

OPTIBASE LTD

Form 20-F

March 28, 2019

As filed with the Securities and Exchange Commission on March 28, 2019

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 000-29992

OPTIBASE LTD.

(Exact name of Registrant as specified in its charter)

N/A

Israel

(Translation of Registrant's (Jurisdiction of incorporation  
name into English) or organization)

8 Hamenofim Street

Herzliya 4672559, Israel

+972-73-7073700

(Address of principal executive offices)

Mr. Amir Philips, Chief Executive Officer

Telephone Number: +972-73-7073700, Fax Number: +972-73-7946331, Email: amirp@optibase-holdings.com

8 Hamenofim Street

Herzliya 4672559, Israel

(Name, Telephone, E-Mail and/or Facsimile and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

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Title of Each Class	Name of Each Exchange on Which Registered
Ordinary Shares, par-value NIS 0.65 each	The Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act:  
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:  
Not Applicable

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 5,216,256 Ordinary Shares, par value NIS 0.65 per share, including 17,895 Ordinary Shares held by the Registrant awarding their holders no voting or equity rights.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes            No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes            No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes            No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes            No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of "accelerated filer," "large accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer            Accelerated filer            Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financing Reporting Standards as issued by the International Accounting Standards Board

Other

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If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17            Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes            No

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## CERTAIN DEFINED TERMS

In this annual report, unless otherwise provided, references to the “Company,” “Optibase,” “we,” “us” or “our” are to Optibase Ltd., a company organized under the laws of Israel, and its wholly owned subsidiaries. In addition, references to our financial statements are to our consolidated financial statements, except as the context otherwise requires. References to “U.S.” or “United States” are to the United States of America, its territories and its possessions.

In this annual report, references to “\$” or “dollars” or “U.S. dollars” or “USD” are to the legal currency of the United States, references to “CHF” are to Swiss Francs, references to “€” or “Euro” or “EUR” are to the legal currency of the European Union and references to “NIS” are to New Israeli Shekels, the legal currency of Israel. The Company’s financial statements are presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. Except as otherwise specified, financial information is presented in U.S. dollars. References to a particular “fiscal” year are to the Company’s fiscal year ended December 31 of such year.

## FORWARD LOOKING STATEMENTS

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTIONS ENTITLED “RISK FACTORS”, “INFORMATION ON THE COMPANY” AND “OPERATING AND FINANCIAL REVIEW AND PROSPECTS” AND ELSEWHERE IN THIS REPORT. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT’S BELIEFS, ASSUMPTIONS AND EXPECTATIONS OF OUR FUTURE OPERATIONS AND ECONOMIC PERFORMANCE, TAKING INTO ACCOUNT CURRENTLY AVAILABLE INFORMATION. IN ADDITION, READERS SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS ANNUAL REPORT AND IN THE COMPANY’S PERIODIC REPORTS AND OTHER DOCUMENTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FROM TIME TO TIME. WE DO NOT UNDERTAKE ANY OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE, EXCEPT AS MAY BE REQUIRED UNDER APPLICABLE SECURITIES LAWS AND REGULATIONS.

## PART I

## ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

## ITEM 3. KEY INFORMATION

## 3.A. SELECTED CONSOLIDATED FINANCIAL DATA

We derived the consolidated statement of operations data for the years ended December 31, 2016, 2017, and 2018 and consolidated balance sheet data as of December 31, 2017 and 2018 from the audited consolidated financial statements included elsewhere in this annual report. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, and audited by our independent registered public accounting firm. We derived the consolidated statement of operations data for the years ended December 31, 2014 and 2015 and the consolidated balance sheet data as of December 31, 2014, 2015 and 2016 from audited consolidated financial statements that are not included in this Form 20-F that were also prepared in accordance with U.S. GAAP and audited by our independent registered public accounting firm. The selected financial data set forth below should be read in conjunction with and are qualified by reference to “Item 5. Operating and Financial Review and Prospects” and the financial statements, and notes thereto and other financial information included elsewhere in this annual report on Form 20-F.

	Year Ended December 31,				
	2014	2015	2016	2017	2018
Consolidated Statement of Operations Data:	(U.S. dollars in thousands, except per share data)				
Fixed income from real estate rent	\$13,938	\$15,273	\$16,338	\$16,587	\$16,608
Costs and expenses:					
Cost of real estate operation	2,777	2,958	3,159	3,057	2,991
Real estate depreciation and amortization	3,813	3,925	4,244	4,209	4,317
General and Administrative	2,167	1,849	2,615	2,698	3,500
Other operating costs	-	2,352	-	-	-
Total costs and expenses	8,757	11,084	10,018	9,964	10,808
Gain on sale of operating properties	2,709	-	-	-	-
Operating income	7,890	4,189	6,320	6,623	5,800
Other income	394	429	1,116	597	607
Financial expenses, net	(1,151 )	(1,807 )	(3,366 )	(2,769 )	(2,882 )
Net income before taxes on income	7,133	2,811	4,070	4,451	3,525
Taxes on income	(1,502 )	(1,609 )	(1,627 )	(1,602 )	(1,464 )
Equity share in losses of associates, net	(186 )	(31 )	(323 )	(1,677 )	(2,765 )
Net income	\$5,445	\$1,171	\$2,120	\$1,172	\$704
Net income attributable to non-controlling interest	2,106	2,239	1,925	2,295	2,077

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Net income (loss) attributable to Optibase LTD	\$3,339	\$(1,068 )	\$195	\$(1,123 )	\$(2,781 )
Net earnings (loss) per share :					
Basic and Diluted net earnings (loss) per share from continuing operations	\$0.65	\$(0.21 )	\$0.04	\$(0.22 )	\$(0.54 )
Basic and diluted net income per share from discontinued operations	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Basic and diluted net earnings (loss) per share	\$0.65	\$(0.21 )	\$0.04	\$(0.22 )	\$(0.54 )
Weighted average number of shares used in computing basic and diluted net earnings (loss) per share (in thousands):					
Basic	5,127	5,133	5,147	5,180	5,185
Diluted	5,131	5,133	5,157	5,180	5,185

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Consolidated Balance Sheet Data:	Year Ended December 31,				
	2014	2015	2016	2017	2018
	(U.S. dollars in thousands)				
Cash and cash equivalents	\$22,902	\$23,806	\$16,024	\$20,268	\$13,836
Working capital	14,500	10,360	97	8,927	2,662
Real estate property net	185,204	214,840	207,690	216,726	212,349
Total assets	218,004	262,944	250,384	259,303	243,958
Long term loans and bonds, including current maturities	112,481	161,100	149,781	155,181	144,309
Capital Stock	138,886	138,949	139,148	139,163	139,181
Total shareholders' equity	\$77,075	\$75,584	\$74,128	\$77,068	\$73,393

### 3.B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

### 3.C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

### 3.D. RISK FACTORS

Our business operations are subject to various risks resulting from changing economic, political, industry, business and financial conditions. In addition, this annual report contains various forward-looking statements that reflect our current views with respect to future events and financial results. Below we attempt to identify and describe the principal uncertainties and risk factors that in our view at the present time may affect our financial condition, cash flows and results of operations and our forward-looking statements. Readers are reminded that the uncertainties and risks identified below in this annual report do not purport to constitute a comprehensive list of all the uncertainties and risks, which may affect our business and the forward-looking statements in this annual report. In addition, we do not undertake any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

#### Risks Relating to the Economy, Our Financial Condition and Shareholdings

We have a history of losses and we might not be able to sustain profitability.

In 2014 and 2016 we were profitable, while in 2015, 2017, and 2018 we operated at a loss. During 2015, we operated at a loss mainly due to acquisition-related costs of \$2.4 million related to the acquisition of the twenty-seven (27) supermarkets in Bavaria. During 2017 and 2018, we operated at a loss mainly due to equity losses related to the investment in 300 River Holdings, LLC, which beneficially owns the rights to a 23-story Class A office building located at 300 South Riverside Plaza in Chicago, IL.

As of December 31, 2018, we have accumulated losses of \$85 million. Given current market conditions, the demand for our real estate properties and other expenses, we may operate at a loss and may not be able to sustain profitability in the future, and our operating results for future periods will continue to be subject to numerous uncertainties and risks. We cannot assure you that we will be able to increase our revenues and sustain profitability. For further details regarding our cash flow, see Item 5.B “Operating and Financial Review and Prospects - Liquidity and Capital Resources”.

We may be affected by instability in the global economy, including the recent European economic and financial turmoil.

Instability in the global credit markets, including the European economic and financial turmoil related to sovereign debt issues in certain countries, the instability in the geopolitical environment in many parts of the world and other disruptions, such as changes in energy costs, may continue to put pressure on global economic conditions. The world has experienced a global macroeconomic downturn, and if global economic and market conditions, or economic conditions in key markets, remain uncertain, stagnant or deteriorate further, we may experience material adverse impacts on our business, operating results, and financial condition.

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Our ability to freely operate our business is limited as a result of certain covenants included in the deed of trust of our Series A Bonds.

The deed of trust governing the Series A Bonds, or the Series A Deed of Trust, contains a number of covenants that limit our operating and financial flexibility (such as our minimum equity (excluding minority interest) will not be less than \$33 million; our equity (including minority interest) to balance sheet ratio will not be less than 25%; and the net financial debt to CAP ratio will not be greater than 70%). For a description of Series A Deed of Trust, see Item 5.B “Operating and Financial Review and Prospects - Liquidity and Capital Resources”. As of December 31, 2018 the outstanding amount under the Series A Bonds was 7.9 million.

Our ability to continue to comply with these and other obligations depends in part on the future performance of our business. Such covenants may hinder our ability to finance our future operations or the manner in which we operate our business. In particular, any non-compliance with our financial covenants and other undertakings under Series A Deed of Trust could result in demand for immediate repayment of the outstanding amount under the Series A Bonds and restrict our ability to obtain additional funds, which could have a material adverse effect on our business, financial condition and our results of operations.

We may continue to seek to expand our business through acquisitions that could result in a diversion of resources and our incurring additional expenses, which could disrupt our business and harm our financial condition.

As we have done in the past, we may in the future continue to pursue acquisitions of businesses, or the establishment of joint ventures, that could expand our business. The negotiation of potential acquisitions or joint ventures as well as the integration of an acquired or jointly developed business, could cause diversion of management’s time as well as our resources. Future acquisitions could result in:

- Additional operating expenses without additional revenues;
- Potential dilutive issuances of equity securities;
- The incurrence of debt and contingent liabilities;
- Amortization of bargain purchase gain and other intangibles;
- Impairment charges; and
- Other acquisition-related expenses.

Acquired businesses or joint ventures may not be successfully integrated with our operations. If any acquisition or joint venture were to occur, we may not receive the intended benefits of the acquisition or joint venture. If future acquisitions disrupt our operations, our business may suffer.

