Summit Germany Ltd.

Initial Rating Report | February 2016

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A Subsidiary of Moody's

Summit Germany Ltd.

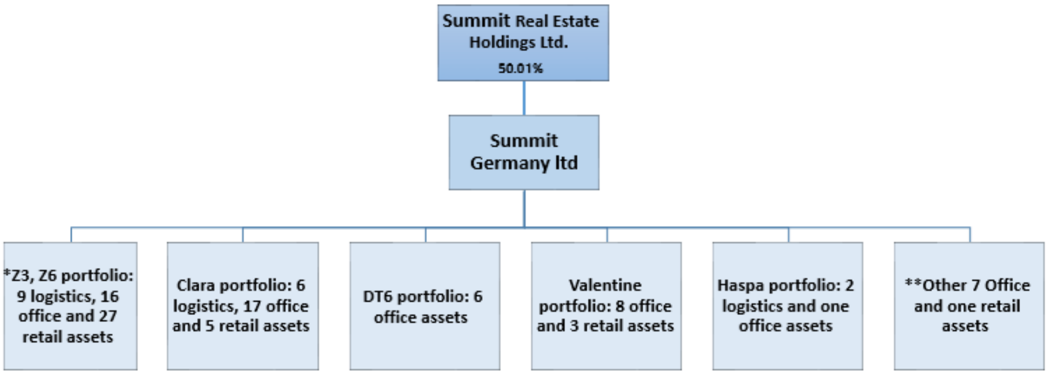
Issue Rating	**Aa3.il**	**Outlook: Stable**

Midroog announces the assignment of a Aa3.il issuer rating to the total solvency of Summit Germany Ltd. (hereinafter: "Summit Germany" or "the Company").

Company Profile

The Company commenced activity in 2006 and its shares were issued in an IPO that year on London's AIM market, where it is still traded as at the date of this report. Its controlling shareholder is Summit Real Estate Holdings Ltd. (hereinafter: "the Parent Company"), which owns 50.01% of the Company's shares and which is rated A1.il/stable by Midroog. The controlling shareholder of the Parent Company is Mr. Zohar Levy, who (effectively) holds approximately 55% of the issued share capital of the Parent Company, and also serves as managing director of Summit Germany. As at 30 September 2015 the Company owned approximately 103 income-generating properties in Germany. These contain approximately 857,000 sqm of rentable space, let to over 680 tenants. The book value of the Company's assets as at 30 September 2015 was approximately €715 million (subsequent to the date of its last financial statement the Company acquired three new assets worth around €40.5 million). Most of the Company's activity is concentrated on leasing, improving and managing income-generating properties. Over 70% of the value of the investment portfolio is derived from office space. Summit Germany maintains broad localised administrations with 60 employees and high-quality monitoring and control abilities.

Ownership and Holdings Chart



*As at the date of this report (after the financial statement date, one retail asset was sold).

**Includes 5 office properties in Munich, Duisburg and Oberursel that were acquired after the last financial statement date.

Summit Germany Ltd: Key Financial Data (consolidated, € thousands)

