollar	33,594	20,616
Other	821	620
	<u>37,437</u>	<u>21,853</u>

NOTE 16:- EQUITY

a. Composition of share capital:

	31 December 2017		31 December 2016	
	Authorized	Issued and fully paid	Authorized	Issued and fully paid (*)
Ordinary shares of €0.01 (2016: €0.01) each (1) and (2)	<u>700,000,000</u>	<u>159,596,899</u>	<u>700,000,000</u>	<u>161,610,064</u>

(*) Including 2,013,165 shares purchased by the Company under the share buyback program. During 2017, the Company cancelled those shares. See 2 below.

- (1) On 15 January 2016, following the Company's shareholders' approval, the authorized share capital of the Company was changed from 700,000,000 shares of €0.01 each into 700,000,000 shares of €0.04 each and on 29 March 2016, from 700,000,000 shares of €0.04 each into 700,000,000 shares of €0.01 each. Accordingly, an amount of €4.8 million has been distributed to the Company's shareholders during the year ended 31 December 2016.
- (2) On 3 June 2016, the Company's Board of Directors authorized the Company to buy shares of its own capital up to an amount of €3 million ("share buyback program"). Under the share buyback program, 2,013,165 shares (1.2% of the Company's issued share capital) were purchased during the year ended 31 December 2016 for a total consideration of €2 million. The Company proceeded with the cancellation of the shares purchased under the share buyback program. As a result, following the cancellations, the Company's entire issued share consists of 159,596,899 shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16:- EQUITY (Cont.)

b. Convertible loans notes:

The Convertible Loan Notes amounting to €16.6 million, net of expenses, bear 2.25% annual compounded interest, maturing on 30 November 2018. The conversion price shall be €1.5 per share (save for certain customary exceptions) and the ratchet protection provided to the lenders will be only for the first year of the Convertible Loan Notes' term. The Convertible Loan Notes (including accrued interest) will be convertible in whole into ordinary shares (i) at the holders' 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 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).

c. Convertible bonds:

On 20 September 2016, the Company issued bonds in an aggregate principal amount of €14.5 million, net of expenses, convertible into ordinary shares of the Company. The Company has the option to call for the conversion of the bonds only at the maturity of the bond term on 20 March 2020 or upon enforcement events. The bondholders have the right to convert at any time during the bond term. Subject to certain adjustment mechanisms, the initial bondholder conversion price is €1.50 per share and the initial Company's conversion price is €0.70 per share. During the bond term, the bonds bear fixed interest at 4.25% per annum, payable annually in arrears, commencing on 20 September 2017 up until maturity. The bonds were classified as equity instruments. An interest payment of €562 thousand has been made during the year ended 31 December 2017 in respect of the issued and outstanding convertible bonds. The interest payment has been shown in the consolidated financial statements as a deduction from the Company's equity.

d. Dividend policy:

Subject to compliance with Dutch law, the Company intends to target making 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. No dividends have been paid during the year ended 31 December 2017 to shareholders. An amount of €4.8 million has been distributed to the Company's shareholders during the year ended 31 December 2016 in relation to the year ended 31 December 2015. See Note 16a(1).

No dividends are proposed in relation to the year ended 31 December 2017 (2016: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16:- EQUITY (Cont.)

e. Nature and purpose of reserves:

Reserves from transactions with non-controlling interests:

Transactions between the Company or its subsidiaries with non-controlling interests of the Group are accounted for as equity transactions. Any difference between the consideration paid or received and the carrying amount of non-controlling interests on the date of a transaction is recognized directly in equity and is attributed to the equity holders of the Company.

The main transactions recognized in the "Reserves from transactions with non-controlling interests" are:

- (1) During 2017, the Company, through its indirect subsidiaries has entered into various transactions with non-controlling shareholders in relation to the acquisition of their shareholding in other indirect subsidiaries of the Group amounting to €0.54 million. As a result of these transactions the Company recorded an increase in equity of €0.55 million within "Reserves from transactions with non-controlling interests".
- (2) During 2016, the Company, through its indirect subsidiaries has entered into various transactions with non-controlling shareholders in relation to the acquisition of their shareholding in other indirect subsidiaries of the Group amounting to €10.1 million. As a result of these transactions the Company recorded a reduction in equity of €0.45 million within "Reserves from transactions with non-controlling interests"

f. Classifications according to Dutch law - statutory capital reserve:

In accordance with Dutch law provisions applicable to the Company, gains from fair value adjustments, which have not been realized and foreign currency translation reserve cannot be distributed as dividends. In addition, earnings of associates and joint ventures cannot be distributed as dividends, unless distributed by the associates and joint ventures themselves.

NOTE 17:- SHARE BASED COMPENSATION

1. Warrants 1 - On 29 June 2009, BCRE Russian Properties Ltd ("BRP"), an indirect 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, after an extension during 2012, within ten years from the grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- SHARE BASED COMPENSATION (Cont.)

2. Warrants 2 - During 2012, the Company's Board of Directors approved the issuance of 4,086,000 fully vested warrants exercisable into 4,086,000 Company's shares (representing 3% of the Company's share capital at that point of time) to an investment committee member, which were expired during the year. The exercise price of the warrants is €1.32 per share. The fair value of the warrants granted is approximately €1,517 thousand.
3. Warrants 3 - On 2 July 2013, the managing Board of Brack Capital USA B.V. ("BCRE USA"), an indirect subsidiary of the Company, granted to employees of the Group 509,852 warrants exercisable into 13.8% of BCRE USA's share capital, at an exercise price within the range \$8.2- \$19.1 per share. 55% out of the warrants granted were vested upon grant, 10%, 15% and 20% of the warrants granted were vested at each year thereafter. During the year ended 31 December 2016, the terms of the warrants were modified to extend the period of exercise up until 30 June 2022. As per the modified terms, the exercise prices of the warrants were modified within the range of \$10.2 - \$11.8 per share. The fair value of the warrants granted is approximately €1,258 thousand. The change in terms of the warrants did not have material effect on the Group's results.
4. Warrants 4 - On 28 May 2014, an entity beneficially owned by the family of senior manager A at that date, was granted 2,862,155 warrants 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 at an exercise price of €1.4565 ("A Warrants"). The remaining 50% of the warrants can be exercised at an exercise price of €1.7801 ("B Warrants"). The warrant agreement also provides for a cashless exercise, at the option of the holder of the 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 vested 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 at that date, was granted 483,519 warrants under a warrant agreement entered into with the Company, exercisable (subject to the warrants having vested) from the date of grant within seven years, to 483,519 shares. These warrants can be exercised at an exercise price of €1.6183. 1/3rd of these warrants vested immediately, 1/3rd vested one year after the date of the grant of the warrants and the remaining 1/3rd vested 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 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 €241 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- SHARE BASED COMPENSATION (Cont.)

5. Warrants 5 – On 16 December 2016, the managing Board of Brack Capital USA B.V. ("BCRE USA"), an indirect subsidiary of the Company, granted to employees of the Group 184,729 warrants exercisable into 5% of BCRE USA's share capital, at exercise prices within the range of \$11.76 - \$24.49 per share. 20% of the 166,256 warrants (out of which 18,473 warrants have been subsequently cancelled) has vested on 1 January 2017. At each year, thereafter, up until 1 January 2021, 20% will be vesting on each 1 January. For the remaining 18,473 warrants, 40% has been vested immediately and the remaining 60% has been cancelled. The fair value of the warrants granted is approximately €4,169 thousand. An amount of €1,026 will be further recognized as share based compensation during the vesting period in relation to these warrants.

Expense recognized in the consolidated financial statements in relation to the share-based payment plans:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Equity-settled share-based payment plans	1,194	1,643

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:

	2017 Number	2017 WAEP	2016 Number	2016 WAEP
Outstanding at 1 January	8,674,767	5.35	8,968,508	4.46
Granted during the year	-	-	184,729	15.59
Deconsolidation of BCP	-	-	(426,274)	(39.67)
Cancelled	-	-	(36,946)	(17.24)
Exercised during the year	-	-	(15,250)	(32.74)
Outstanding at 31 December	8,674,767	5.35	8,674,767	5.35

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17:- SHARE BASED COMPENSATION (Cont.)

The following table lists the inputs to the models used for the five share based plans:

	<u>Warrants 1</u>	<u>Warrants 2</u>	<u>Warrants 3</u>
Dividend yield (%)	0%	0%	0%
Expected volatility (%)	28%-29%	23%-30%	31%
Risk-free interest rate (%)	0.18%-2.53%	0.21%-1.48%	0.4%-1.0%
Early Exercise Factor-EEF (%)	150%-250%	250%	200%-250%
Weighted average share price (€)	€39.40	€505.66 per 1% of Company's equity	€10.28
Model used	Binomial	Binomial	Binomial
	<u>Warrants 4</u>	<u>Warrants 5</u>	
Dividend yield (%)	0%	0%	
Expected volatility (%)	20%-34%	31%	
Risk-free interest rate (%)	0.09%-1.11%	0.9%-2.1%	
Early Exercise Factor-EEF (%)	150%	200%-250%	
Weighted average share price (€)	€1.62	€5.60	
Model used	Binomial	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 18:- INTEREST-BEARING LOANS AND BORROWINGS

	Currency	Interest rate	Maturity date	31 December	
				2017	2016
				Euro in thousand	
USA:					
Bank loan	USD	4.91%	6 February 2024	10,495	11,920
Bank loan	USD	4.07%	6 May 2025	9,077	10,298
Bank loan (1)	USD	4.22%	1 February 2027	13,952	-
Bank loan (3)	USD	3 months Libor plus 4.25%	29 January 2018	10,853	13,076
		(capped at 4.5%)			
Bank loan (7)	USD	1 month Libor plus a margin within the range of 3.9% to 9.22%	8 November 2019	57,722	57,710
Bank loan (14)	USD	1 month Libor plus 10.75%	1 November 2018	45,700	51,766
Loans from others	USD	6.5%	31 October 2017	-	10,717
Loans from others (13)	USD	0.5%	During 2020 & 2021(5 th anniversary of each loan agreement)	34,741	27,080
Loans from others (8)	USD	11%	1 October 2021	28,297	26,588
Loans from others	USD	6%	31 December 2050 or, if earlier, 90 days after the termination of the lease agreement between the subsidiary and the existing tenant	31,282	35,599
Loans from others (12)	USD	4%	During 2023 and 2024 (8 th anniversary of each loan agreement)	30,512	31,620
				<u>272,631</u>	<u>276,373</u>
Russia:					
Bank loan (9)	USD	7.7%	24 December 2021	25,276	28,587
Bank loan (10)	USD	5%	20 May 2023	64,353	73,105
Bank loan (11)	USD	7.7%	24 May 2022	29,733	-
Loans from others	RUR	0%	June 2017	-	2,161
Loans from others (5)	USD	7.5%	21 August 2020	12,714	15,106
				<u>132,076</u>	<u>118,959</u>
Italy:					
Bank loan	EURO	2.95%	30 April 2019	<u>1,280</u>	<u>2,114</u>
Corporate:					
Bank loan	USD	5.1%	30 December 2019	1,703	2,910
Loans from others	USD	6.5%	31 December 2018	1,223	6,037
Loans from others (6)	USD	6.5%	30 June 2020	5,016	-
Debentures series A linked to CPI	NIS	6.5%	19 December 2018	18,141	37,221
Debentures series B (4)	USD	7%	31 December 2021	18,581	22,679
Debentures series C (2)	USD	6.5%	5 December 2022	-	77,260
				<u>44,664</u>	<u>146,107</u>
Total interest-bearing loans and borrowings				450,651	543,553
Less: current maturities				<u>248,154</u>	<u>200,457</u>
Total non-current interest-bearing loans and borrowings				<u>202,497</u>	<u>343,096</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE 18:- INTEREST-BEARING LOANS AND BORROWINGS (Cont.)**

Details of the interest-bearing loans and borrowings obtained and terms amended during the years ended 31 December 2017 and 31 December 2016 are as follows:

- (1) On 17 January 2017, for the purpose of financing the acquisition of a property as described in Note 5a(3), an indirect subsidiary of the Company in USA obtained a bank loan amounting to \$17 million (€15 million). The principal balance of the loan is payable by monthly instalments commencing on 1 March 2022 and by a balloon payment on the loan maturity date on 1 February 2027. The facility carries interest at 4.22% per annum, payable by monthly instalments. For the guarantees provided in respect to this agreement see Note 30a(13).
- (2) On 3 March 2016, the Company has increased the issuance limit of bonds series C from \$60 million (€54 million) to \$180 million (€162 million). On 31 March 2016, the Company issued additional bonds (series C) with an aggregate principal amount of \$18.4 million out of which \$17.5 million remains outstanding (€16.4 million out of which €15.5 million remains outstanding). On 20 April 2016, the Company made an additional issue of bonds (series C) with an aggregate principal amount of \$12.7 million out of which \$12.1 million remains outstanding (€11.4 million out of which €10.9 million remains outstanding). Also, on 16 February 2017 and 27 February 2017, the Company issued additional bonds (series C) with an aggregated principal amount of \$13.3 million out of which \$12 million remains outstanding (€11.8 million out of which €10.6 million remains outstanding) and of \$7.8 million out of which \$7 million remain outstanding (€6.9 million out of which €6.2 million remains outstanding), respectively. The additional bonds issued on these dates, bore interest of 6.5% per annum and have been consolidated and formed a single series with the existing bonds (series C) which were outstanding at the beginning of each of these years. Following the additional issues during 2017 and in accordance with the agreed terms for the issue of bonds series C, the Company exercised its option to early redeem the whole outstanding amount of series C which were outstanding as of that date. On 13 December 2017, a total amount of \$93.1 million (€82.4 million) has been paid to the bondholders for the full repayment of the outstanding principal amount of bonds, the accrued interest as of that date and the early repayment fee. As a result of the exercise of the option to redeem early the outstanding amount of series C bonds, the Company recognized an early repayment fee in its consolidated income statement amounting to \$3.2 million (€2.7 million) classified within "financial expenses" (see Note 26).
- (3) On 4 December 2017, an indirect subsidiary of the Company, agreed with the financing bank for the extension of the maturity of the facility provided, with initial maturity date 30 September 2017, until 29 January 2018. No other change to the loan terms, apart from the extension of the loan term, was agreed. Subsequent to the year end, on 22 January 2018, it was agreed to further extent the loan maturity date to 31 March 2018. See Note 32(1). The facility amounted to \$13 million (€10.9 million) as of 31 December 2017. For the guarantees and the financial covenants provided in respect to this agreement see Note 30a(5).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18:- INTEREST-BEARING LOANS AND BORROWINGS (Cont.)

- (4) On 24 November 2017, the Company, in accordance with the agreed terms for the issue of bonds (series B) announced its intention to early repay the whole principal amount of the bonds outstanding as of that date. As at 31 December 2017, the series B bonds amounted to \$22.3 million (€18.6 million) and the whole outstanding amount, including accrued interest, has been paid to the group of lenders on 3 January 2018. As a result of the exercise of the option to redeem early the outstanding amount of series B bonds, the Company recognized an early repayment fee in its consolidated income statement amounting to \$1.5 million (€1.3 million) classified within “financial expenses” (see Note 26). The early repayment fee has been also repaid to the bondholders on 3 January 2018. For the guarantees and the financial covenants which were outstanding as at 31 December 2017 in respect of series B bonds see Note 30a(11).
- (5) On 27 December 2017, an indirect subsidiary of the Company, entered into an agreement with the individual lenders for the amendment in the loan terms of the facility provided which amounted to \$15.2 million (€12.7 million) as at 31 December 2017. As per the agreed terms, the maturity of the facility was extended to 21 August 2020, on which date the whole outstanding amount of interest and principal will need to be paid. Interest was amended to 7.5% per annum, effective from the original loan provision date on 21 August 2014. The Group considered the requirements of IAS 39 regarding derecognition of financial liabilities and concluded that the terms of the revised facility are substantially different compared to the original facility. In this respect, a gain amounting to \$3 million (€2.7 million) has been recognized in the consolidated income statement within “financial expenses” from the extinguishment of the financial liability and the recognition of the revised facility. For the guarantees and the financial covenants provided in respect to this agreement see Note 30a(9).
- (6) During 2017, the Company preliminary agreed with a group of lenders for the provision of a financing facility to the Company for the total amount of \$20 million (€16.7 million). On 14 February 2018, the Company finalized and signed the agreement with the group of individual lenders. As per the terms agreed, the facility will carry interest of 6.5% and will mature on 30 June 2020. The Company also agreed with the group of lenders that any proceeds received from certain Group’s investments, either through dividend payments or through sale proceeds, would be used for the repayment of the loan facility. Otherwise, and if the principal amount provided along with interest accrued, are not paid in full by the maturity date on 30 June 2020, the Company will pay to the lenders the outstanding loan amount via a balloon payment. See Note 32(3). As at 31 December 2017 an amount of \$6 million (€5 million) has been provided to the Company in respect of this facility.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18:- INTEREST-BEARING LOANS AND BORROWINGS (Cont.)

- (7) On 29 September 2016, an indirect subsidiary of the Company in the USA, entered into an agreement with a financial institution for a construction loan facility of up to an amount of \$85.1 million (€80.9 million). The facility is split into a senior note (up to an amount of \$57.5 million (€54.7 million)), a mezzanine note (up to an amount of \$2.6 million (€2.5 million)), a building note (up to an amount of \$13.7 million (€13 million)) and a project note (up to an amount of \$11.3 million (€10.7 million)). The senior note, the building note and the project note are split into Notes A and B where instead, the Mezzanine note is not split and consists only of Note A. Note A of each facility bears variable interest of 1 month Libor plus a margin of 3.9% and Note B bears also variable interest of 1 month Libor plus a margin of 9.22%. Interest is payable through monthly instalments payable during the loan term up until the maturity of the facility on 8 November 2019, when the whole outstanding principal shall be also paid. Up to 31 December 2017, an amount of \$71.3 million (€59.5 million) (2016: \$63.1 million (€60 million)) has been drawn in total in respect of these facilities. For the guarantees in respect to this agreement see Note 30a(8).
- (8) During 2016, an indirect subsidiary of the Company in the USA, entered into a financing agreement with individual lenders in the total amount of \$33.9 million (€28.3 million) (2016: \$28 million (€26.6 million)). The facility carries interest of 11% and is payable on maturity on 1 October 2021.
- (9) During 2016, an indirect subsidiary of the Company in Russia, entered into a refinancing agreement with the financing bank for the change in the terms of the facility provided by the bank. The facility as at 31 December 2017 amounted to \$30.6 million (€25.6 million) (2016: \$31.4 million (€29.9 million)) and as per the revised terms it will bear a fixed interest of 7.7% payable throughout the loan term along with the outstanding principal. For the guarantees and the loan covenants in respect of this facility see Note 30a(10).
- (10) During 2016, an indirect subsidiary of the Company in Russia, entered into a refinancing agreement with the financing bank for the change in the terms of the 2 loan facilities provided by the bank, which amounted in total to \$82.5 million (€68.9 million) as of 31 December 2017 (2016: \$79.8 million (€75.9 million)). As per the revised terms, both facilities bore a fixed interest of 5% during the whole financial year ended 31 December 2017. For the guarantees and the loan covenants in respect of this facilities see Note 30a(10).
- (11) During 2016, an indirect subsidiary of the Company in Russia, control of which was acquired during the year ended 31 December 2017, (see note 5a(2)), entered into a refinancing agreement with the financing bank for the change in the terms of the facility provided by the bank. The facility as at 31 December 2017 amounted to \$36.7 million (€30.6 million) and as per the revised terms it will bear a fixed interest of 7.7% payable throughout the loan term along with the outstanding principal. For the guarantees and the loan covenants in respect of this facility see Note 30a(10).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18:- INTEREST-BEARING LOANS AND BORROWINGS (Cont.)

- (12) During 2015 and 2016, an indirect subsidiary of the Company in the USA, entered into financing agreements with individual lenders in the total amount of \$41.8 million (€34.9 million) as at 31 December 2017 (2016: \$38.5 million (€36.6 million)). These financing agreements provided that the loan amount advanced to the Company's indirect subsidiary shall be either payable in full on the 8th anniversary of each agreement or, at the discretion of the lender, shall be converted into the designated unit in the residential building acquired by another Company's indirect subsidiary, in case that this project will be potentially developed. Up until maturity or conversion, the amounts advanced by the individual lenders bear interest of 4% per annum. For the conversion option, see Note 19a. For the guarantees in respect to this agreement see Note 30a(4).
- (13) During 2015 and 2016, an indirect subsidiary of the Company in the USA, entered into financing agreements with individual lenders in the total amount of \$57.6 million (€48.1 million) as at 31 December 2017 (2016: \$57.6 million (€54.8 million)). The outstanding balance of the facilities provided to the indirect subsidiary as at 31 December 2017 amounted to \$43.3 million (€36.1 million). These financing agreements provided that the loan amount advanced to the Company's indirect subsidiary shall be either payable in full on the 5th anniversary of each agreement or, at the discretion of the lender, shall be converted into a designated unit in the residential building owned by another Company's indirect subsidiary. Up until maturity or conversion, the amounts advanced by the individual lenders bear interest of 0.5% per annum (or 1.5% per annum if not converted). The fair values of these conversion option rights is nil as at 31 December 2017 (2016: nil). For the guarantees in respect to this agreement see Note 30a(4).
- (14) On 7 February 2018, an indirect subsidiary of the Company in the USA, agreed with the financing bank for the extension of the maturity of the facility provided until 1 July 2019. See Note 32(2). For the guarantees in respect to this agreement see Note 30a(3).

NOTE 19:- DERIVATIVE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

	31 December	
	2017	2016
	Euro in thousand	
Fair value of lenders' conversion option rights (a)	8,083	8,947
a. As described in Note 18(12), during the years ended 31 December 2015 and 31 December 2016, an indirect subsidiary of the Company in the USA, entered into financing agreements with individual lenders. These financing agreements provide to the lenders the option to convert the amounts advanced to the subsidiary to designated units in the residential building acquired by another Company's subsidiary, in case that this project will be potentially developed. Accordingly, the fair value of these conversion option rights granted to the lenders as at 31 December 2017 amounted to \$9.7 million (€8.1 million) (2016: \$9.4 million (€8.9 million)).		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- DERIVATIVE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (Cont.)

The fair value of options was calculated using the "Black and Scholes" option pricing model. The main parameters used in the option pricing model are as follows:

Value of underlying asset per sq ft	\$1,863
Time for expiration	1.25 years
Implied volatility	10%
Risk-free interest rate	1.79%
Exercise price of option per sq ft	\$1.449

NOTE 20:- OTHER NON-CURRENT LIABILITIES

	31 December	
	2017	2016
	Euro in thousand	
Tenant deposits	1,312	1,482

NOTE 21:- TRADE AND OTHER PAYABLES

	31 December	
	2017	2016
	Euro in thousand	
Trade payables	2,711	4,359
Real estate taxes and other tax payable	1,473	2,521
Tenant deposits	706	311
Accrued expenses	6,126	5,514
Other payables	2,721	1,463
	13,737	14,168

NOTE 22:- SERVICE CHARGE, MANAGEMENT AND OTHER INCOME

	Year ended December 31	
	2017	2016
	Euro in thousand	
Service charge from tenants	3,635	3,175
Management, commissions, consultancy fee and other income	5,054	5,257
	8,689	8,432

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23:- PROPERTY OPERATING AND OTHER EXPENSES

	Year ended December 31	
	2017	2016
	Euro in thousand	
Service charge expenses	1,755	1,472
Property management and salary expenses	9,592	8,457
Property taxes and fees	54	1,915
Maintenance, repairs and renewals	1,826	805
Professional and consulting fees	1,562	1,237
Marketing expenses	823	567
Other expenses	4,092	4,226
	<u>19,704</u>	<u>18,679</u>

NOTE 24:- ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Wages and salaries	2,149	3,082
Legal expenses and other professional services	5,695	2,725
Office rent and maintenance	623	601
Other administrative expenses	2,245	2,258
	<u>10,712</u>	<u>8,666</u>

NOTE 25:- FINANCIAL INCOME

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Revaluation of marketable securities and other investments	578	483
Interest income from loans to employees and co-investors	86	81
Revaluation of options granted by related parties (1)	-	2,402
Interest income from loans to other related companies	1,941	1,936
Other interest income	1,370	1,204
	<u>3,975</u>	<u>6,106</u>

(1) See Note 31c(1).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26:- FINANCIAL EXPENSES

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Finance expenses on interest-bearing loans and borrowings	27,607	28,965
Early repayment fees for bonds (1)	3,960	-
Amortization of finance costs	1,438	1,430
Bank charges	454	275
Other finance expenses	558	885
	<u>34,017</u>	<u>31,555</u>

(1) See Notes 18(2) and 18(4).