A large percentage of our ordinary shares are held by one shareholder who could significantly influence the outcome of actions.

The Capri Family Foundation, or Capri, a foundation organized under the laws of the Republic of Panama, beneficially owns, directly and indirectly through its subsidiaries, approximately 73.03% of our outstanding ordinary shares as of March 20, 2019, or within 60 days thereafter. For further information, see Item 4.A. “History and Development of The Company” and Item 7.A. “Major Shareholders” below. As a result of such holdings in our ordinary shares, Capri can significantly influence the outcome of corporate actions requiring an ordinary majority approval by our shareholders, including the election of directors and the approval of mergers or other business combination

transactions.

We are currently, and may be in the future, the target of securities class action, derivative claim or other litigation, which could be costly and time consuming to defend.

In the past, following a period of volatility in the market price of a company's securities, securities class action lawsuits, derivative claims and other actions have often been taken against public companies and their directors and officers. Recent years have been characterized by a substantial increase in the number of requests for certification of class actions and derivative claims filed and approved in Israel. In May 2015, we were served with a motion to approve the filing of a derivative claim against the Company's controlling shareholder, directors and CEO and certain former controlling shareholder and directors, which is still pending, in which we are sued for approximately \$41.9 million. If this motion is approved and the derivative claim is accepted, this may have a material adverse effect on our financial results. Additionally, and due to the nature of derivative claims, regardless of its outcome, and even if the claims are without merit, we may incur substantial costs and our management resources that are diverted to defending such litigation. For information regarding a pending litigation with LEM Switzerland SA, or LEM, one of our material tenants pursuant to which LEM argues a reduction of its rent as well as related damages, see Item 8. "Financial Information - Legal Proceedings".

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We have experienced significant fluctuations in our results of operations at times in the past and expect these fluctuations to continue. These fluctuations may result in volatility in our share price.

We have experienced at times in the past, and may in the future experience, significant fluctuations in our quarterly and annual results. Factors that may contribute to the fluctuations in our quarterly results of operations include:

- The purchase or failure to purchase real-estate assets;
- Changes in rent prices for our properties;
- Changes in presence of tenants and tenants' insolvency;
- Changes in the availability, cost and terms of financing;
- The ongoing need for capital improvements;
- Changes in foreign exchange rates;
- Changes in interest rates; and
- General economic conditions, particularly in those countries or regions in which we operate.

It is likely that in some future periods, our operating results may be below expectations of public market analysts or investors. If this occurs, the market price of our ordinary shares may drop.

The trading price of our ordinary shares has been volatile, and may continue to fluctuate due to factors beyond our control.

The trading price of our ordinary shares is and will continue to be subject to significant fluctuations in response to numerous factors, including:

- Availability of funding resources for the acquisition of new real estate assets;
- General market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors;
- Seizure of a substantial business opportunity by our competitors or us;
- Changes in interest rates;
- Changes in foreign exchange rates;
- The entering into new businesses;
- Quarterly variations in our results of operations or in our competitors' results of operations; and
- Changes in earnings estimates or recommendations by securities analysts.

This volatility may continue in the future. In addition, any shortfall or changes in our revenues, operating income, earnings or other financial results could cause the market price of our ordinary shares to fluctuate significantly. In recent years, the stock market has experienced significant price and trading volume fluctuations, which have particularly affected the market price of many companies and which may not be related to the operating performance of those companies. These broad market fluctuations have affected and may continue to affect adversely the market price of our ordinary shares. In recent years, the trading price of our ordinary shares has been highly volatile. From January 2018 through March 20, 2019, the closing price of our ordinary shares listed on the NASDAQ Global Market fluctuated reaching a high of \$10.2 and decreasing to a low of \$7.42. The fluctuations and factors listed above, as well as general economic, political and market conditions may further materially adversely affect the market price of our ordinary shares.

Our effective tax rate could be materially affected by several factors including, among others, changes in the amount of income taxed by or allocated to the various jurisdictions in which we operate that have differing statutory tax rates, changing tax laws, regulations and interpretations of such tax laws in multiple jurisdictions.

We conduct our business globally and file income tax returns in multiple jurisdictions. We report our results of operations based on our determination of the amount of taxes owed in the various jurisdictions in which we operate. The determination of our consolidated provision for income taxes and other tax liabilities requires estimation, judgment and calculations where the ultimate tax determination may not be certain. Our determination of tax liability is always subject to review or examination by authorities in various jurisdictions.

If a tax authority in any jurisdiction reviews any of our tax returns and proposes an adjustment, including as a result of a determination that the transfer prices and terms we have applied are not appropriate, such an adjustment could have a negative impact on our financial results.

There is a substantial risk that we are a passive foreign investment company, and holders of our ordinary shares who are United States residents face income tax risks.

There is a substantial risk that we are a passive foreign investment company, commonly referred to as PFIC. Our treatment as a PFIC could result in a reduction in the after-tax return to the holders of our ordinary shares and would likely cause a reduction in the value of such ordinary shares. For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) at least 50% of the average value of all of our assets for the taxable year produce or are held for the production of passive income. For this purpose, cash and real estate properties are considered to be an asset, which produces passive income. As a result of our substantial cash position and the decline in the value of our stock, we believe that there is a substantial risk that we may have been a PFIC during the taxable year ended December 31, 2018, under a literal application of the asset test described above, which looks solely to the market value. If we are classified as a PFIC for U.S. federal income tax purposes, highly complex rules would apply to U.S. holders owning ordinary shares. Accordingly, you are urged to consult your tax advisors regarding the application of such rules. In addition, there can be no assurance that we will not be classified as a PFIC in the future, because the determination of whether we are a PFIC is based upon the composition of our income and assets from time to time, and such determination cannot be made with certainty until the end of a calendar year. United States residents should carefully read “Item 10.E. Taxation” under the heading “United States Federal Income Tax Consequences” below for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our ordinary shares.

We do not intend to pay dividends.

We have never declared or paid any cash dividends on our ordinary shares. We currently intend to retain any future earnings to finance operations and expand our business and, therefore, do not expect to pay any dividends in the foreseeable future.

We manage our available cash through investments in various bank deposits and money market funds with leading banks. We are exposed to the credit risk of such banks.

During 2018, our available cash was invested in various bank deposits and money market funds with various banks. Our available cash is subject to the credit risk of the banks with which the funds are deposited and as such we may suffer losses if those banks fail to repay those deposits.

The extenuations given to us as a foreign private issuer impact our publicly available information.

As a foreign private issuer, we are permitted to file less information with the SEC than a company incorporated in the United States. Accordingly, there may be less publicly available information concerning us than there is for companies incorporated in the United States.

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We are obligated to develop and maintain proper and effective internal controls over financial reporting. These internal controls may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our ordinary shares.

We are required, pursuant to Section 404 of the Sarbanes–Oxley Act of 2002, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting on an annual basis. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. We are required to disclose changes made in our internal control and procedures on a quarterly basis. However, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 since the company is non-accelerated filer.

#### Risks Relating to our Business

The real estate sector continues to be cyclical and affected by changes in general economic, or other business conditions that could materially adversely affect our business or financial results.

The real estate sector has been cyclical historically and continues to be significantly affected by changes in industry conditions, as well as in general and local economic conditions, such as:

- employment levels;
- availability of financing for homebuyers and for real estate investors/funds;
- interest rates;
- consumer confidence and expenditure;
- levels of new and existing homes for sale;
- demographic trends;
- urban development and changes;
- housing demand;
- local laws and regulations; and
- acts of terror, floods or earthquakes.

These may occur on a global scale, like the recent housing downturn, or may affect some of the regions or markets in which we operate. An oversupply of alternatives to our real estate properties can also reduce our ability to lease spaces and depress lease prices, thus reducing our margins.

As a result of the foregoing matters, we may face difficulties in the leasing of our projects and we may not be able to recapture any increased costs by raising lease payments.

We rely on one large property for a significant portion of our revenue.

As of December 31, 2018, our commercial property, CTN complex, in Geneva, Switzerland, accounted for approximately 64% of our portfolio annualized rent. Our revenue would be materially adversely affected if this property was materially damaged or destroyed. Additionally, our revenue would be materially adversely affected if rental payments at this property decrease or if tenants at this property fail to timely make rental payments due to adverse financial conditions or otherwise, default under their leases or file for bankruptcy. For information regarding the CTN complex and regarding a pending litigation with LEM pursuant to which LEM argues a reduction of its rent as well as related damages, see Item 8 “Financial Information - Legal Proceedings”.

With respect to our commercial properties, we are dependent on the continued tenant demand for our properties. If there is a decrease in tenant demand and an increase in vacancy of our commercial properties, it would adversely affect our financial condition and results of operations.

We own, through our subsidiaries, holdings in several commercial real estate properties, which are currently leased to third parties. In most of our commercial properties we rely on a few tenants which occupy a significant portion of the available rentable area in such properties. For further details regarding the leases of tenants in our properties see Item 4.B. “Business Overview - Properties”. If the lease agreements with such tenants are terminated, there is no assurance that we will be able to attract new lessees in favorable terms or at all, which would materially adversely affect our financial condition and results of operations.

Economic recession, pressures that affect consumer confidence, job growth, energy costs and income gains can affect the financial condition of prospective tenants, and a continuing soft economic cycle may impact our ability to find tenants for our properties. Failure to attract tenants, the termination of a tenant's lease, or the bankruptcy or economic decline of a tenant may adversely affect the rent fees for our properties and adversely affect our financial condition and results of operations.

We may have difficulties leasing real-estate properties.

The fixed income real-estate sector relies on the presence of tenants in the real-estate assets. The failure of a tenant to renew its lease, the termination of a tenant's lease, or the bankruptcy or economic decline of a tenant can have a material adverse effect on the economic performance of the real-estate asset. There can be no assurance that if a tenant were to fail to renew its lease, we would be able to replace such tenant in a timely manner or that we could do so without incurring material additional costs. In addition, we are dependent on our ability to enter into new leases on favorable terms with third parties, in order to receive a profitable price for each real-estate property. We may find it more difficult to engage tenants to enter into leases during periods when market rents are increasing, or when general consumer activity is decreasing, or if there is competition for tenants from competing properties. The existence of competitive alternatives could have a material adverse effect on our ability to lease space and on the level of rents we can obtain. The global economic condition, pressures that affect consumer confidence, job growth, energy costs and income gains can affect retail sales growth, and a continuing soft economic cycle, may impact our ability to find tenants for our properties. Failure to attract tenants, the termination of a tenant's lease, or the bankruptcy or economic decline of a tenant may adversely affect the price obtainable for our real estate projects and adversely affect our financial condition and results of operations. The failure of tenants to abide by the terms of their agreements may cause delays or result in a temporary or long term decline in rental income, the effects of which we may not be able to offset due to difficulties in finding a suitable replacement tenant.