Key financial data (€, thousands)	30.06.2015	31.12.2014	30.06.2014	31.12.2013	31.12.2012
Total revenues	22,140	43,363	20,269	39,523	63,256
NOI	20,855	39,858	18,807	36,849	59,527
EBITDA excluding. Revaluation	17,275	32,778	16,188	32,571	49,476
EBITDA rate	78.0%	75.6%	79.9%	82.4%	78.2%
Revaluation of investment property	-3,366	34,669	28,433	-5,058	-51,651
Net profit (after tax)	-2,852	70,881	43,376	23,825	-37,120
Debt	303,262	312,833	350,715	355,379	447,091
Liquid balance*	94,988	9,735	17,195	21,443	74,416
Cash against loans	-	-	3,782	4,179	5,228
Net debt	208,274	303,098	329,738	329,757	367,447
Cap	677,335	573,485	582,036	518,216	582,930
Net Cap	582,347	563,750	561,059	492,594	503,286
Owners equity	356,173	244,703	219,975	152,768	132,547
Shareholder equity and minorities	367,555	255,029	227,888	160,131	134,677
Investment real estate	582,394	582,572	576,115	501,154	515,205
Total assets	701,153	612,985	621,310	556,950	633,380
Shareholder equity and minorities/Total assets	52.4%	41.6%	36.7%	28.8%	21.3%
Debt/Cap	45%	54.5%	60.3%	68.6%	76.7%
Net debt/Net Cap	36%	53.8%	58.8%	66.9%	73.0%
FFO	9,960	18,167	9,509	16,338	13,321
Debt/FFO, annualized	15	17	18	22	34
Net debt/FFO, annualized	10	17	17	20	28
EBITDA/interest payments, net	4.0	2.0	1.9	1.5	1.3

* Excluding restricted cash.

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Strategy

The Company's strategy is focused on investing in income generating assets in Germany, across a large, broadly diversified portfolio of properties and tenants. It seeks to improve its existing property portfolio by increasing occupancy, net rent, tenant quality and financing terms, and secure portfolio growth via acquisition of further commercial properties.

The Company intends to remain focused on the German real estate (income producing) market and reduce inherent risks by maintaining a widely diversified portfolio (assets and tenants). The Company defined key strategic focus in the short to medium term is to realise the latent potential of its existing portfolio via a series of asset management initiatives designed to improve portfolio occupancy and direct investment in asset improvements, concentrated mainly on the Valentine, Clara and DT-6 portfolios. It also intends to continue to enlarge its portfolio and acquire properties in its existing areas, particularly assets where it sees potential to generate improved returns by *inter alia,* increasing occupancy rates, replacing tenants, improving management efficiency and exploiting unused building rights.

Dividend policy

The Company's intention, as outlined to Midroog, is to distribute approximately 60% of current FFO in each calendar year.

Assumptions underlying the model

Midroog's analysis, as set out in this report, and its determination of the appropriate weightings for the different factors that influence the rating has relied on a number of key assumptions, all of which have been derived from information provided by the Company to Midroog. These assumptions include that: (i) on the basis of the Company's stated dividend policy, projected dividend distribution could reach 60% of FFO attributable; (ii) the Company intends to maintain financial strength ratios that would put it amongst the leaders within its rating grade (net debt/CAP ratio of approximately 45%); and (iii) the Company expects to sustain sufficient liquidity and flexibility to repay its debt as it falls due. As the rating relies on information provided by the Company it could, if this proves deficient, have implications for the rating. Midroog's rating considerations also include a number of sensitivity scenarios based upon parameters such as revenue volume and group leverage.

Key Rating Rationale

The Company's rating was positively influenced by its substantial and broadly diversified property and tenant portfolio, and focus on income-producing assets. As at 30 September 2015 the Company owned around 103 commercial properties leased to approximately 680 tenants. These properties are distributed across Germany and valued at circa €715 million, versus circa €582 million as at 30 June 2015. The increase was mainly due to the acquisition of additional assets. According to figures provided by the Company its representative annualised NOI should reach approximately €54 million, although it should exceed this if it is able to let vacant space in existing properties and/or acquire additional assets. The Company property portfolio is highly diversified relative to its rated peer group. The largest single asset represents approximately 7% of Company revenues and the three top assets combined, contribute approximately 18%. It has an experienced management team and a feature of its broad local administration is a high level of control and monitoring. This helps the Company to maintain the operational stability of its assets and realise their potential. As at the date of this report the Company had more than 60 employees working in asset management and operations including *inter alia,* in marketing, maintenance, lease and asset enhancement, management, collection and accounting. We regard the level of shareholders' equity as appropriate, and the financial strength ratios as outstanding for the rating grade. As at 30 September 2015 the balance of shareholders' equity (including minority rights) was over €400 million, and the equity to assets ratio approximately 53%. Other measures such as the debt/CAP ratio are also outstanding for the rating grade, at approximately 44%; the coverage ratios and FFO are appropriate to the rating grade, and residual current cash flow from the properties, due in part to the structure of the Company's financing, stands out especially. Projected annual FFO should reach €40 million from the existing asset base and net debt/FFO likely to be below ten years, compared with FFO of approximately €18 million in 2014 and net debt/FFO of about 16 years. Midroog's opinion is that the scope of the Company's FFO is suitable to its rating grade, and its fast coverage ratios stand out favorably on a relative basis. The Company's activity in Germany is characterised by a robust and stable financial base; by the flexibility derived from a portfolio of unencumbered assets and liquidity appropriate to the rating grade. If however, the Company raises additional debt, either at the asset or corporate level, this flexibility could be impaired.