NOTE 27:- OTHER INCOME/(EXPENSES), NET

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Re-measurement of liability in respect of joint venture (1)	-	4,131
Other expenses, net	<u>(512)</u>	<u>(2,413)</u>
	<u>(512)</u>	<u>1,718</u>

(1) During 2014, the Group acquired an additional holding in a joint venture in return for the liability to fund the project with an estimated amount of \$8.7 million (€7.2 million) over a period of the next two years. The liability was calculated based on the fair value of the obligation and remeasured at each year end during this period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28:- FINANCIAL INSTRUMENTS

Classification of financial assets and financial liabilities:

	31 December	
	2017	2016
	Euro in thousand	
<u>Financial assets at fair value through profit or loss:</u>		
Marketable securities and other short-term investments	2,470	2,686
Other investments and loans	-	9,152
	<u>2,470</u>	<u>11,838</u>
<u>Available for sale financial assets</u>	9,101	8,795
<u>Cash and cash equivalents</u>	37,437	21,853
<u>Loans and receivables at amortized cost:</u>		
Loans to associates and joint ventures (1) and (2)	59,233	60,771
Current maturities of long term loans	3,312	20,166
Trade and other receivables (3)	17,603	17,723
Restricted deposits	2,723	4,149
Other investments and loans	<u>20,504</u>	<u>15,167</u>
	<u>103,375</u>	<u>117,976</u>
<u>Financial liabilities at fair value through profit or loss:</u>		
Derivative financial instruments measured at fair value	(8,083)	(8,947)
<u>Other financial liabilities at amortized cost:</u>		
Interest-bearing loans and borrowings	(450,651)	(543,553)
Trade and other payables (4)	<u>(13,031)</u>	<u>(13,857)</u>
	<u>(463,682)</u>	<u>(557,410)</u>

- (1) Included as part of investments in associates and joint ventures (see Note 7).
 (2) Including an amount of €16.9 million as of 31 December 2017 (2016: €17.6 million) for loans provided to BCRE IHG 180 Orchard Holdings LLC and OSIB-Bowery Street Holdings LLC which are classified as assets held for sale. See Note 7e.
 (3) With the exception of prepaid expenses.
 (4) 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 and cash flow interest rate 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 management reviews and agrees on policies for managing each of the risks.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28:- FINANCIAL INSTRUMENTS (Cont.)

Credit risk (Cont.)

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 for which collection is doubtful. As a result, the Group exposure to bad debts is insignificant. Regarding cash and cash equivalents and restricted deposits, the Group ensures that all deposits are kept with highly rated financial institutions. 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

Cash flow forecasting is performed in the operating entities of the Group and is aggregated by Group's finance. Group's finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs and its liabilities when due, under both normal and stressed conditions, while maintaining sufficient margin at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans and covenant compliance. Surplus cash held by the operating entities over and above balance required for working capital management is transferred to the Company's cash accounts.

The repayments of the obligations of the Group are likely to be funded by a combination of one or more of the following, existing cash balances, including marketable securities, its ongoing development activity and operations, cash generated from the repayment of certain shareholder's loans by some of the Group's associates/joint ventures, cash generated through sale of certain assets in accordance with the Group's strategy on developed and stabilized projects (like IHG Orchard and Bowery assets held for sale at year end 2017) and non-core assets, raising bonds and loans or equity transactions within the existing limits, partial refinancing of existing obligations and dividend distributions from associates/joint ventures. The Board regularly reviews and discusses the cash flow forecast and funding. However, although these forecasts have been made with due care, there is always an inherent risk that results will not materialize as forecasted and reality may differ, taking into consideration the risks identified as described in detail in Section 1.9 of the Annual report. The tables below summarize the maturity profile of the Group financial liabilities at 31 December 2017 and 31 December 2016 based on contractual undiscounted payments:

	31 December 2017						On demand	Total
	Less than a year (1)	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years		
	Euro in thousand							
Interest-bearing loans and borrowings	151,332							
Financial liabilities and other long-term liabilities	(2) - (4)	88,079	38,623	96,425	30,466	132,761	-	537,686
Financial guarantee provided to joint venture company	561	43	635	468	44	121	-	1,872
Trade and other payables	-	-	-	-	-	-	-	-
	12,710	-	-	-	-	-	-	-
	164,603	88,122	39,258	96,893	30,510	132,882	-	557,268

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28:- FINANCIAL INSTRUMENTS (Cont.)

Liquidity risk (Cont.)

- (1) Interest bearing loans and borrowings in the amount of €120,760 thousand as of 31 December 2017, classified in the consolidated statement of financial position within current liabilities in accordance with the Group's operating cycle, have been classified in the liquidity table in accordance with the actual contractual terms.
- (2) The maturity of interest bearing loans and borrowings in the amount of €45,700 thousand as of 31 December 2017 and with original maturity date at 1 November 2018, classified within current liabilities, has been extended subsequent to the year end until 1 July 2019 (see Note 32(2)).
- (3) Interest bearing loans and borrowings in the total amount of €20,259 thousand has been repaid as of the date of signing these consolidated financial statements.
- (4) Following the completion of the bank loans refinancing of Company's indirect subsidiaries in Russia on 22 March 2018, an amount of €25,523 thousand included within 1 year in the above table, has been postponed towards the maturity dates.

	31 December 2016						On demand	Total
	Less than a year (1)	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years		
	Euro in thousand							
Interest-bearing loans and borrowings	118,297	129,761	111,877	45,491	109,758	162,597	-	677,781
Financial liabilities and other long-term liabilities	231	422	22	673	113	252	-	1,713
Financial guarantee provided to joint venture company	-	-	-	-	-	-	5,700	5,700
Trade and other payables	13,857	-	-	-	-	-	-	13,857
	<u>132,385</u>	<u>130,183</u>	<u>111,899</u>	<u>46,164</u>	<u>109,871</u>	<u>162,849</u>	<u>5,700</u>	<u>699,051</u>

- (1) Interest bearing loans and borrowings in the amount of €111,378 thousand as of 31 December 2016, classified in the consolidated statement of financial position within current liabilities in accordance with the Group's operating cycle, have been classified in the liquidity table in accordance with the actual contractual terms.

Cash flow and fair value interest rate risk

The Group is exposed to risk resulting from changes in cash flows of assets and liabilities bearing variable interest rate because of changes in interest rates. As of 31 December 2017, approximately 25% of the Group's interest-bearing loans and borrowings were issued at variable interest rates.

Assets and liabilities 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 to reduce exposure to interest rate changes and therefore Management considers that the Group is not exposed to any material cash flow interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28:- FINANCIAL INSTRUMENTS (Cont.)

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in variable interest rates, of the Group's profit before tax:

	Sensitivity to change in variable interest rates of USD denominated interest-bearing loans and borrowings	
	Effect on profit or loss	
	100 basis points increase	100 basis points decrease
	Euro in thousand	
2017	(1,184)	1,184
2016	(1,315)	1,315

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, the Russian Rouble and the NIS. The Group incurs foreign exchange risk on income, purchases, receivable loans 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 mainly managed primarily through borrowings denominated in the relevant foreign currencies.

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).

Main impact of exchange rate differences for both years related to the variation of the exchange rates between Euro against US dollar, Russian Rouble and NIS, was as follows:

During the year ended 31 December 2017, the strengthening of Euro against US dollar and NIS led to the recognition of exchange difference gains following the retranslation at the year end or at the date of settlement of liabilities (mainly interest-bearing loans and borrowings) denominated in these currencies. On the contrary, the strengthening of Euro against US dollar and Russian Rouble led to the recognition of exchange difference losses following the retranslation at the year end of assets (mainly investment properties and inventory) denominated in these currencies.

During the year ended 31 December 2016, the weakening of Euro against USD and NIS led to the recognition of exchange difference losses following the retranslation at the year end or at the date of settlement of liabilities (mainly interest-bearing loans and borrowings) denominated in these currencies. On the contrary, the weakening of Euro against US dollar and Russian Rouble led to the recognition of exchange difference gains following the retranslation at the year end of assets (mainly investment properties and inventory) denominated in these currencies.

For the exchange rates used in the preparation of these consolidated financial statements see Note 1d.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28:- 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	
2017		(743)	743
2016		(1,735)	1,735

		Sensitivity to change in USD/RUB	
		Effect on profit or loss	
		RUB strengthened by 20%	RUB weakened by 20%
		Euro in thousand	
2017		23,872	(23,872)
2016		20,929	(20,929)

		Sensitivity to change in Euro/USD	
		Effect on profit or loss	
		EUR strengthened by 5%	EUR weakened by 5%
		Euro in thousand	
2017		386	(386)
2016		(120)	120

Fair value

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

	<u>Carrying amount</u>		<u>Fair value</u>	
	<u>31 December</u>		<u>31 December</u>	
	<u>Euro in thousand</u>			
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<u>Financial assets:</u>				
Marketable securities and other short-term investments	2,470	2,686	2,470	2,686
Other investments and loans	-	9,152	-	9,152
Available for sale financial assets	9,101	8,795	9,101	8,795
Loans to associates and joint ventures	59,223	60,771	59,223	60,771
<u>Financial liabilities:</u>				
Derivative financial instruments measured at fair value	8,083	8,947	8,083	8,947
Debentures and interest payable on debentures	18,581	77,260	18,581	79,139

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28:- FINANCIAL INSTRUMENTS (Cont.)

Fair value (Cont.)

The carrying amount of cash and cash equivalents, restricted deposits and other short-term investments, loans receivables, trade receivables, other accounts receivable, trade payables and other payables and interest-bearing loans and borrowing presented at amortized cost approximates their fair value. The Group's interest-bearing loans and borrowings have been recently obtained from banks and other financial institutions, at market interest rates and terms and therefore Management considers that its carrying amounts approximate its fair value as of the date of the consolidated statement of financial position.

Fair value of the quoted debentures is based on price quotations at the reporting date and is classified as Level 1 in the fair value hierarchy.

As of the data for the determination of the fair value of investment property, see note 5.

Capital management

For the purpose of the Group's capital management, capital includes issued capital, share premium, convertible bonds and loans 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. In relation to the financial covenants of financing facilities see Note 30.

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.

Refer also to Liquidity risk section of this note and Note 2b.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 28:- FINANCIAL INSTRUMENTS (Cont.)

Changes in liabilities arising from financing activities

	1 January 2017	Cash inflows	Cash outflows	Non-cash movement	Other charges recorded in loss for the year	Foreign exchange movement	Other movement	31 December 2017
	Euro in thousand							
Interest-bearing loans and other borrowings	543,553	71,179	(169,930) (1)	30,115	37,466	(61,508)	(224)	450,651
Derivative financial instruments and other liabilities measured at fair value	8,947	-	-	-	243	(1,107)	-	8,083
Other non-current liabilities	1,482	-	(170)	-	-	-	-	1,312
Total	553,982	71,179	(170,100)	30,115	37,709	(62,615)	(224)	460,046

(1) Relates to repayment of long-term loans and debentures amounting to €139,201 thousand and interest payments amounting to €30,729 thousand.

	1 January 2016	Cash inflows	Cash outflows	Non-cash movement	Other charges recorded in profit for the year	Foreign exchange movement	Other movement	31 December 2016
Interest-bearing loans and other borrowings	1,222,212	123,253	(143,757) (1)	(708,576)	39,141	19,752	(8,472)	543,553
Derivative financial instruments and other liabilities measured at fair value	8,763	-	-	-	819	(1,104)	469	8,947
Other non-current liabilities	4,781	-	(150)	(3,149)	-	-	-	1,482
Total	1,235,756	123,253	(143,907)	(711,725)	39,960	18,648	(8,003)	553,982

(1) Relates to repayment of long-term loans and debentures amounting to €112,576 thousand and interest payments amounting to €31,181 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29:- EARNINGS PER SHARE (EPS)

The following reflects the income/(loss) and share data used in the basic and diluted EPS computations:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Net loss for the year attributable to equity holders of the Company for basic EPS	(33,963)	(3,749)
Adjustment due to share of diluted earnings of investees	-	-
Net loss for the year attributable to equity holders of the Company for diluted EPS	(33,963)	(3,749)
Net loss for the year from continuing operations attributable to equity holders of the Company for basic EPS	(38,546)	(78,577)
Adjustment due to share of diluted earnings of investees	-	-
Net loss for the year from continuing operations attributable to equity holders of the Company for diluted EPS	(38,546)	(78,577)
Net profit for the year from discontinued operations attributable to equity holders of the Company for basic EPS	4,583	74,828
Adjustment due to share of diluted earnings of investees	-	-
Net profit for the year from discontinued operations attributable to equity holders of the Company for diluted EPS	4,583	74,828
	31 December	
	2017	2016
	Number of shares	
Weighted average number of ordinary shares for basic EPS	159,596,899	160,788,210
Effect of dilution:		
Warrants (*)	-	-
Weighted average number of ordinary shares adjusted for diluted EPS	159,596,899	160,788,210

- (*) For the years ended 31 December 2017 and 31 December 2016, as per the accounting policy in Note 2y, the Company has excluded potential ordinary shares (including convertible loans, convertible bonds and options to employees) in the computation of diluted earnings per share, as these decrease the loss per share from continuing operations.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30:- COMMITMENTS AND CONTINGENCIES

a. Liens and guarantees:

The investment properties of the Group, are subject to registered pledges to secure the related bank loans. The lien on the assets is the only guarantee that was submitted to secure the bank loans, except as detailed below. 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.