We are depended on the solvency of our tenants and may lease properties at below expected rental rates.

Rental leases may decrease below our expectations. In the case of such decrease, or if circumstances arise beyond our control, such as market prices, market demand and negative trends, we may have to sell a project at a price below our projections. In addition, we could be in a position where there would be no demand at acceptable prices and we would be required to hold, operate and maintain the project until the financial environment would improve and allow its disposal.

In addition, the ability to collect rents depends on the solvency of the tenants. Tenants may be in default or not pay on time, or we may need to reduce the amount of rents invoiced by lease incentives, to align lease payments with the financial situation of some tenants. In all of these cases, tenant insolvency may hurt our operational results.

We may experience future unanticipated expenses.

Our performance depends, among others, on our ability to pay for adequate maintenance, insurance and other operating costs, including real estate taxes. All of these expenditures could increase over time, and may be more expensive than anticipated. Sources of labor and materials required for maintenance, repair, capital expenditure or development may also be more expensive than we expected. An unplanned deviation from one of the above expenditures, and other, could increase our operating costs.

The fair value of our real estate may be harmed by certain factors, which may entail impairment losses not previously recorded which, in turn, will adversely affect our financial results.

Certain circumstances may affect the fair value of our real estate assets and/or on certain of our shareholding rights in the companies owning such assets, including, among other things, (i) the absence of or modifications to permits or

approvals required for the operation of any real estate asset; (ii) lawsuits that are pending, whether or not we are a party thereto. In addition, certain laws and regulations, applicable to our business in certain countries where the legislation process undergoes constant changes, may be subject to frequent and substantially different interpretations; (iii) agreements which may be interpreted by governmental authorities so as to shorten the term of use of real estate, and which may be accompanied by a demolition order with or without compensation, may significantly affect the value of such real estate asset. The fair value of our real estate assets may be significantly decreased, thereby resulting in potential impairment losses not previously recorded in our financial results.

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Since market conditions and other parameters (such as macroeconomic environment trends, and others), which affect the fair value of our real estate, vary from time to time, the fair value may not be adequate on a date other than the date the measurement was executed (in general, immediately after the annual balance sheet date). In the event the projected forecasts regarding the future cash flows generated by those assets are not met, we may have to record an additional impairment loss not previously recorded.

In addition, any change in the yield rate of any of our real estate assets may cause a significant decrease to the fair value of such assets, thereby resulting in potential impairment losses not previously recorded in our financial results.

We may not be able to raise additional financing for our future capital needs on favorable terms, or at all, which could limit our growth and increase our costs and could adversely affect the price of our ordinary shares.

Real estate activities are largely financed from external sources. We cannot be certain that we will be able to obtain financing on favorable terms for our future real estate activities, or at all. In addition, an adverse change can occur in the terms of the financing that we receive. Any such occurrence could increase our financing costs and/or result in a material adverse effect on our results and ability to develop our real estate business. The amount of long term loans currently outstanding may inhibit our ability to obtain additional financing for our future capital needs, inhibit our long-term expansion plans, increase our costs and adversely affect the price of our ordinary shares.

It is probable that we will need to raise additional capital in the future to support our strategic plans. We cannot be certain that we will be able to obtain additional financing on commercially reasonable terms or at all. If we are unable to obtain additional financing, this could inhibit our growth and increase our operating costs.

In the event we are unable to continuously comply with the covenants, including with respect to financial covenants, which we undertook with respect to our properties, our results of operations may be adversely affected.

In connection with the financing of most of our properties, we have long-term agreements with several banks. The agreements that govern the provision of financing include, among other things, undertakings and financial covenants that we are required to maintain for the duration of such financing agreements. For further details see Item 5.B. "Liquidity and Capital Resources". Those existing agreements allow the lender to demand an immediate repayment of the loans in certain events (events of default), including, among other things, a material adverse change in the Company's business and noncompliance with the financial covenants set forth in those agreements. The occurrences of any event of default may have an adverse effect on our financial position and results of operations and on our ability to obtain outside financing for our continued growth.

Rapid and significant changes in interest rates may adversely affect our profitability.

We have financed the purchase of the CTN complex and the Rumlang property with loans bearing floating interest rates and further refinanced during 2017 the existing loan secured by our condominium units in Miami with a loan which bears a floating interest rate (as of December 31, 2018 the balance of all such loans was \$111.5 million, see also Item "Item 5.B Operating and Financial Review and Prospects – Liquidity and Capital Resources."). As a result, we are exposed to changes in the LIBOR interest rate (LIBOR on the US Dollar and LIBOR on the CHF). An increase in the LIBOR interest rate could materially adversely affect our financial expenses and thereby our profitability. In light of the low interest rate environment we have also decided at this stage not to perform hedging against our exposure to such changes in interest rates.

An adverse change in the Swiss real estate market will adversely affect our results of operations.

Two of our investments, including our most significant property (the CTN complex in Geneva), are located in Switzerland. From 2013 to 2018, as Swiss interest rates declined, Swiss real estate prices increased mainly due to the low interest rates and lack of investment alternatives. Along with the historically low interest rates, the overall availability of financing has decreased significantly as LTV (Loan to Value) rates have been reduced by lenders, leading to more pressure on leveraged transactions further decreasing investments yields. At the same time, there was no increase in the demand for new rental spaces and the rental market appeared to be keeping stable with a slight slowdown, in particular the demand for prime office space and the price for such real estate properties. In addition and partially due to the low available yields in the investment market, there is a significant increase in new developments, based on available equity investments (as opposed to leveraged investments). Such investments will mature and be available in the near future and may have a significant impact on our rental properties as they will significantly increase the availability of rentable area in the vicinity of our rental properties. Any significant adverse change in the real estate market in Switzerland, such as lack of attractive financing, a decline in the real estate rates or decrease in demand for the type of properties we own, will adversely affect our results of operations.

We may suffer adverse consequences if our revenues decline since our operating costs do not necessarily decline in proportion to our revenue.

We earn a significant portion of our income from renting our properties. Our operating costs, however, do not fluctuate in relation to changes in our rental revenue. As a result, our costs will not necessarily decline even if our revenues do. Similarly, our operating costs could increase while our revenues stay flat or decline. In either such event, we may be forced to borrow to cover our costs or we may incur losses.

Because of our small size, we rely on a small number of personnel who possess both executive and financial expertise, and the loss of any of these individuals would hurt our ability to implement our strategy and may adversely affect our financial results.

Because of our small size and our reliance on a limited financial and management personnel, our continued growth and success depends upon the continued contribution of the managerial skills of our financial and management personnel. If any of the current members of the management is unable or unwilling to continue in our employ, our results of operations could be adversely affected.

We may experience difficulties in finding suitable real-estate properties for investment, either at all or at viable prices.

Being a company that engages in investments in real-estate, finding a suitable real-estate property for investment is critical to our income. Such finding becomes difficult as the demand for real-estates in the markets we are involved in grows, and the supply decreases. Therefore, difficulties in finding suitable real-estate properties for investment may affect our growth and the number of assets we have to offer, and therefore materially affect our potential profit and our business and results of operation.

The choice of suitable locations for real estate projects is an important factor in the success of the individual projects. For example, office space should ideally be located within, or near, the city center, with well-developed transportation infrastructure (road and rail) located in close proximity to facilitate customer access. If we are not able to find sites in the target cities which meet our criteria or which meet our price range, this may materially adversely affect our business and results of operation.

In addition, we may be unable to proceed with the acquisition of properties because we cannot obtain financing on favorable terms or at all. We may require substantial up-front expenditures for property acquisition. Accordingly, we may require substantial amounts of cash and financing from banks and other capital resources (such as institutional

investors and/or the public) for our real estate operations. We cannot be certain that such external financing would be available on favorable terms or on a timely basis or at all.

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We face risks associated with property acquisitions.

We may acquire individual properties and portfolios of properties, including large portfolios that could significantly increase our size and alter our capital structure. Our acquisition activities may be exposed to, and their success may be adversely affected by, the following risks:

- even if we enter into an acquisition agreement for a property, it is usually subject to customary conditions to closing, including due diligence investigations to our satisfaction;
- we may be unable to finance acquisitions on favorable terms or at all;
- acquired properties may fail to perform as we expected;
- we may not be able to obtain adequate insurance coverage for new properties; and
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and therefore our results of operations and financial condition could be adversely affected.

We may acquire properties or property holding companies subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a liability were asserted against us arising from our ownership of those properties, we might have to pay substantial sums to settle it, which could adversely affect our cash flow. Unknown liabilities with respect to properties acquired might include:

- liabilities for clean-up of undisclosed environmental contamination;
- claims by tenants, vendors or other persons arising from dealing with the former owners of the properties;
- liabilities incurred in the ordinary course of business; and
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

The illiquidity of real-estate properties may affect our ability to sell our properties.

Real estate properties in general are relatively illiquid. Such illiquidity may affect the ability to dispose of or liquidate part of real-estate assets in a timely fashion and at satisfactory prices in response to changes in the economic environment, the real estate market or other conditions.

An adverse change in the German real estate market will adversely affect our results of operations.

Since 2015, we have owned through our wholly-owned subsidiary, a portfolio of supermarkets located mainly in Bavaria, Germany. As the European economy have been stagnant at best over the last few years, the German economy and its real estate sector have shown significant signs of improvement also fueled by a steady decrease in interest rates, an increase in availability of financing and the increasing demand for real estate investments by foreign investors drawn to the German market by the reduced availability of other rewarding investment opportunities in the European market. During 2018, the German real estate market has shown signs of maturity and stabilization. Availability of financing and interest rates are stable, as well as the demand for rental properties. Any significant adverse change in the real estate market in Germany, such as an increase of interest rates, a decrease in availability of financing, a decline in the real estate rates or decrease in demand for the type of properties we own, will adversely



affect our results of operations.

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An adverse change in the U.S. real estate market will adversely affect our results of operations.

We own, through our wholly-owned subsidiary, several U.S. real estate properties located in Philadelphia, Texas, Chicago and Miami. From 2014 to 2017, the U.S. real estate market has shown signs of improvement and a consistent increase in assets prices as the demand for investments increased significantly also driven by financial institutions increased willingness to finance new transactions along with low interest rates. Throughout 2018, we have witnessed certain changes in the U.S real estate market. While the commercial segment has remained stable along with a steady demand for commercial and office space rental, the high-end residential market has experienced a significant decrease in the demand for investment properties along with an increase in the availability of such assets, which in turn, has put pressure on the prices of such properties. Any significant adverse change in the real estate market in the United States, such as a significant increase of interest rates, a decline in the real estate rates or decrease in demand for the type of properties we own, will adversely affect our results of operations.