The Company's rating is negatively affected by; (i) the relatively high number of tenants which occupy its properties, which results in higher ongoing lease renewals; (ii) dependence on a single tenant (which occupies multiple assets) responsible for approximately 11% of its revenues (following the acquisition of additional properties, as mentioned above). The Company has, however, managed to renew contracts and maintain steady occupancy ratios over time, even throughout periods of market recession; (iii) the profile of the Company's assets, which requires considerable operational time and managerial input. Conversely, this exposure is mitigated to some extent by the well-diversified tenant complement and a track record which demonstrates the Company’s ability to let vacant space and extend existing leases. Other potentially negative influences would include increases in interest rates, which could affect residual cash flow derived from the assets. As at the date of this report the weighted average rental yield on the Company's assets was approximately 8%, versus the weighted average interest rate on its debt at below 3%. This gap is, *inter alia*, due to the profile of the Company's portfolio and the low European interest rate environment. Any increase in European interest rates could, if the Company sought to refinance its assets, lead to an increase in debt service at the asset level which could negatively affect residual cash flow. However, this risk is part offset by the circa six year weighted average duration of the Company loan book, and the fact that over 80% of the debt is at fixed interest rates. In addition, the downward trend in real estate asset capitalisation rates in Germany over recent years has been reflected in an increase in asset prices which can affect the Company's ability to acquire additional commercial properties at attractive prices.

Strengths

The extent of activity and high diversification of assets and tenants, along with the focus on income producing properties, positively influence the rating

As at 30 September 2015 the Company held approximately 103 commercial properties worth circa €715 million (compared with circa €587 million as at 30 June 2015). These were located mainly in the former West Germany. The increase in value was *inter alia*, the result of the acquisition of a debt facility in June 2015 which previously financed the DT-6 portfolio. (The Company paid €40m to acquire this debt, which was secured by a portfolio valued at approximately €82.5 million). Further acquisitions have included; (i) a portfolio of offices in Stuttgart worth approximately €55 million purchased in August 2015; (ii) the announcement in January 2016 of the acquisition of two additional office assets in Munich and Duisburg, worth approximately €15 million and in February 2016 and the acquisition of an office building complex in Frankfurt, Oberursel worth approximately €25.5 million. As at the date of this report the weighted average occupancy rate for the Company's aggregate property portfolio was approximately 87%. However, the Company does hold number properties, held for future sale which do not fit its typical asset profile. The average occupancy rate for these assets is generally below that for the aggregate portfolio. Excluding these assets, the occupancy rate for the majority of the Company's assets is approximately 90%. As at 30 September 2015 the NOI (annualised) of the Company's assets was approximately €45 million, but this figure includes a minimal contribution from assets acquired in late 2015 and early 2016. According to figures provided by the Company, fully representative annualised NOI is approximately €54 million, although this should increase further if the Company is able to lease the vacant space within its existing assets and/or acquires additional income generating assets, in line with its business strategy. The Company's portfolio diversity is outstanding relative to other rated companies. Its largest single asset is responsible for circa 7% of its revenues, and its three top assets combined contribute circa 18%. The Company's properties are let to approximately 680 tenants and the weighted average unexpired lease term is reasonable at approximately 4.3 years. However, the Company's ability to renew leases (according to information provided by the Company the average renewal rate is circa 80%) and replace tenants over time, mitigate that risk. In Midroog's opinion, the scope of the Company's activity and diversified portfolio contribute significantly to its risk profile.