1. A guaranty was provided by the Company, jointly and equally with its partner for the related project, with regards to a refinancing of the construction loan for the development of a property in the USA, obtained by a joint venture of the Group, classified as held for sale (see Note 7f) as follows:

- (a) Principal Payment Guaranty equal to 12.5% of the outstanding amount of the loan, then decreasing to 5% after the property achieves a 10.5% debt yield and then reducing to nil once the property achieves 11% debt yield.
- (b) Debt Service Guaranty throughout the loan term covering interest payments (not principal) for the first 3 years of the loan term and then for years 4 to 5 covering both interest and principal payments.
- (c) Standard "bad-boy" carve-outs (*) throughout the term of the loan.
- (d) Standard environmental indemnity.

Each investor participating in this project, is severally and not jointly responsible to the Company for his/her pro-rata portion in relation to the above guarantees.

The Company had also undertaken, jointly with its partner for the related project the following covenants with respect to this facility:

- (a) The Company shall maintain a minimum net equity of \$100 million.
- (b) The Company shall maintain a minimum liquidity of \$15 million.

As of 31 December 2017, all of the above covenants are met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30:- COMMITMENTS AND CONTINGENCIES (Cont.)

a. Liens and guarantees (Cont.):

2. Pursuant to a loan agreement entered into by an indirect subsidiary of the Company in the USA to finance the acquisition of a property, the Company has provided a guarantee in the favor of the bank as follows: (1) standard environmental indemnity and (2) standard "bad boy" carve-outs (*). The Company further undertakes to maintain a minimum net worth of \$11.2 million (€9.4 million) and minimum liquid assets of \$1.2 million (€1 million). Each investor participating in this project, is severally and not jointly responsible to the Company for his/her pro-rata portion in relation to the above guarantees. As of 31 December 2017, all of the above covenants are met.
3. Pursuant to the first loan facility entered into by an indirect subsidiary of the Company in the USA, the Company has provided a guarantee in the favor of the lender as follows: (1) standard environmental indemnity, (2) standard "bad boy" carve-outs (*) and (3) carry guarantee for the property.
4. Pursuant to the financing agreements entered into by two indirect subsidiaries of the Company in the USA with individual lenders (see Notes 18(12) and 18(13)), the Company has provided to these lenders payment guarantees for the amounts advanced to the subsidiaries.
5. Pursuant to the loan agreement entered into by an indirect subsidiary of the Company (Brack Capital USA B.V.) with a financing bank, as described in Note 18(3), a full payment guarantee was given to the financing bank, jointly by the Company and another wholly owned subsidiary of the Company. In addition, the Company and its wholly owned subsidiary guaranteeing this facility, have also undertaken the following covenants for so long as the facility is still outstanding:
 - (a) Brack Capital USA B.V. should maintain a minimum net equity of \$45 million.
 - (b) Brack Capital USA B.V. should maintain a minimum of shareholders' funds of \$30 million.
 - (c) Brack Capital USA B.V. should maintain a minimum gross cash flow from operations of \$5 million for each of the six-month periods during the first year of the loan term, then increasing to \$10 million for each of the six-month periods for the remaining term of the loan.
 - (d) The Company should maintain a minimum net equity of \$140 million.
 - (e) The ratio between the net financial debt of the Company to its total assets shall be maintained during the loan term within 0.75 to 1.00.

As of 31 December 2017, Brack Capital USA B.V. and the Company met all the covenants.

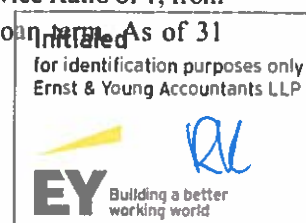
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30:- COMMITMENTS AND CONTINGENCIES (Cont.)

a. Liens and guarantees (Cont.):

6. Pursuant to a loan agreement entered into by the Company and a group of lenders Company's subsidiaries pledged their rights in BCRE Funding Holdings LLC, an indirect subsidiary of the Company in the USA.
7. Pursuant to a loan agreement entered into by an indirect subsidiary of the Company in the USA to finance the acquisition of a multifamily residential property, the Company has provided a guaranty in favor of the bank as follows: (1) standard environmental indemnity and (2) standard "bad-boy" carve-outs (*). The Company further undertakes to maintain a minimum net worth of \$12.8 million (€10.7 million) and minimum liquid assets of \$1.28 million (€1.07 million). Each investor participating in this project, is severally and not jointly responsible to the Company for his/her pro-rata portion in relation to the above guarantees. As of 31 December 2017, all of the above covenants are met.
8. Pursuant to the facility agreement entered into by an indirect subsidiary of the Company in the USA as described in Note 18(7), the Company, jointly with another indirect subsidiary of the Company in the USA, provided a guaranty in favor of the financing bank as follows: (1) standard "bad-boy" carve-outs (*), (2) standard environmental indemnity (3) guaranty of additional required equity, (4) carry guarantee for the property, (5) completion guarantee and (6) rebalancing guarantee.
9. Pursuant to the loan agreement entered into between a Group's indirect subsidiary and a group of lenders amounting to \$15.2 million (€12.7 million) as of 31 December 2017, as described in Note 18(5), the Company provided a full payment guarantee to the group of lenders in respect of the liability provided. In addition, the Company undertakes to maintain a minimum equity of \$140 million. As of 31 December 2017, the above covenant was met.
10. Further to Notes 18(9), 18(10) and 18(11) and following the refinancing agreement entered into by the indirect subsidiaries of the Company in Russia and the financing bank, the key amendments to the existing facility and to the corporate structure of the subsidiaries are, among other things, prolonging the final maturity dates by 3 to 5 years, amortisation payment schedules shall be postponed towards the maturity dates, improved interest rates, material loan covenants have been relaxed and the financing bank shall obtain a 'golden' share in each project, which provides the financing bank, inter alia, with a veto right in respect of material decisions at the level of the subsidiaries. The 'golden' shares can be repurchased subject to meeting certain conditions. The refinancing has been completed on 22 March 2018. See Note 32(5).

Also, the indirect subsidiaries undertaken to maintain a Debt Service Ratio of 1, from 1 September 2016 onwards, gradually increasing during the loan term. As of 31 December 2017, all the applicable covenants were met.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30:- COMMITMENTS AND CONTINGENCIES (Cont.)

a. Liens and guarantees (Cont.):

11. The Company had undertaken, the following covenants with respect to bonds series B:

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

As of 31 December 2017, all of the covenants are met. On 3 January 2018, bonds series B were repaid in full following the exercise by the Company of the option to repay early the whole outstanding amount of these bonds. See Note 18(4).

12. Pursuant to the financing agreements entered into by a joint venture of the Company in Russia for the amounts of \$29.1 million (€24.3 million) and \$86.8 million (€72.4 million), the joint venture entered into a refinancing agreement with the financing bank.

The key amendments to the existing loan facilities and to the corporate structure of the joint venture are, among other things, prolonging the final maturity dates by 3 to 5 years, amortisation payment schedules shall be postponed towards the maturity dates, improved interest rates, material loan covenants have been relaxed and the financing bank shall obtain a 'golden' share in the project, which provides the financing bank, inter alia, with a veto right in respect of material decisions at the level of the joint venture. The 'golden' share can be repurchased subject to meeting certain conditions. The refinancing has been completed on 22 March 2018. See Note 32(5).

Also, the joint venture undertaken to maintain a Debt Service Ratio of 1, from 1 September 2016 onwards, gradually increasing during the loan term. As of 31 December 2017, all the applicable covenants were met (Debt Service Ratio approximated 1.03). Not meeting the financial covenant will result in the payment of an immaterial penalty to the financing bank.

The Company has provided a payment guarantee in the amount of \$12.8 million (€10.7 million) for both facilities obtained by the joint venture. The partner participating in this project, has provided to the Company a guarantee amounting to \$6.8 million (€5.7 million) in relation to the above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30:- COMMITMENTS AND CONTINGENCIES (Cont.)

a. Liens and guarantees (Cont.):

13. Pursuant to a loan agreement entered into by an indirect subsidiary of the Company in the USA to finance the acquisition of a property (see Note 18(1)), the Company provided a guaranty in favor of the bank as follows: (1) standard environmental indemnity and (2) standard "bad-boy" carve-outs (*).

(*) A guaranty pursuant to which the guarantor agrees to be responsible for (i) actual losses suffered by the lender as result of certain bad acts committed by the borrower in the nature of misappropriating funds and (ii) for the entire loan in the event of major bad acts committed by the borrower.

b. Commitments:

- (1) During 2007, the Company committed to invest in India through investing in the BCRE India Fund (the "Fund") an amount of \$21.8 million which reflected 20% of the total Fund's commitments. The Group has a 20.92% (2016: 20.92%) equity interest in the Fund and receives a management fee and a performance fee on all of the investments made by the Fund. During the year ended 31 December 2016, the Fund closure has been extended by twenty-four months, up until March 2019, to provide for the time necessary for an orderly disposition of the fund's investments in India and the investments in the USA held through the BCRE India Fund. The Fund as at 31 December 2017 is on dissolution mode.
- (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. See Note 2g.

c. Legal claims:

No material claims were filed against the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31:- RELATED PARTIES

a. Transactions with related parties:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Interest income from related parties	311	549
Interest expenses and early repayment fee to related parties	(972)	(371)
Management fees expenses to related parties (1) and (2)	(1,413)	(1,178)
Reimbursement of expenses (1)	(1,546)	(1,600)
Management fees – income from related parties	25	28

- (1) The Group is supported by BCH – Brack Capital Holdings Limited ("BCH"), the Company's ultimate parent company, through the provision of services by the employees of BCH, which are paid for on a cost basis and the provision of rating, investor relations and other financial services for a fixed amount of \$1.1 million (€1 million) per year. In addition, the Company paid to BCH reimbursement of expenses for the year ended 31 December 2017 in the amount of \$1.7 million (€1.5 million) (2016: \$1.8 million (€1.6 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. An amount of €0.2 million was recorded in the consolidated income statement as an expense for the year ended 31 December 2017 (2016: €0.2 million).
- (3) On 16 February 2017, a direct subsidiary of the Company exercised the option provided in the loan agreements with subsidiaries of BCH to acquire 29,556 shares of BCP instead of receiving the principal amounts and the accrued interest under the facilities, amounting to €2.2 million on that date. Following the exercise, the Group's share in BCP was 26.74%. See also Note 4a(1).
- (4) On 22 May 2017, following the notice received from subsidiaries of BCH for the intention to repay early the facilities provided by a direct subsidiary of the Company, the direct subsidiary exercised the option provided in the loan agreements and acquired 78,557 shares of BCP instead of receiving the principal amounts and the accrued interest under the facilities, amounting to €6.1 million on that date. Following the exercise, the Group's share in BCP was 27.83%. See also Note 4a(1).

b. Transactions with entities accounted for using the equity method or classified as asset held for sale:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Management fee income from related parties	459	498
Interest income from related parties (1)	2,625	1,513
Interest expenses to related parties	(363)	(270)

- (1) See section d(1).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31:- RELATED PARTIES (Cont.)

c. Balances with related parties:

	31 December	
	2017	2016
	Euro in thousand	
Loans granted to related parties (1) and (2)	7,829	16,808
Loans granted by related parties (3), (4) and (5)	(4,611)	(5,607)

- (1) Loans amounting to €9.2 million as of 31 December 2016 granted to related parties bore annual interest rate in the range of 3% to 4.5% per annum and were repayable on February 2017, June 2017 and September 2017 depending on the terms of each loan and when the loan was granted. The direct subsidiary of the Company that entered in these financial agreements had the option to acquire the pledged shares of BCP instead of receiving the principal and interest. As a result of these options, the Group during the year ended 31 December 2016 has remeasured these loans at their fair values and has recognized a gain of €2.4 million in the consolidated income statement within the line "Finance income" (see Note 25).