With respect to our residential properties in Miami, Florida, the success of our investment will depend on market conditions.

We own, through our wholly-owned subsidiary, 25 residential properties in Miami and Miami Beach, Florida, including 21 luxury condominium units and two penthouse units in the Marquis Residences, one penthouse unit in Ocean One Condominium and one condominium units in the Continuum on South Beach Condominium. To date, 23 of the units have been fully constructed and are in rentable condition, while two penthouses are still undergoing renovations and remodeling. Currently 18 of the units are occupied by tenants and the remaining units are being marketed to potential tenants and potential buyers. For further information, see Item 4.B. “Business Overview - Real Estate Business”.

We intend to keep holding the units for investment purposes and will consider renting or selling the units in accordance with our business considerations and market conditions. Depending on our decision, we may be unable to sell or lease up these condominium properties on schedule or on favorable terms, which may result in a decrease in expected rental revenues and/or lower yields, if any.

We depend on partners in our partnerships and collaborative arrangements.

We currently, with respect to our real-estate properties in Geneva, Switzerland, Philadelphia, Chicago and Texas, and we may, in the future, own interests in real-estate assets or real-estate holding companies in partnership with other entities. Our investments in these partnerships may, under certain circumstances, be subject to (i) the risk that one of our partners may become bankrupt or insolvent or may not fulfill its financial obligations under our partnership agreements, which may cause us to provide financing in excess of our ownership share or which may cause us to be unable to fulfill our financial obligations, possibly triggering a default under our bank financing agreements or, in the event of a liquidation, preventing us from managing or administering our business or entail a compulsory sale of the asset at less favorable terms; (ii) the risk that one of our partners may have economic or other interests or goals that are inconsistent with our interests and goals, and that such partner may be in a position to veto actions which may be in our best interests; and (iii) the possibility that disputes may arise regarding the continued operational requirements of our assets that are jointly owned. In addition, we hold approximately 30%, approximately 22% and approximately 4%, respectively, of the beneficial interest in the real-estate properties located in Chicago, Philadelphia and Texas. Our minority interest causes us to rely on our partners to manage the properties, and our influence over decisions regarding the properties and their management is limited.

Cause of physical damages and other nature losses may affect our properties.

Properties could suffer physical damage caused by fire or other causes, resulting in losses which may not be fully compensated by insurance. In addition, there are certain types of losses, generally of a catastrophic nature, such as

earthquakes, floods, terrorism or acts of war that may be uninsurable or are not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors, including terrorism or acts of war, also might result in insurance proceeds being insufficient to repair or replace a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds may be inadequate to restore the economic position with respect to the affected properties. Should an uninsured loss or a loss in excess of insured limits occur, we could lose capital invested in the affected property as well as anticipated profits from that property. No assurance can be given that material losses in excess of insurance proceeds will not occur in the future.

Competition for acquisitions may reduce the number of acquisition opportunities available to us and increase the costs of those acquisitions.

We plan to continue acquiring properties as we are presented with attractive opportunities. We may face competition for acquisition opportunities from other investors, particularly private investors who can incur more leverage, and this competition may adversely affect us by subjecting us to the following risks:

- an inability to acquire a desired property because of competition from well-capitalized real estate investors, including publicly traded and privately held REITs, private real estate funds, domestic and foreign financial institutions, life insurance companies, sovereign wealth funds, pension trusts, partnerships and individual investors; and
- an increase in the purchase price for such acquisition property, in the event we are able to acquire such desired property.

Environmental discoveries may have a significant impact on the value, viability and marketability of our assets.

We may encounter unforeseen decrease in value of our assets due to factors beyond our control caused by previously unknown soil contamination or the discovery of archaeological findings which may have a significant impact and a detrimental effect on the value, viability or marketability of our assets or cause legal liability in connection with our real estate properties. We may be liable for the costs of removal, investigation or remedy of hazardous or toxic substances located on or in a site owned or leased by us, regardless of whether we were responsible for the presence of such hazardous or toxic substances. The costs of any required removal, investigation or remedy of such substances may be substantial and/or may result in significant budget overruns. The presence of such substances, or the failure to remedy such substances properly, may also adversely affect our ability to sell or lease such property or to obtain financing using the real estate as security. Additionally, any future sale of such property will be generally subject to indemnities and warranties to be provided by us to the purchaser against such environmental liabilities. Accordingly, we may continue to face potential environmental liabilities with respect to a particular property even after such property has been sold. Laws and regulations may also impose liability for the release of certain materials into the air or water from a property, and such release can form the basis for liability to third persons for personal injury or other damages. Other laws and regulations can limit the development of, and impose liability for, the disturbance of wetlands or the habitats of threatened or endangered species. Any environmental issue may significantly cause decrease in value of our assets or vacancy periods in our leased properties, which could have a material adverse effect on the profitability of that asset and our results of operations and cash flows.

We are exposed to cyber security risks that, if materialized, may adversely affect our business and operations.

Our operations rely on computer, information and communications technology and various computer hardware and software applications. Despite our implementation of network security measures, our tools and servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems and tools located at customer sites, or could be subject to system failures or malfunctions for other reasons. System failures or malfunctioning could disrupt our operations and our ability to timely and accurately process and report key components of our financial results.

#### Risks Relating to the Sale of our Video Solutions Business

On March 16, 2010 we and our subsidiary, Optibase Inc., entered into an asset purchase agreement for the sale of all of the assets and liabilities related to our Video Solutions Business. For further details see Item 10.C “Material Contracts”. The following is a risk related to the sale of our Video Solutions Business:

We have been and may, in the future, be subject to further review in connection with government programs that we participated in or received.

During our activities in the Vitec Solutions Business, we received grants from the Israel Innovation Authority, or the IIA, in the Israeli Ministry of Industry, Trade and Labor for research and development programs that meet specified criteria. In addition, we were also involved in joint research projects with European Companies under the auspices of, and with financial assistance from, the European Union Research and Development Framework Programs.

In that respect, during 2009 and 2010 we were audited by the European Union, or the EU, for grants received under three FP6 contracts. As a result of the audit findings implementation, during 2012, we paid an aggregate amount of approximately Euro 340,000 which settled and concluded the financial audit.

Furthermore, we were undergoing an audit by the IIA for royalties paid before the sale of our Video Solutions Business. A payment to the IIA will adversely affect our cash flow, although from financial prospective, at this time, we believe that we have sufficient provisions to cover the final outcome of such review processes. For further details

see Item 4.B “Business Overview - Remaining items of the Video Solution Business”.

In addition to such audits, we may in the future be subject to further reviews in connection with government programs that we participated in or received during our activities in the Video Solutions Business. Any review of such kind could result in substantial cost which would have a negative impact on our financial condition.

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## Risks Relating to Operations in Israel

The rights and responsibilities of our shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our articles of association and by the Israeli Companies Law, 1999, or the Companies Law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, pursuant to the Companies Law each shareholder of an Israeli company has to act in good faith in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his or her power in the company, including, among other things, in voting at the general meeting of shareholders and class meetings, on amendments to a company's articles of association, increases in a company's authorized share capital, mergers, and transactions requiring shareholders' approval under the Companies Law. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that it possesses the power to determine the outcome of a shareholder vote, or who has the power to appoint or prevent the appointment of a director or officer in the company, or has other powers toward the company, has a duty of fairness toward the company. However, Israeli law does not define the substance of this duty of fairness. Because Israeli corporate law has undergone extensive revision in recent years, there is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

Because a significant amount of our revenues is generated in Swiss Francs and in Euro but a portion of our expenses is incurred in New Israeli Shekels and in US dollars, our results of operations may be harmed by currency fluctuations.

Our management believes that the U.S. dollar is the currency in the primary economic environment in which we operate. Thus, our functional and reporting currency is the U.S. dollar. Notwithstanding, we generate a significant amount of our revenues in CHF (Swiss Franc) and in Euro and incur a portion of our expenses in NIS and in U.S. dollars. As a result, we are exposed to currency fluctuation of the U.S. dollar against the CHF the Euro and the NIS.

The fluctuations in the dollar costs of our operations in Israel related primarily to the costs of salaries in Israel, which are paid in NIS and constitute a portion of our expenses and the interest and principal payments of our series A bonds are made in NIS. We cannot assure you that we will not be adversely affected in the future if inflation in Israel exceeds the fluctuation of NIS against the U.S dollars or if the timing of such fluctuation lags behind increases in inflation in Israel.

Our operations could also be adversely affected if we are unable to guard against currency fluctuations in the future. Accordingly, we perform hedging transactions from time to time according to our board's approval. In the future we may enter into additional currency hedging transactions to decrease the risk of financial exposure from fluctuations. These measures, however, may not adequately protect us from adverse effects due to the impact of inflation in Israel.

The deflation rate in Israel was approximately (0.2) % in 2016, an inflation rate of approximately 0.4% in 2017 and a deflation rate of approximately (0.2) % in 2018. The changes of the NIS against the dollar was an appreciation of approximately 1.5% in 2016, 9.8% in 2017, and a devaluation of approximately (8.1)% in 2018. The change of the CHF against the dollar was a devaluation of approximately (2.8)% in 2016, an appreciation of approximately 4.4% in 2017, and a devaluation of approximately (0.8)% in 2018. The change of the Euro against the dollar was a devaluation of approximately (3.6)% in 2016, an appreciation of approximately 13.7% in 2017 and a devaluation of approximately (4.5)% 2018.

Our shares are listed for trade on more than one stock exchange, which may result in price variations.

Our ordinary shares are listed for trade on The NASDAQ Global Market and on the Tel Aviv Stock Exchange Ltd., or TASE. This may result in price variations. Our ordinary shares are traded on these markets in different currencies, U.S. dollars on The NASDAQ Global Market and New Israeli Shekels on the TASE. These markets have different opening times and close on different days. Different trading times and differences in exchange rates, among other factors, may result in our shares being traded at a price differential on these two markets. In addition, market influences in one market may influence the price at which our shares are traded on the other.

Potential political, economic and military instability in Israel and its region may adversely affect our results of operations.

We are incorporated under the laws of the State of Israel, our principle offices are located in central Israel and some of our officers, employees and directors are residents of Israel. Accordingly, political, economic and military conditions in Israel and the surrounding region may directly influence us. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Any hostilities involving Israel or the interruption or curtailment of trade within Israel or between Israel and its trading partners could adversely affect our operations and results of operations and could make it more difficult for us to raise capital. In addition, recent political uprisings and conflicts in various countries in the Middle East, including Egypt and Syria, are affecting the political stability of those countries. It is not clear how this instability will develop and how it will affect the political and security situation in the Middle East. This instability has raised concerns regarding security in the region and the potential for armed conflict. It is also widely believed that Iran, which has previously threatened to attack Israel, has been stepping up its efforts to achieve nuclear capability. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon. The tension between Israel and Iran and/or these groups may escalate in the future and turn violent, which could affect the Israeli economy generally and us in particular. Any armed conflicts, terrorist activities or political instability in the region could adversely affect our business conditions, harm our results of operations and adversely affect our share price. No predictions can be made as to whether or when a final resolution of the area's problems will be achieved or the nature thereof and to what extent the situation will impact Israel's economic development or our operations.