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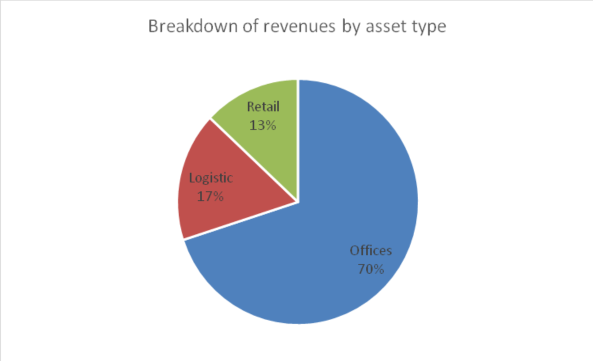
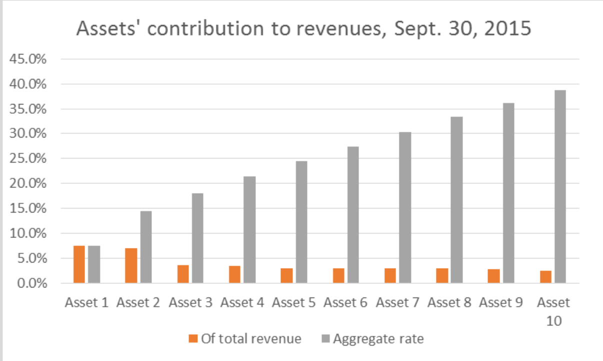
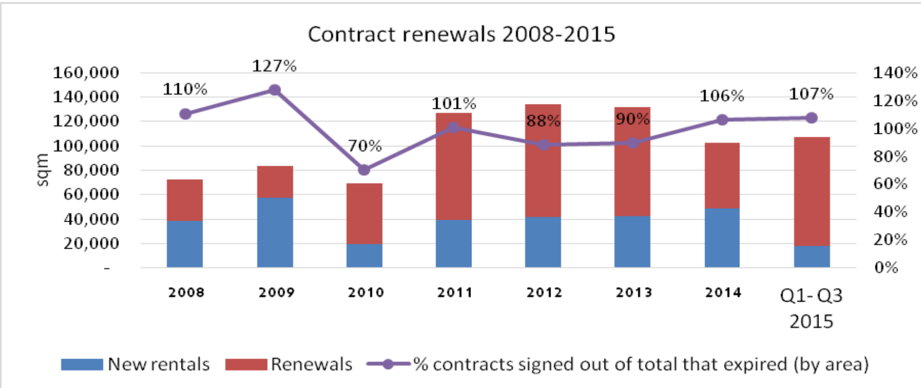




Management's experience, the Company's broad local administration and high level of monitoring and control help to support asset stability and its ability to exploit their potential. Management's actions in recent years indicate considerable knowledge and understanding of financial management.