Accordingly, on 16 February 2017 and on 22 May 2017, the direct subsidiary of the Company decided to exercise these options and to acquire the pledged shares. See Notes 31a(3) and 31a(4).

- (2) Loan to a related company in the amount of €0.9 million was provided during 2016, bears interest of 4.25% per annum and is repayable on 20 March 2020.
- (3) Loan granted by a company owned by a related party in the amount of €1.5 million as of 31 December 2017 (2016: €4.6 million) bears annual interest of 7% per annum. See also Note 18(4) regarding the early repayment of this facility.
- (4) Loans granted by related parties in the amount of \$0.2 million (€0.2 million) as of 31 December 2017 bear interest of 6.5% per annum.
- (5) Loans granted by related parties in the amount of \$3.5 million (€2.9 million) as of 31 December 2017 bear interest of 6.5% per annum. See also Note 18(6).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31:- RELATED PARTIES (Cont.)

- d. Balances with entities accounted for using the equity method or classified as assets held for sale:

	31 December	
	2017	2016
	Euro in thousand	
Loans granted to related parties (1)	59,233	60,771
Loans granted by related parties	-	(13,343)

- (1) The Group provided various loans to entities accounted for using the equity method or classified as held for sale as follows:

- (a) Loans in the amount of €20 million (2016: €22.7 million) bear no interest and are repayable on demand.
- (b) Loans in the amount of €25.3 million (2016: €24.6 million) bear interest at the rate of 4% to 8% per annum and are repayable within 5 years from the date of grant. The loans were granted during the years from 2013 to 2015.
- (c) Loan in the amount of €13.9 million (2016: €13.5 million), granted to a project in USA, bears interest of 5% per annum and is repayable on 1 November 2018.

- e. Balances with companies under joint control and associates:

	31 December	
	2017	2016
	Euro in thousand	
Receivable from companies under joint control and associates (1)	3,399	1,921

- (1) The above balances bear no interest and are repayable on demand.

- f. Balances with key management personnel:

	31 December	
	2017	2016
	Euro in thousand	
Loans granted to key management personnel (1)	3,554	3,633

- (1) Loans granted to key management personnel of the Group bear interest of 0.19% to 7.1% per annum and are repayable on demand and are secured by their portion in Group investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31:- RELATED PARTIES (Cont.)

- g. Compensation of key management personnel of the Group:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Share-based compensation (1)	658	775
Salaries	2,896	3,109
Termination benefits	178	-
Directors fees (2) and (3)	579	458
Total	4,311	4,342

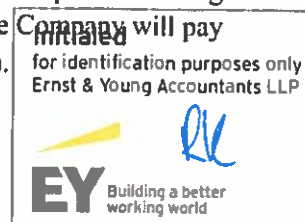
- (1) See also Note 17.

- (6) Relates to the Company's Directors' remuneration.

- (7) 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, 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 fixed fee of £122,500 (€139,776) in his capacity as a member of the Investment Advisory Committee (besides his salary as a non-executive director). The annual fixed fee and any profit from the exercise of the above option (no profit for the years ended 31 December 2017 and 31 December 2016) are included within Directors fees disclosed in the table above.

NOTE 32: SUBSEQUENT EVENTS

- (1) On 22 January 2018, an indirect subsidiary of the Company agreed with the financing bank the extension of the maturity of the facility provided to the indirect subsidiary to 31 March 2018 (see Note 18(3)). No other modification to the loan terms was agreed with the financing bank.
- (2) On 7 February 2018, an indirect subsidiary of the Company, agreed with the financing bank for the extension of the maturity of the facility provided amounting to \$54.7 million (€45.7 million) as at 31 December 2017 until 1 July 2019 (see Note 18(14)). No other modification to the loan terms was agreed with the financing bank.
- (3) On 14 February 2018, the Company entered into a financing agreement with a group of individual lenders for the total amount of \$20 million (€16.7 million). The facility carries interest of 6.5% and matures on 30 June 2020. The Company agreed with the group of lenders that any proceeds received from certain Group's investments, either through dividend payments or through sale proceeds, would be used for the repayment of the loan facility. Otherwise, and if the principal amount provided along with interest accrued, are not paid in full by the maturity date on 30 June 2020, the Company will pay to the lenders the outstanding loan amount via a balloon payment. See Note 18(6).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 32: SUBSEQUENT EVENTS (Cont.)

- (4) On 8 March 2018, the Group signed a letter of intent with a third party for the sale of the property owned by BCRE IHG 180 Orchard Holdings LLC. See Note 7e.
- (5) On 22 March 2018, the refinancing agreements between the indirect subsidiaries and a joint venture of the Company in Russia and the financing bank have been completed. See Notes 30a(10) and 30a(12).
- (6) On 27 March 2018, the Group signed an agreement with its partner for the sale of the Group's total shareholding in OSIB-BCRE Bowery Street Holdings LLC which is classified as held for sale as at 31 December 2017. See Note 7e.

**COMPANY FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2017**

COMPANY STATEMENT OF FINANCIAL POSITION (AFTER PROFIT APPROPRIATION)

		31 December	
		2017	2016
	Note	Euro in thousand	
ASSETS			
Property, plant and equipment		4	4
Investments in investees	1	173,251	364,654
Loan to related party	2	4,214	4,992
Total non-current assets		177,469	369,650
Loan to related party	2	719	437
Other receivables	3	2,570	3,814
Amounts due from related parties	4	44,305	39,688
Marketable securities and other investments		617	576
Restricted cash		-	10
Cash and cash equivalents	5	30,908	12,527
Total current assets		79,119	57,052
Total assets		256,588	426,702
EQUITY			
Share capital	6	1,596	1,596
Share premium	6	140,052	140,614
Convertible loan and bonds	6	31,084	31,084
Legal reserves	6	96,535	306,377
Reserves from transactions with non-controlling interests	6	(13,111)	(13,664)
Share based payment reserve	6	3,171	3,171
Accumulated losses	6	(57,661)	(215,084)
Total equity		201,666	254,094
LIABILITIES			
Debentures	7a	-	106,124
Bank loan	8	852	1,940
Other loans	7b	-	5,983
Total non-current liabilities		852	114,047
Debentures	7a	36,722	31,036
Bank loan	8	852	970
Other loans	7b	6,239	54
Amounts due to related parties	9	8,523	25,466
Trade and other payables	10	1,734	1,035
Total current liabilities		54,070	58,561
Total liabilities		54,922	172,608
Total equity and liabilities		256,588	426,702

The accompanying notes form an integral part of these Company financial statements.

COMPANY INCOME STATEMENT

	Note	Year ended 31 December	
		2017	2016
		Euro in thousand	
Management fees		2,374	1,320
Total operating revenues		2,374	1,320
Administrative expenses	15	(4,723)	(3,847)
Wages and salaries	16	(1,233)	(860)
Other gains/(losses)	17	767	(3,083)
Share based payments	14	-	(15)
Total operating expenses		(5,189)	(7,805)
Operating loss		(2,815)	(6,485)
Financial income	18	716	408
Financial expenses	19	(14,303)	(10,447)
Exchange rate differences, net	20	8,006	(3,778)
Financial expenses, net		(5,581)	(13,817)
Loss before tax		(8,396)	(20,302)
Tax expense	11	-	-
Loss after tax		(8,396)	(20,302)
Share of profit/(loss) of investees	1	(25,567)	16,553
Net loss for the year		(33,963)	(3,749)

The accompanying notes form an integral part of these Company financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS**General**

BCRE - Brack Capital Real Estate Investment N.V. (the "Company") has its official seat in Amsterdam, the Netherlands, registered with the Dutch trade register under number 34217263. The address of the Company's registered office is 201 Barbara Strozziilaan, 1083HN, Amsterdam, The Netherlands. The Company's main activity is the holding of investments including any other related activities.

The consolidated financial statements form an integral part of the statutory financial statements of the Company for the year ended 31 December 2017. 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 financial statements.

Currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Euro, which is the Company's functional and presentation currency. The exchange rates used in these Company financial statements are:

	31 December	
	2017	2016
EUR : USD	1.1979	1.0516
EUR : NIS	4.1580	4.0417

Accounting policies

These Company financial statements have been prepared in accordance with the provisions of Part 9, Book 2, of the Dutch 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) applied in the preparation of the consolidated financial statements have been applied in the preparation of the Company financial statements, as permitted by Article 2:362, clause 8, of the Dutch Civil Code.

In these Company financial statements the investments in subsidiaries and associate are measured at net asset value. The net asset value of a participating interest is determined by valuing the underlying assets, provisions and liabilities and calculating the result using the IFRS accounting principles applied in 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.

Disclosure of main new standards effective in future periods

IFRS 9 "Financial Instruments" is to be applied for annual periods beginning on 1 January 2018. Other than as disclosed in Note 2aa(2) of the consolidated financial statements, no additional significant impact is expected from the adoption of IFRS 9 "Financial Instruments".

NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 1:- INVESTMENTS IN INVESTEEES

a. Investments in subsidiaries and associate:

Name	31 December	
	2017	2016
	Euro in thousand	
Brack Capital First B.V. (Subsidiary)	164,744	355,604
BCRE Holdings B.V. (Subsidiary)	1	-
BCRE Capital B.V. (Subsidiary)	8,144	9,272
Seaband Limited (Associate)	10	(141)
Brack Maraconi (Netherlands) B.V. (Subsidiary) (1)	352	(81)
	<u>173,251</u>	<u>364,654</u>

(1) The Company directly holds 3.40% of Brack Maraconi (Netherlands) B.V. issued share capital (see section d). In addition, it holds also indirectly 84.65% of the issued share capital of Brack Maraconi (Netherlands) B.V. through BCRE Capital B.V. and therefore controls this company.

b. Movement in investments in subsidiaries:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Balance at beginning of year	364,795	363,718
Additions (1)	28,736	27,819
Repayments (2)	(176,669)	(52,773)
Share of profit/(loss)	(25,718)	16,553
Share of revaluation reserve	1,160	286
Share of translation reserve	(19,616)	9,643
Results on transactions with non-controlling interests	553	(451)
Balance at end of year	<u>173,241</u>	<u>364,795</u>

(1) Relates to funds advanced to indirect subsidiaries through its direct holdings for the acquisition of new properties and repayment of facilities obtained to fund previous acquisitions.

(2) On 14 June 2017, a direct subsidiary of the Company completed the transaction for the sale of all the shares held by the Group in the issued and outstanding share capital of Brack Capital Properties N.V., an associate of the Company. A total gross consideration of approximately NIS695 million (approximately €174.8 million) has been received from the direct subsidiary following this transaction, most of which were then transferred to the Company.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 1:- INVESTMENTS IN INVESTEEES (Cont.)

- c. Movement in investment in associate:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Balance at beginning of year	(141)	(141)
Share of profit	151	-
Balance at end of year	10	(141)

- d. The Company holds the following direct financial interests:

Company name	City and country of incorporation	Share in issued capital %
Brack Capital First B.V.	Amsterdam, The Netherlands	100%
BCRE Capital B.V.	Amsterdam, The Netherlands	100%
Seaband Limited	Limassol, Cyprus	30.49%
Brack Maraconi (Netherlands) B.V.	Amsterdam, The Netherlands	3.40%
BCRE Holdings B.V.	Amsterdam, The Netherlands	100%

- e. The Company holds the following significant indirect financial interests:

Company name	City and country of incorporation	Share in issued capital %
BCRE India B.V.	Amsterdam, The Netherlands	100%
Brack Capital Gamma B.V.	Amsterdam, The Netherlands	100%
Brack Capital USA B.V.	Amsterdam, The Netherlands	100%
Brack Maraconi (Netherlands) B.V.	Amsterdam, The Netherlands	84.65%

NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 2:- LOAN TO RELATED PARTY

The loan to Brack Capital Holdings Limited bears annual interest of 3.5% (2016: 3%), is secured by the holding of Brack Capital Holdings Limited in a related company and is repayable through annual instalments of \$400,000 thousand plus accrued interest up until the extended maturity on 13 September 2021 when the facility shall be paid in full.