Anti-takeover provisions could negatively impact our shareholders.

The Companies Law provides that certain purchases of securities of a public company are subject to tender offer rules. As a general rule, the Companies Law prohibits any acquisition of shares in a public company that would result in the purchaser holding 25% or more, or more than 45% of the voting power in the company, if there is no other person holding 25% or more, or more than 45% of the voting power in a company, respectively, without conducting a special tender offer.

The Companies Law further provides that a purchase of shares or voting rights of a public company or a class of shares of a public company, which will result in the purchaser's holding 90% or more of the company's shares or class of shares, is prohibited unless the purchaser conducts a full tender offer for all of the company's shares or class of shares. The purchaser will be allowed to purchase all of the company's shares or class of shares (including those shares held by shareholders who did not respond to the offer), if either (i) the shareholders who do not accept the offer hold, in the aggregate, less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, or (ii) the shareholder who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class. The shareholders, including those who indicated their acceptance of the tender offer (except if otherwise detailed in the tender offer document), may, at any time within six months following the completion of the tender offer, petition the court to alter the consideration for the acquisition. At the request of an

offeree of a full tender offer which was accepted, the court may determine that the consideration for the shares purchased under the tender offer, was lower than their fair value and compel the offeror to pay to the offerees the fair value of the shares. Such application to the court may be filed as a class action.

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Israeli courts might not enforce judgments rendered outside of Israel, which may make it difficult to collect on judgments rendered against us.

We are incorporated in Israel. Most of our directors and officers are not residents of the United States and some of their assets and our assets are located outside the United States. Service of process upon our non-U.S. resident directors and officers and enforcement of judgments obtained in the United States against us, and our directors and executive officers may be difficult to obtain within the United States.

We have been informed by our Israeli legal counsel, that there is doubt as to the enforceability of civil liabilities under U.S. securities laws in original actions instituted in Israel. However, subject to certain time limitations, an Israeli court may declare a foreign civil judgment enforceable if it finds that all of the following terms are met:

- The judgment was rendered by a court which was, according to the laws of the state of the court, competent to render the judgment;
- The judgment can no longer be appealed;
- The obligation imposed by the judgment is enforceable according to the rules relating to the enforceability of judgments in Israel and the substance of the judgment is not contrary to public policy; and
- The judgment is executory in the state in which it was given.

Even if the above conditions are satisfied, an Israeli court will not enforce a foreign judgment if it was given in a state whose laws do not provide for the enforcement of judgments of Israeli courts (subject to exceptional cases) or if its enforcement is likely to prejudice the sovereignty or security of the State of Israel. An Israeli court will also not declare a foreign judgment enforceable in the occurrence of any of the following:

- The judgment was obtained by fraud;
- There was no due process;
- The judgment was rendered by a court not competent to render it according to the laws of private international law in Israel;
- The judgment is at variance with another judgment that was given in the same matter between the same parties and which is still valid; or
- At the time the action was brought in the foreign court a suit in the same matter and between the same parties was pending before a court or tribunal in Israel.

#### ITEM 4. INFORMATION ON THE COMPANY

##### 4.A. HISTORY AND DEVELOPMENT OF THE COMPANY

###### History

We are a real estate company engaged through our subsidiaries in purchasing and operating of real estate properties intended for leasing and resale primarily for the purpose of commercial, industrial, office space use as well as for residential purposes.

We were founded and incorporated in the State of Israel in 1990 under the name of Optibase Advanced Systems (1990) Ltd. In November 1993 we changed our name to Optibase Ltd. Our ordinary shares have been trading on The NASDAQ Global Market under the symbol “OBAS” since our initial public offering on April 7, 1999.

We listed our ordinary shares for trade on the Tel Aviv Stock Exchange Ltd., or the TASE, on August 6, 2007. On September 23, 2008, we decided to delist our ordinary shares from trade on the TASE. The delisting of our ordinary shares from trade on the TASE was effective on September 28, 2008. The last day for trading of our ordinary shares on the TASE was September 24, 2008. In April 2015, we listed again our ordinary shares for trade on the TASE under the symbol "OBAS". According to the Israeli legislation, Israeli companies whose shares are traded on certain stock exchanges outside of Israel are allowed to have shares listed on the TASE, while reporting, in substance, in accordance with the provision of the relevant foreign securities law applicable to the Company. In August 2015, we completed an offering of NIS 60 million non-convertible bonds to the public in Israel and such bonds have been traded on the TASE. For further information, see “Item 5.B Operating and Financial Review and Prospects – Liquidity and Capital Resources.”

Commencing in February 2001, Festin Management Corp., a British Virgin Island corporation jointly owned by Shlomo (Tom) Wyler and Arthur Mayer-Sommer began to acquire our ordinary shares on the open market. On September 10, 2004, Festin Management Corp. transferred all of its holdings in us to its shareholders. In addition, during 2008 and 2011, we issued an aggregate number of 1,063,381 ordinary shares in a private placement to Mr. Wyler, who was considered, until September 12, 2012, our controlling shareholder, and as of the date of this annual report, serves as the Chief Executive Officer of our subsidiary, Optibase Inc. Since 2012, Capri, our current controlling shareholder, and Gesafi Real Estate S.A., a Panama Corporation, or Gesafi, acquired 1,797,290 of our ordinary shares from Mr. Wyler. In addition, during November 2013, Gesafi transferred all of our ordinary shares held by it to Capri and on December 31, 2013, we issued a net sum of 1,300,580 of our ordinary shares to Capri, in consideration for twelve luxury condominium units purchased by us. During January-February 2015, Capri acquired an additional 71,229 of our ordinary shares in two different transactions with an unrelated third party and on the Nasdaq Global Market. For additional information see Item 7.A. “Major Shareholders”.

From our formation until 2010 we were engaged in the Video Solution Business. On May 11, 2009, our board of directors resolved to expand and diversify our operations and enter into the fixed-income real estate sector. At a special shareholders meeting held on June 25, 2009, our shareholders approved the diversification of our operations by entering into the fixed income real-estate sector. Such approval was sought solely for cautionary purposes and without any obligation to do so. As of the date hereof, we have entered into certain agreements for the purchase of real estate assets. For further information, see Item 4.B “Business Overview” and Item 10.C “Material Contracts”.

On March 16, 2010, we and our subsidiary, Optibase Inc., entered into an asset purchase agreement with Optibase Technologies Ltd. and Stradis Inc., wholly owned subsidiaries of S.A. Vitec (also known as Vitec Multimedia), pursuant to which Optibase Technologies Ltd. and Stradis Inc. purchased all of the assets and liabilities related to our video solutions business. The closing of the transaction occurred on July 1, 2010.

Our principal executive offices are located at 8 Hamenofim Street, Herzliya 4672559, Israel, and our telephone number at that location is +972-73-7073700. Our website is located at [www.optibase-holdings.com](http://www.optibase-holdings.com). We use a local agent in California for administrative purposes and domestic filings, which is Formation Solutions Inc. 400 Continental Boulevard, 6th Floor El Segundo, CA 90245.

#### 4.B. BUSINESS OVERVIEW

The real estate market includes the purchasing and operating of real estate properties intended for leasing and resale primarily for the purpose of commercial, industrial, office space, parking garage, warehouse use as well as for residential purposes. The real estate market is affected by growth or slowdown in the economy, and by changes in the demand and the available supply of commercial and/or residential properties, as well as the construction of additional commercial and/or residential properties. The real estate market is also affected by governmental, municipal and tax authority policies regarding planning, building, marketing and taxation of land.

Commencing in the fourth quarter of 2008 and as a result of the global economic and financial market crisis, there has been a slowdown in the real estate market which is evidenced by a decline in the number of real estate transactions, a reduction in the availability of credit sources, an increase in financing costs and stricter requirements by banks for providing such financing. During the last few years and through 2016, the situation has changed in certain of the real estate markets we are active in (i.e., Central and Western Europe and North America) as interest rates decreased and financial institutions were more inclined to grant financing for qualified assets. This has led to increased demand for real estate properties and an increased volume of transactions in most asset classes. During 2017 and 2018, the real estate market have yet experienced additional changes as financial institutions have again decreased the availability of financing resulting in more equity being invested in transactions.

Our strategy in our real estate activities is to become a substantial owner of properties. To achieve this goal, we intend to pursue a number of operating and growth strategies, which include: purchase of real estate mainly in Central and Western Europe, North America and Israel;

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- developing and improving existing real estate;
- maximize the leasing of existing properties to commercial users;
- increase and develop unused building rights in our existing properties; and
- acquire additional commercial, residential and other real estate assets in light of market conditions, while diversifying our real estate property base.

As of the date of this annual report, our portfolio includes the holdings of interests in six operating commercial properties as well as condominium units in three residential projects.

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## Properties

The following table provides details regarding real-estate assets properties wholly owned or controlled by us or by our subsidiaries, as of the date of this annual report:

Property	Location	Acquisition Date	Company Stake	Nature of Rights	Property Type	Net Rentable Square Meters Excluding Redevelopment Space <sup>(1)</sup>	Annualized Rent (\$000) <sup>(2)</sup>	Rate of Occupancy <sup>(3)</sup>	
Centre des Technologies Nouvelles (CTN)	Geneva, Switzerland	March 2, 2011	51%	Ownership with land lease	Commercial	35,800	10,998	96%	3
Edeka supermarkets	Bavaria, Germany	June 2, 2015 and July 8, 2015	100%	Ownership	Commercial	37,000	3,264	97%	9
Rümlang	Rümlang, Switzerland	October 29, 2009	100%	Ownership	Commercial	12,500	1,843	90%	1
Miami, Florida	Miami, Florida	2010-2013	100%	Ownership	Residential - Condominium Units	4,260	1,060	72%	3
Portfolio Total/ Weighted Average	-	-	-	-	-	89,560	17,165	94%	2

(1) Net rentable square meters at a building represents the current square meter at that building under lease as specified in the lease agreements plus management's estimate of space available for lease based on engineering drawings. Net rentable square meter includes tenants' proportional share of common areas but excludes space held for redevelopment.

(2) Annualized rent represents the monthly contractual rent under existing leases as of December 31, 2018 multiplied by 12.

(3) Excludes space held for redevelopment. Includes unoccupied space for which we are receiving rent and excludes space for which leases had been executed as of December 31, 2018, but for which we are not receiving rent. We estimate the total square meter available for lease based on a number of factors in addition to contractually leased square meter, including available power, required support space and common area.