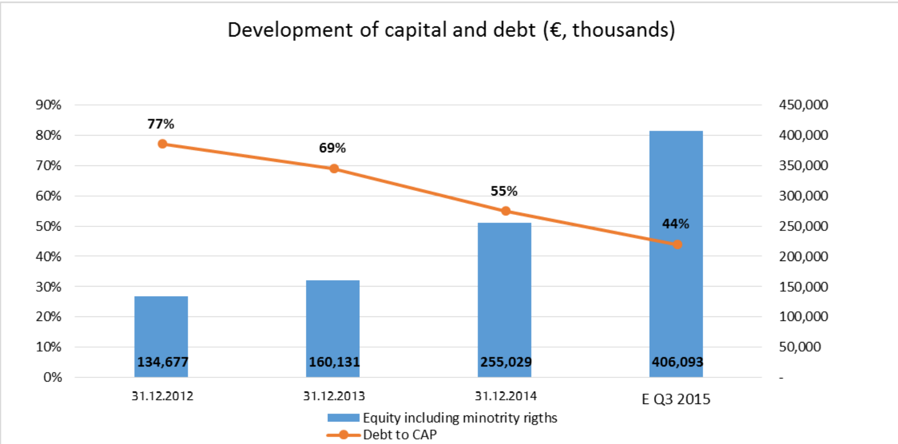
The Company has local administrations in Berlin, Frankfurt, and Hamburg which contributes to the facilitated control and access to its properties and tenants. As at the date of this report the Company had over 60 employees managing and operating its properties. The scope of their activities includes marketing, maintenance, renovation of leased assets, management, rent/service charge collection and accounting. This enhanced supervision over expenses and property improvements contributes to the Company's ability to maintain high occupancy rates even during financial market and economic downturns. That is assisted by personal contact with its tenants which improves the Company's ability to renew expired contracts and find new tenants, let vacant space and even increase current passing rental rates. Moreover, these skills distinguish the Company from some other Israeli operators in the German real estate market, which more typically pursue financially based strategies.



Over the last years the Company has also carried out several transactions that demonstrate management's financial skills and its strong relationships with its lenders. Among these was its acquisition of loans from the banks which financed the Valentine and DT-6 portfolios, and its refinance of significant credit facilities at extended terms and lower interest rates. The Company succeeded in these endeavours, *inter alia*, by raising significant amounts of capital over that period.

The Company's shareholders' equity is appropriate to its rating grade, while its financial ratios are notable and contribute to its risk profile

As at 30 September 2015 shareholders' equity (including minority rights) reached over €400 million, or €392m excluding minority interests. The ratio of shareholders' equity to assets was approximately 53%; and the debt/CAP ratio approximately 44%. In Midroog's opinion, the Company's shareholders' equity was appropriate to its rating, while its leverage ratios stand out favorably for its rating grade. If the Company raises more debt against unencumbered assets, increases its debt by refinancing its existing assets, or acquires additional properties at higher leverage these measures of its financial strength ratios could be eroded, but still remain appropriate to its rating grade. In Midroog's opinion, the Company's leverage and financial strength ratios stand out for its rating grade.

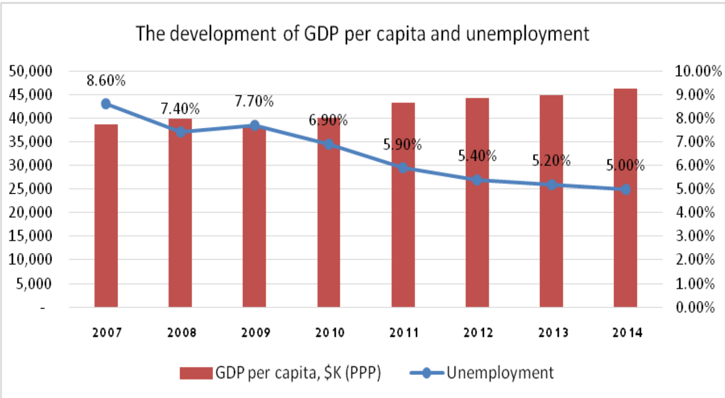


The Company's coverage ratios and FFO are outstanding for the rating grade; current residual cash flow from the assets especially stands out, due in part to the Company's financing structure