The loan to related party is analyzed as follows:

	31 December	
	2017	2016
	Euro in thousand	
Loan to related party	4,933	5,429
Less: current maturity (1)	(719)	(437)
Total non-current loan to related party	4,214	4,992

(1) Includes the instalment due in September 2017 which was received by the Company subsequent to the year end.

The movement in the loan to related party is as follows:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Balance at the beginning of the year	5,429	5,072
Interest charged	172	161
Exchange differences	(668)	196
Balance at the end of the year	4,933	5,429

NOTE 3:- OTHER RECEIVABLES

Other receivables include loans granted to employees in the amount of €1.4 million (2016: €1.6 million) and to third party investors in the amount of €1.2 million (2016: €2.2 million) secured by their portion in the Group's investments. Loans granted to employees and to third party investors bear interest of 3% - 4.5% (2016: 3% - 4.5%) per annum, are secured by their portion in the Group's investments and are repayable on demand.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 4:- AMOUNTS DUE FROM RELATED PARTIES

Amounts due from related parties amounting to €44.3 million (2016: €39.7 million) represent various short term loans given to Group's related parties.

Amounts due from a direct subsidiary, Brack Capital First B.V., in the amount of €5.4 million, and from a related party, in the amount of €1 million, as of 31 December 2017, bear interest of 4.25% per annum and are repayable on the demand of the Company.

All the remaining short term loans given to Group's related parties do not bear any interest and are repayable on demand.

NOTE 5:- CASH AND CASH EQUIVALENTS

Cash at banks earn interest at floating rates based on daily bank deposit rates. Cash and cash equivalents are free from any pledges and any other securities.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 6 - EQUITY

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

	Share capital	Share premium	Convertible loan and bonds	Share based payment Reserve	Legal reserves	Reserves from transactions with non-controlling interests	Accumulated losses	Total
	Euro in (thousand)							
Balance as at 1 January 2016	1,616	147,404	16,575	3,156	279,895	(13,213)	(194,782)	240,651
Result for the period	-	-	-	-	16,553	-	(20,302)	(3,749)
Revaluation of investments held by investees	-	-	-	-	286	-	-	286
Translation reserve held by investees	-	-	-	-	9,643	-	-	9,643
Share buyback	(20)	(1,942)	-	-	-	-	-	(1,962)
Capital reduction	-	(4,848)	-	-	-	-	-	(4,848)
Issue of convertible bonds, net of expenses	-	-	14,509	-	-	-	-	14,509
Share based payments transactions	-	-	-	15	-	-	-	15
Transactions with non-controlling interests, net	-	-	-	-	-	(451)	-	(451)
Balance as at 31 December 2016/1 January 2017	1,596	140,614	31,084	3,171	306,377	(13,664)	(215,084)	254,094
Result for the period	-	-	-	-	(25,567)	-	(8,396)	(33,963)
Revaluation of investments held by investees	-	-	-	-	1,160	-	-	1,160
Translation reserve held by investees	-	-	-	-	(19,616)	-	-	(19,616)
Capital reduction	-	(562)	-	-	-	-	-	(562)
Movement between reserves	-	-	-	-	(165,819)	-	165,819	-
Transactions with non-controlling interests, net	-	-	-	-	-	553	-	553
Balance as at 31 December 2017	1,596	140,052	31,084	3,171	96,535	(13,111)	(57,661)	201,666

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 6:- EQUITY (Cont.)

Authorized and issued share capital

	31 December 2017		31 December 2016	
	Authorized	Issued and fully paid	Authorized	Issued and fully paid (*)
Ordinary shares of €0.01 (2016: €0.01) each	700,000,000	159,596,899	700,000,000	161,610,064

(*) Including 2,013,165 shares purchased by the Company under the share buyback program. During 2017, the Company cancelled those shares. See also below.

On 15 January 2016, following the Company's shareholders' approval, the authorized share capital of the Company was changed from 700,000,000 shares of €0.01 each into 700,000,000 shares of €0.04 each and on 29 March 2016, from 700,000,000 shares of €0.04 each into 700,000,000 shares of €0.01 each. Accordingly, an amount of €4.8 million has been distributed to the Company's shareholders during the year ended 31 December 2016.

On 3 June 2016, the Company's Board of Directors authorized the Company to buy shares of its own capital up to an amount of €3 million ("share buyback program"). Under the share buyback program, 2,013,165 shares (1.2% of the Company's issued share capital) were purchased during the year ended 31 December 2016 for a total consideration of €2 million. The Company proceeded with the cancellation of the shares purchased under the share buyback program. As a result, following the cancellations, the Company's entire issued share consists of 159,596,899 shares.

Share premium

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

Convertible loan

The Convertible Loan Notes amounting to €16.6 million, net of expenses, bear 2.25% annual compounded interest, maturing on 30 November 2018. The conversion price shall be €1.5 per share (save for certain customary exceptions) and the ratchet protection provided to the lenders will be only for the first year of the Convertible Loan Notes' term. The Convertible Loan Notes (including accrued interest) will be convertible in whole into ordinary shares (i) at the holders' 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 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). Refer also to Note 16b in the consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 6:- EQUITY (Cont.)

Convertible bonds

On 20 September 2016, the Company issued bonds in an aggregate principal amount of €14.5 million, net of expenses, convertible into ordinary shares of the Company. The Company has the option to call for the conversion of the bonds only at the maturity of the bond term on 20 March 2020 or upon enforcement events. The bondholders have the right to convert at any time during the bond term. Subject to certain adjustment mechanisms, the initial bondholder conversion price is €1.50 per share and the initial Company's conversion price is €0.70 per share. During the bond term, the bonds bear fixed interest at 4.25% per annum, payable annually in arrears, commencing on 20 September 2017 up until maturity. The bonds were classified as equity instruments. An interest payment of €562 thousand has been made during the year ended 31 December 2017 in respect of the issued and outstanding convertible bonds. The interest payment has been shown in the consolidated financial statements as a deduction from the Company's equity. Refer also to Note 16c in the consolidated financial statements.

Legal reserves of subsidiaries and associates

The legal reserves of subsidiaries and associates include the following reserves:

1. Reserve for participating interests amounting to € (21,226) thousand (2016: €160,972 thousand)
2. Translation reserve amounting to € (73,804) thousand (2016: € (53,575) thousand)
3. Revaluation reserve amounting to €191,565 thousand (2016: €198,980 thousand)

Following the sale of the entire holding in Brack Capital Properties N.V. ("BCP") the share of legal reserves attributable to BCP has been transferred into the Company's accumulated losses.

The reserve for participating interests relates to amounts for which the Company cannot initiate payment of dividend.

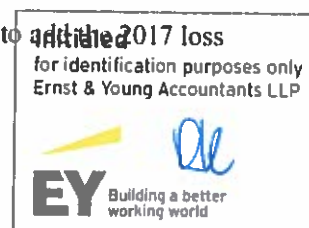
The translation reserve relates to the Company's investment in foreign subsidiaries that are translated into Euro in accordance with IAS 21 requirements.

The revaluation reserve relates to the unrealized result of the revaluation of investment properties held by subsidiaries and associates.

In accordance with Dutch law provisions applicable to the Company, gains from fair value adjustments, which have not been realized and foreign currency translation reserve cannot be distributed as dividends. In addition, earnings of associates and joint ventures cannot be distributed as dividends, unless distributed by the associates and the joint ventures themselves.

Result for the period / Accumulated losses

The Board of Directors proposes to the General Meeting of the shareholders to add the 2017 loss of €33,963 thousand to the Company's reserves.



NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 7:- NON-CURRENT LIABILITIES

a. Debentures:

	31 December	
	2017	2016
	Euro in thousand	
Debentures	36,722	137,160
Less: current maturities	(36,722)	(31,036)
Total non-current debentures	-	106,124

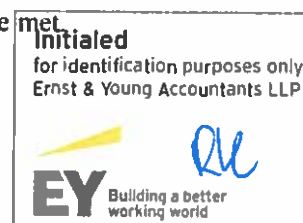
Below is information about the contractual terms of the debentures issued by the Company:

- (1) Debentures (series A) amounting to €18.1 million (NIS75 million) (2016: €37.2 million (NIS150 million)), all of which (2016: €18.7 million (NIS76 million)) are presented as current maturities, are linked to the Israeli CPI, bear annual interest of 6.504% (2016: 6.504%) and are to be repaid in December 2018.
- (2) In November 2013, the Company had issued an additional series of debentures (series B) for a nominal value of \$25 million (€22.9 million). The outstanding balance as of 31 December 2017 amounted to €18.6 million. The debentures were issued to private investors and are denominated in US dollar, bearing interest rate of 7% (2016: 7%) per annum.

On 24 November 2017, the Company, in accordance with the agreed terms for the issue of debentures (series B) announced its intention to repay early the whole principal amount of the debentures outstanding as of that date. Accordingly, the whole outstanding amount, including accrued interest, has been paid to the group of lenders on 3 January 2018. As a result of the early repayment, the Company recognized an early repayment fee in its income statement amounting to \$1.5 million (€1.3 million) classified as "financial expenses" (see Note 19). The early repayment fee has been also repaid to the bondholders on 3 January 2018. 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) The ratio between the net financial debt to the total capital and debt (CAP) of the Company shall not exceed 36.5% (Company's financial statements).

As of 31 December 2017, all the above mentioned covenants are met.



NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 7:- NON-CURRENT LIABILITIES (Cont.)

a. Debentures: (Cont.)

- (3) On 3 March 2016, the Company has increased the issuance limit of bonds series C from \$60 million (€54 million) to \$180 million (€162 million). On 31 March 2016, the Company issued additional bonds (series C) with an aggregate principal amount of \$18.4 million out of which \$17.5 million remains outstanding (€16.4 million out of which €15.5 million remains outstanding).

On 20 April 2016, the Company made an additional issue of bonds (series C) with an aggregate principal amount of \$12.7 million out of which \$12.1 million remains outstanding (€11.4 million out of which €10.9 million remains outstanding). Also, on 16 February 2017 and 27 February 2017, the Company issued additional bonds (series C) with an aggregated principal amount of \$13.3 million out of which \$12 million remains outstanding (€11.8 million out of which €10.6 million remains outstanding) and of \$7.8 million out of which \$7 million remain outstanding (€6.9 million out of which €6.2 million remains outstanding), respectively. The additional bonds issued on these dates, bear interest of 6.5% per annum and have been consolidated and formed a single series with the existing bonds (series C) which were outstanding at the beginning of each of these years.

Following the additional issues during 2017 and in accordance with the agreed terms for the issue of bonds series C, the Company exercised its option to early redeem the whole outstanding amount of Series C which were outstanding as of that date. On 13 December 2017, a total amount of \$93.1 million (€82.4 million) has been paid to the bondholders for the full repayment of the outstanding principal amount of bonds, the accrued interest as of that date and the early repayment fee. As a result of the exercise of the option to redeem early the outstanding amount of series C bonds, the Company recognized an early repayment fee in its consolidated income statement amounting to \$3.2 million (€2.7 million) classified as "financial expenses" (see Note 19).

b. Other loans:

- (1) On 10 December 2015, the Company entered into a loan agreement with a group of lenders for obtaining a loan facility amounting to \$10.25 million (€9.4 million). The outstanding amount of the facility as of 31 December 2017 amounted to \$1.5 million (€1.2 million) (2016: \$6.3 million (€6 million)). The facility bears interest of 6.5% per annum which is payable semi-annually until the maturity of the facility on 31 December 2018, when the principal amount shall be also repaid in full. As a security for the loan, Company's subsidiaries pledged their rights in BCRE Funding Holdings LLC, an indirect subsidiary of the Company in the USA. Part of the group of lenders who provided this facility were related parties of the Company, who entered into the loan agreement on the same terms as per the other group of lenders in the total amount of \$0.2 million (€0.2 million) as of 31 December 2017.

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NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 7:- NON-CURRENT LIABILITIES (Cont.)

b. Other loans (Cont.):

- (2) During 2017, the Company preliminary agreed with a group of lenders for the provision of a financing facility to the Company for the total amount of \$20 million (€16.7 million). On 14 February 2018, the Company finalized and signed the agreement with the group of individual lenders. As per the terms agreed, the facility will carry interest of 6.5% and will mature on 30 June 2020. The Company also agreed with the group of lenders that any proceeds received from certain Group's investments, either through dividend payments or through sale proceeds, would be used for the repayment of the loan facility. Otherwise, and if the principal amount provided along with interest accrued, are not paid in full by the maturity date on 30 June 2020, the Company will pay to the lenders the outstanding loan amount via a balloon payment. As at 31 December 2017 an amount of \$6 million (€5 million) has been provided to the Company in respect of this facility.