(4) Annualized rent per square meter represents annualized rent as computed above, divided by the total square meter under lease as of the same date.



## Non-GAAP Net Operating Income (“NOI”)

Net Operating Income, or NOI, is a non-GAAP financial measure. The most directly comparable GAAP financial measure is operating income, which, to calculate NOI, is adjusted to add back real estate depreciation and amortization and general and administrative expenses and other operating costs less gain on sale of operating properties. We use NOI internally as a performance measure and believe that NOI (when combined with the primary GAAP presentations) provides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense item that are incurred at the property level.

A reconciliation of GAAP operating income to Non-GAAP NOI is as follows:

	Year Ended December 31		
	Thousands US\$		
	2016	2017	2018
GAAP Operating income	6,320	6,623	5,800
<u>Adjustments:</u>			
Real estate depreciation and amortization	4,244	4,209	4,317
General and administrative	2,615	2,698	3,500
Non-GAAP Total Net Operating Income (NOI)	13,179	13,530	13,617

We consider the NOI to be an appropriate supplemental non-GAAP measure to operating income because it assists management, and thereby investors, to understand the core property operations prior to depreciation and amortization expenses and general and administrative costs. In addition, because prospective buyers of real estate have different overhead structures, with varying marginal impact to overhead by acquiring real estate, we consider the NOI to be a useful measure for determining the value of a real estate asset or groups of assets.

The metric NOI should only be considered as supplemental to the metric operating income as a measure of our performance. NOI should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions. NOI should also not be used as a supplement to, or substitute for, cash flow from operating activities (computed in accordance with generally accepted accounting principles in the United States).

## Non-GAAP Funds From Operation (“FFO”) and Non-GAAP Recurring FFO (“Recurring FFO”)

Funds from operation, or FFO, is a non-GAAP financial measure. The most directly comparable GAAP financial measure is net income, which, to calculate FFO, is adjusted to add back depreciation and amortization and after adjustments for unconsolidated associates. We make certain adjustments to FFO, which it refers to as recurring FFO, to account for items we do not believe are representative of ongoing operating results, including transaction costs associated with acquisitions. We use FFO internally as a performance measure and we believe FFO (when combined with the primary GAAP presentations) is a useful, supplemental measure of our operating performance as it's a recognized metric used extensively by the real estate industry. We also believe that Recurring FFO is a useful, supplemental measure of our core operating performance. The company believes that financial analysts, investors and shareholders are better served by the presentation of operating results generated from its FFO and Recurring FFO measures.





A reconciliation of GAAP net income to Non-GAAP FFO and Recurring FFO is as follows:

	Year Ended December 31		
	Thousands US\$		
	2016	2017	2018
GAAP Net income (loss) attributable to Optibase Ltd.	195	(1,123)	(2,781)
<u>Adjustments:</u>			
Real estate depreciation and amortization	4,244	4,209	4,317
Pro rata share of real estate depreciation and amortization from unconsolidated associates	1,282	2,022	2,610
Non-controlling interests share in the above adjustments	(1,142)	(1,141)	(1,136)
Non-GAAP Fund From Operation (FFO)	4,579	3,967	3,010
Non- GAAP Recurring Fund From Operation (Recurring FFO)	4,579	3,967	3,010

We consider the FFO and Recurring FFO to be an appropriate supplemental non-GAAP measure to operating income because it assists management, and thereby investors, in analyzing our operating performance.

The metric's FFO and Recurring FFO should only be considered as supplemental to the metric net income as a measure of our performance. FFO (i) does not represent cash flow from operations as defined by GAAP, (ii) is not indicative of cash available to fund all cash flow needs, including the ability to make distributions, (iii) is not an alternative to cash flow as a measure of liquidity, and (iv) should not be considered as an alternative to net income (which is determined in accordance with GAAP) for purposes of evaluating our operating performance.

The following table provides details regarding our non-controlled real-estate assets or projects in which we indirectly own a minority stake, as of the date of this annual report:

Property	Location	Acquisition date	Company Stake	Nature of Rights	Property Type	Net Rentable Square Feet Excluding Redevelopment Space <sup>(1)</sup>	Annualized Rent (\$000) <sup>(2)</sup>	Rate of Occupancy <sup>(3)</sup>	Annualized Rent per Occupied Square Feet (\$) <sup>(4)</sup>
2 Penn Center Plaza	Philadelphia, Pennsylvania	October 12, 2012	22.16%	Beneficial interest in the owner of the property	Commercial	520,285	12,958	96%	26
Texas Shopping Centers Portfolio	Houston, Dallas, San Antonio, Texas	December 31, 2012	4%	Beneficial interest in the portfolio	Commercial	2,124,500	27,275	94%	14
South Riverside Plaza Office Tower	300 South Riverside Plaza, Chicago	December 29, 2015	30%	Beneficial interest in the owner of the property	Commercial	1,065,497	19,692	95%	19
Portfolio Total/ Weighted Average	-	-	-	-	-	3,710,282	59,925	95%	17

(1) Net rentable square feet at a building represents the current square meter at that building under lease as specified in the lease agreements plus management's estimate of space available for lease based on engineering drawings. Net rentable square meter includes tenants' proportional share of common areas but excludes space held for redevelopment.

(2) Annualized rent represents the monthly contractual rent under existing leases as of December 31, 2018 multiplied by 12.

(3) Excludes space held for redevelopment. Includes unoccupied space for which we are receiving rent and excludes space for which leases had been executed as of December 31, 2018, but for which we are not receiving rent. We estimate the total square meter available for lease based on a number of factors in addition to contractually leased square meter, including available power, required support space and common area.

(4) Annualized rent per square meter represents annualized rent as computed above, divided by the total square meter under lease as of the same date.

Set forth below is additional information with respect to our projects:

#### Geneva, Switzerland

On March 3, 2011, we acquired, through our newly owned subsidiary, an office building complex in Geneva, Switzerland known as Centre des Technologies Nouvelles, or CTN complex. The acquisition was undertaken by OPCTN S.A., or OPCTN, a Luxembourg company owned 51% by Optibase and 49% by The Phoenix Insurance Company Ltd. and The Phoenix Comprehensive Pension, or, collectively, The Phoenix. OPCTN executed the transaction by acquiring all of the shares of the property owner, Eldista. The seller, Apollo CTN. S.a.r.l, is an entity majority owned by area property partners.

The transaction was based on a property value of CHF 126.5 million, including existing non-recourse mortgage financing in the principal amount of CHF 85.3 million provided by Credit Suisse (app. \$136.5 million and \$92.4 million respectively, as of the purchase date). The purchase price for the transaction was approximately CHF 37.7 million (app. \$40.6 million, as of the purchase date).

The CTN complex is a six-building complex located in the Plan-Les-Ouates business park in the outskirts of Geneva. The complex includes approximately 35,500 square meters of leasable space (app. 377,000 square feet), is currently leased to 47 tenants, primarily in the field of advanced industries including biotech electronic and information technology industries, and is currently 96% occupied.

The following table sets forth certain information regarding leases of tenants in the CTN Complex, as of December 31, 2018:

	Number of tenants whose leases will expire*	Total area covered by these leases	Area covered by these leases (%)	Annual rent at expiration (\$000)	Percent of annual rent at expiration (%)	
2019	9	3,673	10.26	% 726	6.77	%
2020	12	11,436	31.93	% 3,802	35.47	%
2021	5	1,509	4.21	% 485	4.53	%
2022	10	4,964	13.86	% 1,488	13.89	%
2023	13	9,058	25.29	% 3,028	28.26	%
Thereafter	6	3,566	9.96	% 1,188	11.09	%
Sub-total	55	34,206	95.52	% 10,717	100	%
Vacant	-	1,605	4.48	% -	-	
Total	55	35,581	100	% 10,717	100	%

\* The leases with the tenants described in the above table include either fixed end date, or notice periods ranging from one to twelve months. Number of tenants includes several tenants with multiple lease agreements with different expiration dates.

In connection with the transaction, Optibase and The Phoenix entered into an agreement regarding their shareholdings in OPCTN. The agreement provides that Optibase will make day-to-day decisions and provide The Phoenix with customary protective rights. For further information see Item 10.C “Material Contracts”.



For a summary of the principal terms of the financing agreement entered by us for the purchase of the CTN complex, see Item 5.B “Operating and Financial Review and Prospects - Liquidity and Capital Resources”.

For information regarding a pending litigation with LEM Switzerland SA, or LEM, one of our material tenants in the CTN complex, pursuant to which LEM argues a reduction of its rent as well as related damages, see Item 8. “Financial Information - Legal Proceedings”.

#### Rümlang, Switzerland

On October 29, 2009, our wholly-owned subsidiary, Optibase RE 1 s.a.r.l., acquired a commercial building located at Riedmattstrasse 9, Rümlang from the Swiss property company Zublin Immobilien AG. Rümlang is situated 15 km from Zurich and as many commercial buildings due to its strategic location in proximity to Zurich international airport. The purchase price for the transaction was approximately CHF 23.5 million of which CHF 18.8 million (app. \$22.8 million and \$18.1 million respectively, as of the purchase date) was financed by a local Swiss bank pursuant to a mortgage agreement.

The five-story building includes 12,500 square meters (approximately 135,000 square feet) of rentable space with office, laboratory and retail uses. The office building in Rümlang is currently leased to 13 tenants, and is currently 90% occupied.

The following table sets forth certain information regarding leases of tenants in the Rümlang property, as of December 31, 2018:

	Number of tenants whose leases will expire*	Total area covered by these leases	Area covered by these leases (%)	Annual rent at expiration (\$000)	Percent of annual rent at expiration (%)	
2019	3	1,080	8.72	% 188	12.03	%
2020	2	431	3.48	% 99	6.34	%
2021	1	3,369	27.22	% 422	26.97	%
2022	2	4,617	37.30	% 629	40.21	%
2023	5	1,673	13.51	% 226	14.44	%
Sub-total	13	11,170	90.23	% 1,564	100	%
Vacant	-	1,209	9.77	% -	-	
Total	13	12,379	100	% 1,564	100	%

\* The leases with the tenants described in the above table include either fixed end date, or notice periods ranging from three to six months.

For details regarding an option agreement granted to Swiss Pro for the purchase of twenty percent (20%) of the shares of Optibase RE 1 s.a.r.l, the owner of the property, see Item 10.C “Material Contracts”. For details on a legal claim filed by Swiss Pro against our subsidiaries, see Item 8. “Financial Information - Legal Proceedings”.

For a summary of the principal terms of the financing agreement entered by us for the purchase of the Rumlang property, see Item 5.B “Operating and Financial Review and Prospects - Liquidity and Capital Resources”.