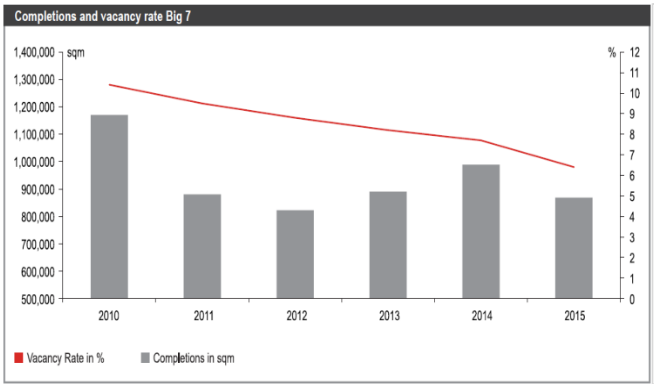
The Company's FFO should increase substantially and its coverage ratios improve considerably as a result of acquisitions completed in 2014 and 2015 and recent improvements in the terms of several credit facilities. Annual FFO is expected to reach €40 million, excluding the contribution from the new acquisitions, and net debt/FFO expected to be below ten years compared to FFO of approximately €18 million and net debt/FFO of approximately 16 years as at the end of 2014. In Midroog's opinion, the Company's FFO is appropriate, and its fast coverage ratios stand out relative to its rating grade. The residual cash flow from the Company's assets stands out favorably and underpins its ability to repay its debts and develop its business activity. The weighted average remaining term of the Company's bank loans is around six years, which contribute to some extent to its cash flow stability in future years.

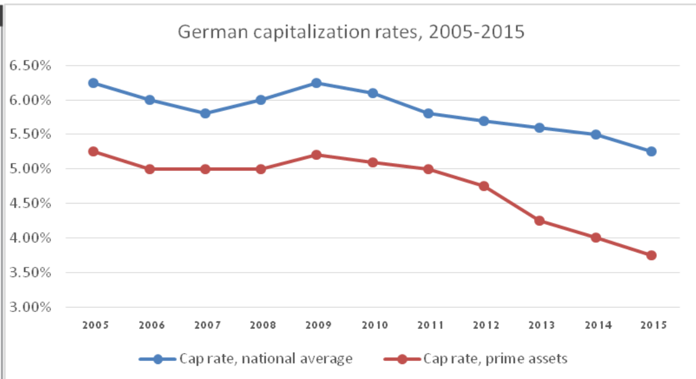
The German real estate market is conservative, characterised by stable operating parameters and prices.

The German economy (rated Aaa/stable) is Europe's largest and one of the five biggest worldwide. On all key measures its recent performance has been robust, throughout the financial crisis of late 2008 and the current issues which still pervade the euro bloc. The country's high GDP per capita and low unemployment rate underpins demand for office, retail and logistic space. As at the end of the third quarter of 2015, according to OECD statistics, the unemployment rate in Germany was about 4.6% compared with the OECD average of 6.7%.



The office segment (which currently comprises over 70% of the Company's portfolio value) has been a relative stable performer. After its deterioration during the 2009 crisis this segment has been characterised by rising occupancy and falling yields, and has been further underpinned by the strength of the German economy, low unemployment and relatively moderate new office development. The charts below illustrate office completions versus vacancies in seven central German cities, capitalisation rates and rental prices, broken down into prime assets and the national average.





Source: (Left) JLL, (Right) Cushman and Wakefield

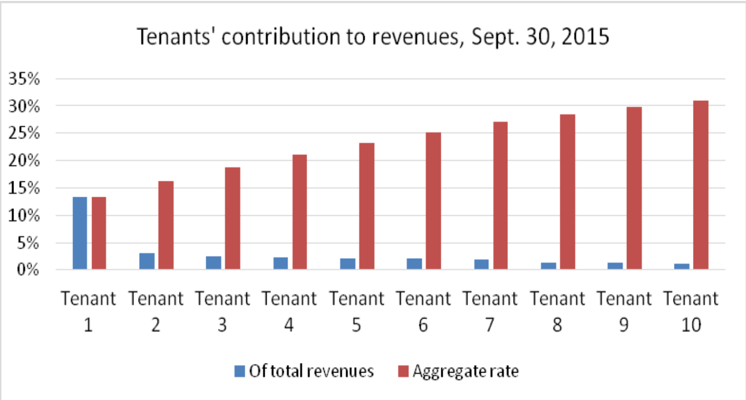
The Company's flexibility, derived from unencumbered assets and liquidity, is appropriate to the rating. If it pledges these assets its flexibility is likely to be impaired.