NOTE 8:- BANK LOAN

The Company has a loan agreement with a financing bank for the amount of \$5.1 million (€4.2 million). The loan facility bears fixed interest of 5.1% (2016: 5.1%) per annum and is repayable by quarterly instalments of \$255 thousand (€213 thousand) plus accrued interest, commencing on 30 March 2015 up until the loan maturity date on 30 December 2019. The outstanding balance of the facility as of 31 December 2017 amounted to €1.7 million.

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 \$140 million, (3) the Company shall ensure that the ratio between the net financial debt to the total capital and debt (CAP) of the Company will not exceed 36.5% (Company's financial statements) and (4) 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 2017 all the above mentioned covenants are met.

NOTE 9:- AMOUNTS DUE TO RELATED PARTIES

Amounts due to related parties amounting to €8.5 million (2016: €25.5 million) represent various short term loans received from other Group's related parties that do not bear any interest and are repayable on demand. The decrease during the year ended 31 December 2017 relates to repayment of short term advances to indirect subsidiaries of the Company in the US. These funds were advanced from the indirect subsidiaries during the year ended 31 December 2016.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 10:- TRADE AND OTHER PAYABLES

	31 December	
	2017	2016
	Euro in thousand	
Provision for employees compensation	175	473
Accounts payable to suppliers and trade creditors	201	463
Other liabilities	1,358	64
	1,734	1,035

NOTE 11:- CORPORATE INCOME TAX

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Current income tax	-	-

The Company incurred taxable loss for the year ended 31 December 2017. As a result no income tax liability occurred for the year ended 31 December 2017. The applicable tax rate is 25% (2016: 25%).

The corporate income tax return for the fiscal year 2016 will be filed by 30 June 2018 and the corporate income tax return for the fiscal year 2017 will be filed by 30 June 2019.

The Company has taxable losses of €89.9 million (2016: €71.7 million) as reported to tax authorities, 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. These taxable losses as of 31 December 2017 can be utilized as follows:

Year ended in which taxable losses incurred	Amount Euro in thousand	Usable until year ending
31.12.2009	3,632	31.12.2018
31.12.2010	5,674	31.12.2019
31.12.2011	4,480	31.12.2020
31.12.2012	6,029	31.12.2021
31.12.2013	14,902	31.12.2022
31.12.2014	4,240	31.12.2023
31.12.2015	15,913	31.12.2024
31.12.2016	13,475	31.12.2025
31.12.2017	21,559	31.12.2026
Total	89,904	

Deferred tax assets have not been recognized in respect of these losses as it may not be used to offset future taxable profits, there are no other tax planning opportunities or other evidence of recoverability in the near future. Refer also to Note 12d in the consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 12:- 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 2017 have been charged to the Company, its subsidiaries and other consolidated entities:

	Ernst & Young Accountants LLP, The Netherlands	Ernst & Young, Israel	Total
	Euro in thousand		
Audit and assurance services	98	484	582

For the financial year ended 31 December 2016, the following audit fees have been charged to the Company, its subsidiaries and other consolidated entities:

	Ernst & Young Accountants LLP, The Netherlands	Ernst & Young, Israel	Total
	Euro in thousand		
Audit and assurance services	97	391	488

Fees included in the tables above relate to actual expenses recognised in the income statement of the Company for the relevant year.

An amount of €21 thousand has been paid to EY Russia for providing tax services to the Company's indirect subsidiaries/associates/joint ventures in Russia.

NOTE 13:- REMUNERATION OF DIRECTORS

The remuneration of Executive and Non-executive Directors, as intended in section 2:383 (1) of the Netherlands Civil Code, amounted to €345 thousand (2016: €425 thousand), detailed as follows:

Executive Directors:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Michiel Olland (executive)	59	52
Luca Tomesani Melotti (executive) (1)	24	45
	83	97

The remuneration package for the executive Directors is fixed and consists of a basic annual salary and an additional fee for the participation in the Board's committees.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 13:- EMOLUMENTS OF DIRECTORS (Cont.)

Non-executive Directors:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Jan van der Meer (non-executive)	9	36
Harin Thaker (non-executive)	187	250
Daniel Aalsvel (non-executive)	48	42
Luca Tomesani Melotti (non-executive) (1)	18	-
	<u>262</u>	<u>328</u>

The remuneration package for the non-executive Directors is fixed, except for Harin Thaker, and consists of a basic annual salary and an additional fee for the participation in the Board's committees.

Harin Thaker, in his capacity as a member of the Investment Advisory Committee, had been granted a share option in addition to his fixed remuneration and co-investment rights in the UK (no profit from the exercise of share options for the years ended 31 December 2017 and 31 December 2016).

Harin Thaker is also entitled for an additional annual fixed fee of £122,500 (€139,776) in his capacity as a member of the Investment Advisory Committee (besides his salary as a non-executive director). This additional fixed fee is included in the total amount in the above table.

Total:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Executive and non-executive Directors	<u>345</u>	<u>425</u>

(1) Luca Tomesani Melotti was an executive Director until 30 June 2017, when he has been appointed as a non-executive director on 30 June 2017.

Director fees in relation to Company's subsidiaries/associates for the year ended 31 December 2017 amounted to €234 thousand (2016: €33 thousand).

NOTE 14:- SHARE BASED PAYMENTS

During 2012 the Company's Board of Directors approved the issuance of 4,086,000 fully vested warrants exercisable into 4,086,000 Company's shares (representing 3% of the Company's share capital at that point in time) to an investment committee member, which were expired during the year. The exercise price of the warrants is €1.32 per share. The fair value of the option granted is approximately €1,517 thousand (2016: €1,517 thousand).

NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 14:- SHARE BASED PAYMENTS (Cont.)

On 28 May 2014, an entity beneficially owned by the family of senior manager A at that date, was granted 2,862,155 warrants 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 at an exercise price of €1.4565 ("A Warrants"). The remaining 50% of the warrants can be exercised at an exercise price of €1.7801 ("B Warrants"). The warrant agreement also provides for a cashless exercise, at the option of the holder of the 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 vested 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 at that date, was granted 483,519 warrants under a warrant agreement entered into with the Company, exercisable (subject to the warrants having vested) from the date of grant within seven years, to 483,519 shares. These warrants can be exercised at an exercise price of €1.6183. 1/3rd of these warrants vested immediately, 1/3rd vested one year after the date of the grant of the warrants and the remaining 1/3rd vested 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 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 €241 thousand.

The expenses recognized in the Company's financial statements for the years ended 31 December 2017 and 31 December 2016, for the warrants granted are as follows:

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Share – based payments transactions (1)	-	15

(1) No share based compensation has been recognized in the income statement for the year ended 31 December 2017 as all the warrants have been fully vested as at 31 December 2016.

NOTE 15:- ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Director fees (Note 13)	345	425
Legal expenses and other professional services	2,843	2,135
Office rent and maintenance	127	140
Other administrative expenses	1,408	1,147
	Initialled	
	4,723	3,847
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NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 16:- WAGES AND SALARIES

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Wages and salaries	1,211	840
Social security charges	22	20
	<u>1,233</u>	<u>860</u>

NOTE 17:- OTHER GAINS/(LOSSES)

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Receivable amounts written-off (1)	(262)	(3,083)
Recognition of provisions and impairment (2)	1,029	-
	<u>767</u>	<u>(3,083)</u>

(1) Relates to receivable balances written-off which are not considered collectible by the Company.

(2) Relates to provisions for expenses and impairment of receivable that have not been realized.

NOTE 18:- FINANCIAL INCOME

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Interest income on loans, receivables and deposits	<u>716</u>	<u>408</u>

NOTE 19:- FINANCIAL EXPENSES


	Year ended 31 December	
	2017	2016
	Euro in thousand	
Finance expenses on interest bearing loans and other borrowings	10,343	10,447
Early repayment fees for debentures (1)	3,960	-
	<u>14,303</u>	<u>10,447</u>

(1) See Notes 7a(2) and 7a(3).

NOTE 20:- EXCHANGE RATE DIFFERENCES, NET

	Year ended 31 December	
	2017	2016
	Euro in thousand	
Exchange rate differences, net	<u>8,006</u>	<u>(3,778)</u>

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NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 20:- EXCHANGE RATE DIFFERENCES, NET (Cont.)

Main impact of exchange rate differences for both years related to the variation of the exchange rates between Euro against USD and NIS.

During the year ended 31 December 2017, the strengthening of Euro against USD and NIS led to the recognition of exchange difference gains following the retranslation at the year end or at the date of settlement of monetary liabilities denominated in these currencies.

During the year ended 31 December 2016, the weakening of Euro against USD and NIS led to the recognition of exchange difference losses following the retranslation at the year end or at the date of settlement of monetary liabilities denominated in these currencies.

NOTE 21:- GUARANTEES PROVIDED BY THE COMPANY IN RELATION TO THE LIABILITIES OF OTHER GROUP COMPANIES

- a. Pursuant to the financing agreements entered into by two indirect subsidiaries of the Company in the USA the Company has provided to these lenders payment guarantees for the amounts advanced to the indirect subsidiaries. The outstanding balance of the facilities provided as at 31 December 2017 amounted to \$99.4 million (€83 million).
- b. Pursuant to the loan agreement entered into by an indirect subsidiary of the Company (Brack Capital USA B.V.) with a financing bank, amounting to \$13 million (€10.9 million) as at 31 December 2017, a full payment guarantee was given to the financing bank, jointly by the Company and another wholly owned direct subsidiary of the Company. In addition, the Company and its wholly owned subsidiary guaranteeing this facility have also undertaken that so long as the facility is still outstanding:
 1. Brack Capital USA B.V. should maintain a minimum net equity of \$45 million.
 2. Brack Capital USA B.V. should maintain a minimum of shareholders' funds of \$30 million.
 3. Brack Capital USA B.V. should maintain a minimum gross cash flow from operations of \$5 million for each of the six-month periods during the first year of the loan term, then increasing to \$10 million for each of the six-month periods for the remaining term of the loan.
 4. The Company should maintain a minimum net equity of \$140 million.
 5. The ratio between the net financial debt of the Company to its total assets shall be maintained during the loan term within 0.75 to 1.00.

The above covenants relate to the consolidated financial statements of Brack Capital USA B.V. and of the Company, where applicable. As of 31 December 2017, the Company and its indirect subsidiary met all the covenants.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 21:- GUARANTEES PROVIDED BY THE COMPANY IN RELATION TO THE LIABILITIES OF OTHER GROUP COMPANIES (Cont.)

- c. Pursuant to a loan agreement entered into by an indirect subsidiary of the Company in the USA to finance the acquisition of a property, the Company has provided a guarantee in the favor of the bank as follows: (1) standard environmental indemnity and (2) standard "bad boy" carve-outs (*). The Company further undertakes to maintain a minimum net worth of \$11.2 million (€9.4 million) and minimum liquid assets of \$1.2 million (€1 million). Each investor participating in this project is severally and not jointly responsible to the Company for his/her pro-rata portion in relation to the above guarantees. As of 31 December 2017, all of the above covenants are met.
- d. Pursuant to the facility agreement entered into by an indirect subsidiary of the Company in the USA, the Company, jointly with another indirect subsidiary in the USA, provided a guaranty in favour of the financing bank as follows: (1) standard "bad-boy" carve-outs (*), (2) standard environmental indemnity (3) guaranty of additional required equity, (4) carry guarantee for the property, (5) completion guarantee and (6) rebalancing guarantee.
- e. A guaranty was provided by the Company, jointly and equally with its partner for the related project, with regards to a refinancing of the construction loan for the development of a property obtained by associate joint venture of the Company in the USA amounting to \$103 million (€86 million) as at 31 December 2017, as follows:
 1. Principal Payment Guaranty equal to 12.5% of the outstanding amount of the loan, then decreasing to 5% after property achieves a 10.5% debt yield and then reducing to nil once the property achieves 11% debt yield.
 2. Debt Service Guaranty throughout the Loan term covering interest payments (not principal) for the first 3 year loan term and then for years 4 to 5 covering both interest and principal payments.
 3. Standard "bad-boy" carve-outs (*) throughout the term of the Loan.
 4. Standard environmental indemnity.

Each investor participating in this project, is severally and not jointly responsible to the Company for his/her pro-rata portion in relation to the above guarantees.

The Company had also undertaken, jointly with its partner for the related project, the following covenants with respect to this facility:

1. The Company shall maintain a minimum net equity of \$100 million.
2. The Company shall maintain a minimum liquidity of \$15 million.