#### Two Penn Center Plaza in Philadelphia, PA

On October 12, 2012, our wholly-owned subsidiary, Optibase 2 Penn, LLC, acquired an approximately twenty percent (20%) beneficial interest in the owner of a Class A twenty story commercial office building in Philadelphia known as Two Penn Center Plaza.

The transaction was based on a valuation of Two Penn Center Plaza of approximately \$66 million, including existing non-recourse mortgage financing in the principal amount of approximately \$51.7 million provided by UBS Real Estate Securities, or UBS. The UBS mortgage loan has a fixed interest rate of 5.61%, maturing in May 2021, and requiring monthly payments of principal and interest of approximately \$300,000. We made a capital contribution of approximately \$4 million to acquire a 19.66% indirect beneficial interest in the owner of the property. As of December 31, 2018, the indirect beneficial interest is 22.16%. For further information, see Item 7.B. “Related Party Transactions”.

Optibase 2 Penn, LLC is a limited partner in a larger joint venture that owns 99% of the beneficial interests in the owner of the Two Penn Center. Two Penn Center has approximately 525,000 rentable square feet and is located in the Center City neighborhood of Philadelphia opposite City Hall and Love Park. The building is currently leased to 148 tenants, primarily for general office and retail related usage. As of December 31, 2018, the Two Penn Center was 96% occupied and the annual rental income for the year 2018 totaled to approximately \$12 million.

#### Texas Shopping Centers Portfolio

On December 31, 2012, our wholly-owned subsidiary, OPTX Equity LLC, acquired an approximately 4% beneficial interest in a portfolio of Texas shopping centers. OPTX Equity LLC undertook this investment as an approximately 16.5% limited partner in Global Texas, LP a Florida limited partnership that is controlled by Global Fund Investments. Global Texas, LP is a limited partner in Global Texas Portfolio, LP a joint venture that acquired 49% of the beneficial interests in a shopping center portfolio. The partnership agreement of Global Texas, LP provides for contributions of capital and distributions of proceeds pro rata among the partners according to their respective partnership interests. OPTX Equity LLC has the right to participate in certain major decisions of Global Texas, LP that require the approval of 51% of the Global Texas, LP partnership interests.

In connection with the transaction, our wholly-owned subsidiary, OPTX Lender LLC, became an owner of approximately 16.5% of the partnership interests in Global Texas Lender, LP a Florida limited partnership. Global Texas Lender, LP provided a loan to Global Texas Portfolio, LP to finance the purchase price paid by Global Texas Portfolio, LP to acquire its 49% beneficial interest in the shopping center portfolio. The terms of the partnership agreement of Global Texas Lender, LP are substantially similar to the terms of the partnership agreement of Global Texas, LP.

The transaction was based on a portfolio valuation of approximately \$342 million including existing nonrecourse mortgage financing in the principal amount of approximately \$252 million. The primary mortgage loan had a fixed interest rate of 5.73% and was refinanced in December 2015 with a mortgage for a \$247.5 million with a fixed interest rate of 4.1% matures in January 2026.

At the closing of the transaction, which occurred on December 31, 2012, we made an aggregate capital contribution of approximately \$4 million to OPTX Equity LLC and OPTX Lender LLC in order to fund our share in the transaction.

The shopping centers portfolio includes more than two million square feet of leasable area and is located in Houston, Dallas, and San Antonio areas of Texas. The leasable area is currently 94% occupied. For the year ended on December 31, 2018, Texas shopping centers portfolio annual rental income totaled to approximately \$27.7 million.

#### Marquis Residences in Miami, Florida

On December 30, 2010, our wholly-owned subsidiary, Optibase Real Estate Miami LLC, had acquired 21 luxury condominium units in the Marquis Residences in Miami, Florida. The condominium units were sold by Leviev Boymelgreen Marquis Developers, L.L.C., a Florida limited liability company. In consideration for the 21 condominium units, we paid a net purchase price of approximately \$8.6 million. In addition to the purchase price, we have invested approximately \$823,000 in finishing the units.

The Marquis Residences is a 67-story tower with 292 luxury residential units ranging from 1,477 to 4,200 square feet, a restaurant, a hotel, a spa and fitness center.

To date, 18 of the 21 units are rented out and the remaining unit is being offered for rental or sale. We intend to hold the units for investment purposes and will consider to continue renting or selling the units in accordance with our business considerations and market conditions.

25 units are pledged in connection with a financing agreement entered into by us, see Item 5.B “Operating and Financial Review and Prospects - Liquidity and Capital Resources”.

#### Penthouses Units in Miami, Florida

On April 9, 2013 and on August 22, 2013, our wholly-owned subsidiary, Optibase Real Estate Miami LLC, had acquired two luxury condominium penthouses located in the Marquis Residence in Miami and one condominium penthouse located in the Ocean One condominium in Sunny Isles Beach, Florida. In consideration for the three penthouses, we paid a net purchase price of approximately \$4.8 million.

The Ocean One condominium in Sunny Isles Beach is a twin tower project with 241 luxury residential units ranging from 1,990 to 2,610 square feet, with penthouses containing more square footage, and the amenities include, 700 feet of ocean frontage, a private beach club, a health and fitness center, a pool and spa and two tennis courts.

To date, one penthouse is still undergoing renovations and remodeling, while the other two unit’s renovation has been recently completed. We intend to hold the remaining units for investment purposes and will consider renting or selling the units in accordance with our business considerations and market conditions.



## Condominium Units in Miami Beach, Florida

On December 31, 2013, our two wholly-owned subsidiaries, Optibase FMC LLC and Optibase Real Estate Miami LLC, had acquired twelve luxury condominium units located in the Flamingo-South Beach One Condominium and in the Continuum on South Beach Condominium, both located in Miami Beach, Florida, in consideration for the issuance of our 1.37 million newly issued ordinary shares (of which approximately 67,000 ordinary shares were off set against the lease of one unit), representing, as of the date of the approval of the transaction by our board of directors, a value of approximately \$8.8 million. The condominium units were sold by private companies indirectly controlled by Capri, our controlling shareholder. At closing, and following the approval of the transaction by our shareholders, we issued to Capri a net sum of 1,300,580 of our ordinary shares. The net fair value of the condominium units as recorded in our financial statement as of the closing date was approximately \$7.2 million, representing the fair value of the ordinary shares issued as of the closing date.

The eleven units at the Flamingo-South Beach One Condominium, or Flamingo Condominium, are located on various floors of the South Building of the Flamingo Condominium, and ranging in size from 924 to 2,347 square feet. The Flamingo Condominium is a 15-story tower with 513 luxury residential units ranging in size from approximately 450 to approximately 2,347 square feet. On October 20, 2014, we sold the eleven units located in the Flamingo Condominium, in consideration for an aggregated gross price of \$6.4 million, and we recorded a capital gain of approximately \$2.7 million resulting from such transaction. For further details on the transaction to sell such eleven units, see Item 7.B. “Related Party Transactions” and Item 10.C. “Material Contracts”.

The unit at the Continuum on South Beach Condominium, or Continuum, is located on the 33rd floor of the North Tower of the Continuum on South Beach Condominium located at 50 S. Pointe Drive, Miami Beach, Florida. The Continuum on South Beach Condominium is a 37-story ocean-front tower with 203 luxury residential units ranging in size from 1,554 to 3,497 square feet. Residences of the Continuum on South Beach Condominium enjoy the right to use the common areas of the residence, including swimming pool, tennis courts, spa and a sporting club. At the closing of the acquisition of the Continuum Unit, the seller of the unit leased the Continuum Unit from us for a term of 36 months. We intend to hold the unit for investment purposes and will consider to continue renting or selling the unit in accordance with our business considerations and market conditions.

On December 29, 2016, our shareholders approved, following the approval by our audit committee and board of directors, a new lease agreement to be entered into with an affiliate of Capri, or the Tenant. The new lease will be in effect for a one-year term commencing on January 2, 2017, which will be automatically extended by a one-year term and up to a total of three years. For further details, see Item 7.B. “Related Party Transaction”.

Four units are pledged in connection with a financing agreement entered into by us, that was refinanced in November 2017, see Item 5.B “Operating and Financial Review and Prospects - Liquidity and Capital Resources” .For further information, see Item 7.B. “Related Party Transactions”.

## German Commercial Properties Portfolio

On December 18, 2014, our wholly owned European subsidiary, Optibase Bavaria GmbH & Co. KG, or Optibase Bavaria, entered into a purchase agreement with Lincoln Dreizehnte Deutsche Grundstücksgesellschaft mbH and Lincoln Land Passau GmbH, unrelated third parties, or the Sellers, to acquire a retail portfolio of 26 separate commercial properties in Bavaria, Germany, and one commercial property in Saxony, Germany, or the German Portfolio. On June 2, 2015 the closing of the transaction occurred and at the first stage we acquired 25 supermarkets in Bavaria. In consideration for the 25 supermarkets, we paid a net purchase price of €24 million. On July 8, 2015 we acquired the two remaining supermarkets for an additional purchase price of €4.75 million.

The German Portfolio represents a homogenous retail portfolio in established retail locations. It has approximately 37,000 square meters of total rental space and currently generates annual net rental income of approximately EUR 2.8 million (app. \$3.3 million). The leasable area is currently 97% occupied, and the properties have an average remaining lease term of approximately five years.

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The tenants currently operate on the properties includes 26 supermarkets, and one commercial building with partly office use. The largest tenant in the German Portfolio is EDEKA Handelsgesellschaft Südbayern mbH, or Edeka, one of the largest supermarket chain in the German market, which currently leases 18 of the rental properties in the German Portfolio. In addition to the supermarkets, smaller shops (such as bakeries and post offices) operate on several locations as subtenants of Edeka.

The following table sets forth certain information regarding leases of tenants in the portfolio by property, as of December 31, 2018:

	Number of tenants whose leases will expire*	Total area covered by these leases	Area covered by these leases (%)	Annual rent at expiration (\$000)	Percent of annual rent at expiration (%)	
2019	1	1,430	3.87	% 165	5.05	%
2020	6	9,657	26.11	% 841	25.77	%
2021	-	-	-	-	-	
2022	5	6,716	18.16	% 576	17.66	%
2023	-	-	-	-	-	
Thereafter	14	17,878	48.33	% 1,681	51.52	%
Sub-total	25	35,681	96.47	% 3,264	100	%
Vacant	1	1,307	3.53	% -	-	
Total	27	36,988	100	% 3,264	100	%

\* Number of tenants by property of which 18 are leased by Edeka.

For a summary of the principal terms of the financing agreement entered by us for the purchase of the portfolio, see Item 5.B “Operating and Financial Review and Prospects - Liquidity and Capital Resources”.