As at the date of this report the Company had over €100 million worth of unencumbered assets, which could be valuable if required in more difficult markets. In addition, the remaining assets are moderately leveraged at an approximate 53% weighted average, which also contributes to the Company's financial flexibility to some extent. As at the date of this report the Company had no corporate debt. All debt is secured on Company assets and cash flow from the underlying assets is sufficient to repay the secured debt. Given this, Midroog's opinion is that the Company has good flexibility and liquidity for its rating level. If however the Company raises more debt at the asset or corporate level, its flexibility could be impaired.

Business and Financial Risks

Exposure to one key tenant could expose the Company to revenue fluctuation

As at the date of this report there was some dependency on a single tenant. That occupier leases space in several properties and (including recently acquired properties as described above) is responsible for approximately 11% of total revenues. Should this tenant vacate the entire space it leases the stability of Company revenues could be impaired, as it could take time to secure new tenants. The Company has however, as previously stated, been able to renew contracts and maintain steady occupancy rates over time, including during period of crises. In addition, the Company has been able to manage the departure of major tenants previously and let any space vacated on improved terms. In Midroog's opinion, the Company's skills in this regard have been proven over the last few years and help mitigate these risks to a large degree.



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The profile of the Company's assets requires considerable operational and management attention.

The Company's property portfolio requires relatively intensive management due to the ongoing need to extend tenant contracts, a requirement to invest in and improve the underlying assets and possible challenges adjusting to changes in tenant financial strength. The average occupancy rate is approximately 87%, although negotiations to let additional space are underway. The Company has a number of properties that do not fit its typical asset profile, particularly due to lower occupancy rates, which it intends to sell over time. The occupancy rate for the majority of the Company's assets, excluding properties held for sale stands at approximately 90%. In Midroog's opinion, the nature of the Company's assets and its activity will generate a gradual increase in portfolio occupancy. The diversity of the tenant complement, the Company's proven ability to lease vacant space and extend existing contracts mitigate this exposure to some extent.

Any future increase in interest rates within the Company's business environment could affect residual cash flow from the assets; a decrease in cap rates in the short to medium term could affect its ability to acquire new assets which meet its investment criteria

As at the date of this report the weighted average rental yield for the Company portfolio was approximately 8%, versus a weighted average interest rate below 3%. This gap is a result, *inter alia* of the portfolio profile and the low European interest environment. The gap between the actual rental yields and the average interest rates on the Company's debt contributes significantly to the residual cash flow generated by its portfolio. Any increase in European interest rates could, in the event that the Company seeks to refinance its assets increase its debt service rate at the asset level and negatively affect residual cash flow. As however, the weighted average duration to final maturity of the Company's debt portfolio is around six years and over 80% of the debt is at fixed interest rates, this mitigates this risk. Also, as mentioned above, capitalisation rates in Germany have been trending down in recent years, which has helped increase asset prices and can affect the Company’s ability to acquire new commercial properties at attractive prices.