As of 31 December 2017, all of the above covenants are met.

- f. Pursuant to the first loan facility entered into by an indirect subsidiary of the Company in the USA to finance the acquisition of a residential building for the total amount of \$55 million (€45.9 million), the Company has provided a guarantee in the favor of the lender as follows: (1) standard environmental indemnity, (2) standard "bad boy" carve-outs (*) and (3) carry guarantee for the property.



NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 21:- GUARANTEES PROVIDED BY THE COMPANY IN RELATION TO THE LIABILITIES OF OTHER GROUP COMPANIES (Cont.)

- g. Pursuant to a loan agreement entered into by an indirect subsidiary of the Company in the USA to finance the acquisition of a property, the Company provided a guaranty in favor of the bank as follows: (1) standard "bad-boy" carve-outs (*) and (2) standard environmental indemnity. The Company further undertakes to maintain \$12.8 million (€10.7 million) of net worth and \$1.28 million (€1.07 million) of liquid assets. Each investor participating in this project, is severally and not jointly responsible to the Company for his/her pro-rata portion in relation to the above guarantees. As of 31 December 2017, all of the above covenants are met.
- h. Pursuant to the financing agreements entered into by a joint venture of the Company in Russia for the amounts of \$29.1 million (€24.3 million) and \$86.8 million (€72.4 million) and following the refinancing agreement entered into by the associate company and the financing bank, the Company has provided a payment guarantee in the amount of \$12.8 million (€10.7 million) for both facilities. In addition, it was agreed that the financing bank shall obtain 1 'golden share' of the holding company of the project, which provides the bank, inter alia, with a veto right in respect of material decisions at the level of the associates of the holding company. The refinancing has been completed on 22 March 2018. The 'golden' share can be repurchased by the Group subject to meeting certain conditions. Also, the associate has to maintain a Debt Service Ratio of 1, gradually increasing during the loan term. The partner participating in this project, has provided to the Company a guarantee amounting to \$6.8 million (€5.7 million) in relation to the above. As of 31 December 2017, all the applicable covenants were met (Debt Service Ratio approximated 1.03). Not meeting the financial covenant will result in the payment of an immaterial penalty to the financing bank.
- i. Pursuant to the loan agreement entered into between a Group's indirect subsidiary in Russia and a group of lenders amounting to \$15.2 million (€12.7 million) as of 31 December 2017, the Company provided a full payment guarantee to the group of lenders in respect of the liability provided. In addition, the Company undertakes to maintain a minimum equity of \$140 million. As of 31 December 2017, the above covenant was met.
- j. Following the refinancing agreements entered into by the indirect subsidiaries of the Company in Russia and the financing bank, the key amendments to the existing facility and to the corporate structure of the subsidiaries are, among other things, prolonging the final maturity dates by 3 to 5 years, amortisation payment schedules shall be postponed towards the maturity dates, improved interest rates, material loan covenants have been relaxed and the financing bank shall obtain a 'golden share' in each project, which provides the financing bank, inter alia, with a veto right in respect of material decisions at the level of the subsidiaries. The 'golden shares' can be repurchased subject to meeting certain conditions. The refinancing has been completed on 22 March 2018 (Note 24(2)). Also, the indirect subsidiaries under the existing terms, undertaken to maintain a Debt Service Ratio of 1, gradually increasing during the loan term. As of 31 December 2017, all the applicable covenants were met.

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NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 21:- GUARANTEES PROVIDED BY THE COMPANY IN RELATION TO THE LIABILITIES OF OTHER GROUP COMPANIES (Cont.)

- k. Pursuant to a loan agreement entered into by an indirect subsidiary of the Company in the USA to finance the acquisition of a property amounting to \$16.7 million (€14 million) as of 31 December 2017, the Company provided a guaranty in favor of the bank as follows: (1) standard "bad-boy" carve-outs (*) and (2) standard environmental indemnity.

- (*) A guaranty pursuant to which the guarantor agrees to be responsible for (i) actual losses suffered by the lender as result of certain bad acts committed by the borrower in the nature of misappropriating funds and (ii) for the entire loan in the event of major bad acts committed by the borrower.

NOTE 22:- STAFF

During the year, the average number of employees in the Group amounted to 90 (2016: 100), of which 87 (2016: 97) were employed outside The Netherlands. The average number of employees is analyzed as follows:

	31 December	
	2017	2016
	Euro in thousand	
Russia	34	35
USA	28	35
Others	28	30
Total employees	90	100

NOTE 23:- SUBSEQUENT EVENTS

On 22 January 2018, an indirect subsidiary of the Company agreed with the financing bank the extension of the maturity of the facility provided to the indirect subsidiary to 31 March 2018. No other modification to the loan terms was agreed with the financing bank.

On 7 February 2018, an indirect subsidiary of the Company, agreed with the financing bank for the extension of the maturity of the facility provided amounting to \$54.7 million (€45.7 million) as at 31 December 2017 until 1 July 2019. No other modification to the loan terms was agreed with the financing bank.

On 14 February 2018, the Company entered into a financing agreement with a group of individual lenders for the total amount of \$20 million (€16.7 million). The facility carries interest of 6.5% and matures on 30 June 2020. The Company agreed with the group of lenders that any proceeds received from certain Group's investments, either through dividend payments or through sale proceeds, would be used for the repayment of the loan facility. Otherwise, and if the principal amount provided along with interest accrued, are not paid in full by the maturity date on 30 June 2020, the Company will pay to the lenders the outstanding loan amount via a balloon payment. See Note 7b(3).

On 8 March 2018, the Company through an indirect subsidiary, signed a letter of intent for the sale of the property owned by BCRE IHG 180 Orchard Holdings LLC.



NOTES TO THE COMPANY FINANCIAL STATEMENTS

NOTE 23:- SUBSEQUENT EVENTS (Cont.)

On 22 March 2018, the refinancing agreements between the indirect subsidiaries and a joint venture of the Company in Russia and the financing bank have been completed. See Notes 21h and 21j.

On 27 March 2018, the Company through an indirect subsidiary signed an agreement with its partner for the sale of its total shareholding in OSIB-BCRE Bowery Street Holdings LLC.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

Amsterdam, 26 April 2018

Board of Directors

Harin Thaker

Michiel Olland

Daniel Aalsvel

Luca Tomesani Melotti

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.

Independent auditor's report

To: the shareholders and board of directors of BCRE-Brack Capital Real Estate Investments N.V.

Report on the audit of the 2017 financial statements included in the annual report

Our opinion

We have audited the 2017 financial statements of BCRE-Brack Capital Real Estate Investments N.V. (also referred to as the Company), incorporated in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of BCRE-Brack Capital Real Estate Investments N.V. as at 31 December 2017, and of its result and its cash flows for 2017, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying company financial statements give a true and fair view of the financial position of BCRE-Brack Capital Real Estate Investments N.V. as at 31 December 2017, and of its result for 2017, 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 2017
- The following statements for 2017: the consolidated income statement, the consolidated statements of 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 2017
- The company income statement for 2017
- The notes comprising a summary of the 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 N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

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Materiality

Materiality	€3,8 million (2016: €4,6 million)
Benchmark applied	0.5% of total assets
Explanation	<p>We consider total assets the most appropriate benchmark for materiality taking into account the nature and size of the business operations and the users of the financial statements.</p> <p>This measurement basis is widely used in the real estate industry. Since the Company measures its investment properties at fair value, the future value for investors is captured by the fair value measurement of investment properties. As such, this represents an important and relevant factor in measuring the Company's performance and stability.</p>

We have also taken misstatements into account 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 €190 thousand, 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 N.V. is at the 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 N.V.

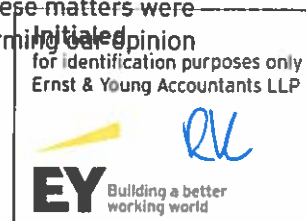
Our group audit mainly focused on significant group entities based on the relative size of the group entity on the total assets, including the size of the investment properties, inventory of land and apartments under construction and interest bearing loans and borrowings. Significant group entities are also determined based on specific risks of material misstatements. The group is organized on a country basis, and its operations are mainly based in the US and Russia, comprising approximately 90% of total assets reported as at 31 December 2017.

The group audit is performed in close cooperation with EY Israel, which performs most of the audit work, by selecting full, specific and limited scope locations, comprising approximately 66%, 30% and 4% of group's total assets reported as at 31 December 2017, respectively. We have reviewed the procedures performed by EY Israel on the most significant full scope locations in the US and Russia.

By performing the procedures mentioned above at selected group entities and at group level for accounts managed centrally, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the financial statements.

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.



Following the divestment of the remaining interest in Brack Capital Properties N.V. during 2017, the deconsolidation of this associate, which was reported as a key audit matter last year, is not included anymore as a separate key audit matter for this year.

Risk	Our audit approach	Key observations
<p>Valuation of investment properties (see notes 2 and 5)</p> <p>The valuation of the investment properties, including those held by investments in associates and joint ventures, is important to our audit as it represents a significant judgmental area with respect to an important part of the total assets of the group. Because these properties are measured at fair value, the valuation is highly dependent on estimates. The group's policy is that property valuations are performed by external appraisers at least once a year. These valuations are based on assumptions, such as estimated rental values, the rent growths and the discount and cap rates.</p>	<p>We considered the objectivity, independence and expertise of the external appraisers.</p> <p>Furthermore, we audited the correctness of source data used in the valuation. We involved our real estate valuation specialists in different countries and used their specific experience and knowledge in the local markets to assist us in the review and testing of models, assumptions and parameters of the valuation.</p> <p>We reviewed the adequacy of the disclosures provided in the financial statements.</p>	<p>We did not identify any material misstatement in the valuation of investment properties and in the disclosures reported in the financial statements.</p>
<p>Unfavorable economic conditions in Russia (see notes 2, 3, 5 and 7)</p> <p>The unfavorable economic conditions in Russia have a significant impact on the valuations of the Russian investment properties, investments in associates and joint ventures. Consequently, a risk also exists that the loan covenants are not met.</p>	<p>Our audit procedures included, amongst others, a detailed review of the valuations of the Russian investment properties (using local EY valuation experts) and investments in associates and joint ventures. We assessed that the group met the financial covenants as stated in the loan agreements.</p> <p>We reviewed the adequacy of the disclosures provided in the financial statements.</p>	<p>We verified that management's estimations regarding the valuation of investment properties, investments in associates and joint ventures related to the operations of the group in Russia appropriately reflect the local market situation and economic conditions.</p> <p>We verified that the Company made appropriate disclosures in the financial statements.</p>

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Risk	Our audit approach	Key observations
Investments and loans to associates and joint ventures (see notes 2 and 7)		
The group holds interest in several associates and joint ventures, accounted for using the equity method. In addition, the group granted loans to its investees. At each reporting date the group determines whether there are indicators that these investments are impaired. We have determined that the assessment of possible impairment of investments in investees contains a risk, mainly due to the uncertainty related to the future profitability of their operations and the fact that the investment properties of the investees are valued at fair value.	As the recoverability of these investments and loans is dependent on the related real estate projects in these entities, our audit response included the procedures for investment properties that are described in the above key audit matters. We evaluated indicators of impairment and performed audit procedures on the management's impairment analysis. This included testing procedures on the projects' projected cash flows and budgets to ensure collectability of loans granted.	We concur with management's assessment of impairment related to investments and loans to associates and joint ventures as well as management's assessment of associates and/or joint ventures classified as discontinued operations or as held for sale.
Furthermore management decided to dispose of certain associates and/or joint ventures and classified these as discontinued operations (sale of Brack Capital Properties N.V.) or assets held for sale.	We evaluated management's considerations regarding associates and/or joint ventures classified as discontinued operations or assets held for sale. We reviewed the adequacy of the disclosures provided in the financial statements.	We verified that the Company made appropriate disclosures in the financial statements.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- ▶ The director's report
- ▶ Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- ▶ Is consistent with the financial statements and does not contain material misstatements
- ▶ Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Director's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the board of directors as auditor of BCRE-Brack Capital Real Estate Investments N.V. on 2 February 2015, as of the audit for the year 2014, and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities for the financial statements

Responsibilities of 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. 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 members of the board of directors are 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 material errors and fraud.

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.

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 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 a company to cease 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

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.

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. In this respect we also submit a report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and 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 to 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.

Rotterdam, 26 April 2018

Ernst & Young Accountants LLP

Signed by W.P. de Pater



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