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Rating Outlook

Factors that can improve the rating and the rating outlook:

- A significant increase in the Company's activity and equity base, at steady financial strength and coverage ratios
- Maintenance of adequate levels of liquidity and financial flexibility to service debt

Factors that can lower the rating:

- Significant erosion in financial parameters and any failure to meet forecasts presented to Midroog
- Dividend payments that deviate from the presentation to Midroog and investment in business activities that impair the Company's risk profile

Methodological Reports

Analysis of Real Estate Companies - Methodology Report, February 2016

The reports are published on the Midroog website, at www.midroog.co.il

Date of the report: February 28, 2016

KEY FINANCIAL TERMS

Interest	Net financing expenses from Income Statement
Cash Interest	Financing expenses from income statement after adjustments for non-cash flow expenditures from statement of cash flows
Operating profit (EBIT)	Profit before tax, financing and onetime expenses/profits
Operating profit before amortization (EBITA)	EBIT + amortization of intangible assets.
Operating profit before depreciation and amortization (EBITDA)	EBIT + depreciation + amortization of intangible assets.
Operating profit before depreciation, amortization and rent/leasing (EBITDAR)	EBIT + depreciation + amortization of intangible assets + rent + operational leasing.
Assets	Company's total balance sheet assets.
Debt	Short term debt + current maturities of long-term loans + long-term debt + liabilities on operational leasing
Net debt	Debt - cash and cash equivalent – long-term investments
Capitalization (CAP)	Debt + total shareholders' equity (including minority interest) + long-term deferred taxes in balance sheet
Capital investments **Capital Expenditures (CAPEX)**	Gross investments in equipment, machinery and intangible assets
Funds From Operations (FFO)*	Cash flow from operations before changes in working capital and before changes in other asset and liabilities
Cash Flow from Current Operations (CFO)*	Cash flow from operating activity according to consolidated cash flow statements
Retained Cash Flow (RCF)*	Funds from operations (FFO) less dividend paid to shareholders
Free Cash Flow (FCF)*	Cash flow from operating activity (CFO) - CAPEX - dividends

* It should be noted that in IFRS reports, interest payments and receipts, tax and dividends from investees will be included in the calculation of the operating cash flows, even if they are not entered in cash flow from operating activity.

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Obligations Rating Scale

Aaa.il	Issuers or issues rated Aaa.il are those that Midroog judges to have superior creditworthiness relative to other local issuers.
Aa.il	Issuers or issues rated Aa.il are those that Midroog judges to have very strong creditworthiness relative to other local issuers.
A.il	Issuers or issues rated A.il are those that Midroog judges to have relatively high creditworthiness relative to other local issuers.
Baa.il	Issuers or issues rated Baa.il are those that Midroog judges to have relatively moderate credit risk relative to other local issuers, and could involve certain speculative characteristics.
Ba.il	Issuers or issues rated Ba.il are those that Midroog judges to have relatively weak creditworthiness relative to other local issuers, and involve speculative elements.
B.il	Issuers or issues rated B.il are those that Midroog judges to have relatively very weak creditworthiness relative to other local issuers, and involve significant speculative elements.
Caa.il	Issuers or issues rated Caa.il are those that Midroog judges to have extremely weak creditworthiness relative to other local issuers and are very near default, and involve very significant speculative elements.
Ca.il	Issuers or issues rated Ca.il are those that Midroog judges to have extremely weak creditworthiness and very near default, with some prospect of recovery of principal and interest.
C.il	Issuers or issues rated C are those that Midroog judges to have the weakest creditworthiness and are usually in a situation of default, with little prospect of recovery of principal and interest.

Note: Midroog appends numeric modifiers 1, 2, and 3 to each rating category from Aa.il to Caa.il. The modifier '1' indicates that the obligation ranks in the higher end of its rating category, which is denoted by letters. The modifier '2' indicates that it ranks in the middle of its rating category and the modifier '3' indicates that the obligation ranks in the lower end of that category, denoted by letters.

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Additionally, a (hyb) modifier is added to all ratings of hybrid securities issued by banks and insurers. By their terms, hybrid securities allow for the omission of scheduled dividends, interest, or principal payments, which could potentially result in impairment if such an omission occurs. Hybrid securities may also be subject to contractually allowable write-downs of principal. A long-term rating with a (hyb) modifier reflects the relative credit risk associated with that obligation.

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