#### South Riverside Plaza Office Tower, Chicago

On December 29, 2015, our wholly-owned subsidiary, Optibase Chicago 300 LLC, completed an investment in 300 River Holdings, LLC, or the Joint Venture Company, which beneficially owns the rights to a 23-story Class A office building located at 300 South Riverside Plaza in Chicago under a 99 year ground lease expiring in 2114. We invested \$12.9 million in exchange for a thirty percent (30%) interest in the Joint Venture Company.

The property is located in Chicago’s premier West Loop submarket, along the Chicago River. The building, situated on the riverfront, offering 360 degree views at every level of the building, including the following major tenants: Zurich American Insurance, DeVry, Inc., National Futures Association, Federal Deposit Insurance Corporation and Newark Corporation. On June 17, 2016, and in accordance with our initial investment agreement in 300 South Riverside Plaza, Chicago, we have invested an additional amount of \$3 million which accrues interest of 12% per annum which was distributed back to the Company on November 21, 2017.

JPMorgan Chase who was an anchor tenant in the building, occupying approximately 486,000 square feet, or 46% of the rentable area, has exercised its option to terminate its entire office space at no penalty on September 2016. As a result, we have secured new leases with a variety of new tenants and we are currently seeking and negotiating additional alternative tenants to fulfil the vacant space. To date, approximately 95% of the rentable square feet of the building are secured by various signed lease agreements.

#### Material Tenants

Our commercial properties in Switzerland are supported by anchor tenants who, due to size, reputation and other factors are considered as such. Our largest tenants in Switzerland are LEM SA and Novimune SA, located in the CTN complex. As of December 31, 2018, these tenants occupied approximately 13,000 square meters and accounted for approximately \$4.5 million of rent income, or approximately 27% of our gross leasable area in Switzerland and approximately 35%, of our annual rent in Switzerland. For further details regarding a pending litigation with LEM, pursuant to which LEM argues a reduction of its rent as well as related damages, see Item 8. "Financial Information - Legal Proceedings.

Our largest tenant in Germany is Edeka. As of December 31, 2018, Edeka occupied approximately 26,900 square meters and accounted for approximately \$2.7 million of rent income, or approximately 73% of our gross leasable area in Germany and approximately 80%, of our annual rent in Germany. Our other tenant in Germany is Buchbauer Handelsmärkte GmbH. Or Buchbauer. As of December 31, 2018, Buchbauer occupied approximately 5,300 square meters and accounted for approximately \$340,000 of rent income, or approximately 14% of our gross leasable area in Germany and approximately 12%, of our annual rent. No other tenant accounted for over 10% of our annual rent (on a consolidated basis).

#### Competition

The real estate market is highly competitive and is characterized by a large number of competitors. The main factor affecting competition in this market is geographic location of property. There are properties in close proximity to some of our properties that are similar in purpose and use, which has the effect of increasing competition for the leasing of those properties as well as reducing the rental rates for those properties. Other factors affecting competition are the leasing price, the physical condition of the properties and their energy efficiency rate, the finishing of the properties and the level of the management services provided to tenants. Furthermore, the overall economic and financial trends as reflected, among other things, in interest rates, may further increase competition, leading to a reduction of rental fees and a decline in demand for properties. However, as most of our real estate is leased under medium to long term agreements, we believe that our exposure is limited to most of the effects of slowdown in the real estate market, although a significant change in market conditions may adversely affect our ability to maintain current rates of occupancy or current rent levels.

#### Remaining items of the Video Solution Business

In connection with the sale of our Video Solutions Business to Vitec, we transferred all rights related to the support of the IIA for the period ending on the date of the closing of the Vitec Transaction to Vitec. Although we have no further obligation to pay royalties on revenues generated by our Video Solutions Business subsequent to its sale. We are currently undergoing an audit by the IIA, for royalties paid before the sale of our Video Solution Business. The Company has sufficient provision to cover the expected outcome of such review process.

#### 4.C. ORGANIZATIONAL STRUCTURE

As of December 31, 2018, we have been managing our activity through our four wholly-owned direct subsidiaries: Optibase Inc. which was incorporated in California in 1991, Optibase Real Estate Europe SARL, or Optibase SARL, which was incorporated in Luxembourg in October 2009, our 51% held subsidiary OPCTN S.A., which was incorporated in Luxembourg on February 24, 2011 and through Optibase RES SARL which was incorporated in Luxembourg on June 11, 2018. Our subsidiaries hold the following companies: Optibase Inc. wholly owns Optibase Real Estate Miami LLC, Optibase 2Penn LLC, OPTX Equity LLC, OPTX Lender LLC, Optibase FMC LLC, and Optibase 300 Chicago LLC, all limited liability companies which were incorporated in Delaware or Florida. Optibase SARL wholly owns Optibase Bavaria GmbH & Co. KG, a German partnership, and Optibase Bavaria Holding GmbH, a German corporation and Optibase RE2 SARL, which were incorporated in Luxembourg. Optibase RES SARL wholly owns Optibase RE1 SARL which was incorporated in Luxembourg and OPCTN S.A. wholly owns Eldista GmbH, which was incorporated in Switzerland.

Our real estate activity is managed through several subsidiaries held directly and indirectly by Optibase Ltd. or its abovementioned subsidiaries.

#### 4.D. PROPERTY, PLANTS AND EQUIPMENT

Our headquarters' offices occupy approximately 3,412 square feet in Herzliya Pituach. Our lease for this space expires in 2020.

Our European subsidiaries occupy offices totaling approximately 500 square feet in Luxembourg. The current leases do not have an expiration date and can be terminated at any time with three months prior notice.

#### ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

#### ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis about our financial condition and results of operations contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those set forth under “Item 3.D. Risk Factors” above and “Item 5.D. Trend Information” below, as well as those discussed elsewhere in this annual report. You should read the following discussion and analysis in conjunction with the “Selected Consolidated Financial Data” and the Consolidated Financial Statements included elsewhere in this annual report.

##### Overview

We invest in the fixed-income real estate field and hold properties and beneficial interest in real-estate assets and projects in various locations. Our revenues are comprised of rental income we receive from tenants in our various properties. We derive additional income as dividends and interest from various real estate investments where we hold certain beneficial interests. Our consolidated financial statements are presented in accordance with generally accepted accounting principles in the U.S., or U.S. GAAP.

The presentation currency of the financial statements is the U.S dollar.

The functional currency of the Company is the U.S Dollar.

The functional currencies of Optibase's subsidiaries are CHF, EUR and U.S dollar. Assets and liabilities of these subsidiaries are translated at the year-end exchange rates and their statement of operations items are translated using the average exchange rates for all periods presented. The resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income in shareholders' equity.

As of December 31, 2018, we had available cash and cash equivalents of approximately \$13.8 million. As of March 20, 2019, we have available cash and cash equivalents, of approximately \$15.4 million. For information regarding the investment of our available cash, see Item 5.B. "Operating and Financial Review and Prospects - Liquidity and Capital Resources" below.

Our business may be affected by the condition in Israel, see Item 3.D. "Risk Factors".

Fixed income from real estate rent

Fixed income real-estate consists primarily of revenues derived from real estate properties, held through our subsidiaries, in Switzerland (Rümlang and Geneva), Miami and Germany.

Cost of real estate operations

Cost of real estate operations consist primarily of direct costs associated with operating the real estate properties such as building insurance, management company fees and property tax.

Real estate depreciation and amortization

Real estate depreciation and amortization consist primarily of depreciation expenses related to the value of properties net of amounts accounted for land, as well as amortization expenses associated with intangible assets derived from the purchase of real estate properties.

General and administrative expenses

General and administrative expenses consist primarily of fees to outside consultants, legal and accounting fees, expenses related to the purchase of real estate assets, stock option compensation charges and certain office maintenance costs.

Other operating cost

Other operating cost during 2015 consists of acquisition related cost of \$2.4 million related to the acquisition of the twenty-seven (27) supermarkets in Bavaria, Germany.

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#### Gain on sale of operating properties

Gain on sale of operating properties consists of sale of eleven condominium units located in Miami Beach, Florida during 2014.

#### Other income

Other income, net, consists of dividend received and interest income on loan to associated company.

#### Financial expenses, Net

Financial expenses consist primarily of interest we paid in connection with bank loans, debt issuance, currency hedging transactions, and losses from realization of securities and financial instruments. Financial income consists mainly of interest received on deposits and other financial assets held in our bank accounts and gains from realization of securities and financial instruments. Our exchange differences occur primarily as a result of the change of the NIS, CHF and Euro value relative to the U.S. dollar.

#### Taxes on income

Israeli companies are generally subject to corporate tax on their taxable income. As of 2018, the corporate tax rate is 23% (in 2016 and 2017, the corporate tax rate was 25% and 24%, respectively). In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"). The TCJA makes broad and complex changes to the Code. The changes include, but are not limited to:

1. A corporate income tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017 ("Rate Reduction");
2. The transition of U.S international taxation from a worldwide tax system to a territorial system by providing a 100 percent deduction to an eligible U.S. shareholder on foreign sourced dividends received from a foreign subsidiary;
3. A one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017; and
4. Taxation of GILTI earned by foreign subsidiaries beginning after December 31, 2017. The GILTI tax imposes a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations.

Taxable income of Luxemburg, Switzerland, Germany and the United States is subject to tax at the rate of approximately 29%, 24%, 16% and 21% respectively in 2018.

We have final tax assessments through the tax year 2013.

As of December 31, 2018, we had approximately \$61 million of net operating loss carry-forwards for Israeli tax purposes. These net operating loss carry-forwards have no expiration date. Optibase Inc. had U.S. federal net operating loss carry-forward of approximately \$47 million that can be carried forward and offset against taxable income for 20 years, no later than 2038. Utilization of U.S. net operating losses may be subject to the substantial annual limitation due to the “change in ownership” provisions of the Internal Revenue Code of 1986, and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

#### Equity share in losses of associates, net

Associates in which we have significant influence over the financial and operating policies without having control are accounted for using the equity method of accounting, accordingly we recorded during 2018 an equity income in associate of our holdings of Two Penn Center Plaza in Philadelphia, Pennsylvania and an equity loss in associate of our holdings of 300 South Riverside Plaza in Chicago.

#### Net Income Attributable to Non-Controlling Interest.

Net income attributed to non-controlling interest following the acquisition of the CTN property in Geneva, Switzerland in March 2011. We have entered into the said transaction with The Phoenix group, who owns 49% of the property. Thus, 49% of the net operating results of the property are attributed to them.

### 5.A. OPERATING RESULTS

The following table sets forth, for the years ended December 31, 2016, 2017 and 2018 statements of operations data as percentages of our total revenues:

	Year Ended December 31					
	2016		2017		2018	
Fixed income from real estate rent	100	%	100	%	100	%
Costs and expenses:						
Cost of real estate operations	19.3		18.4		18	
Real estate depreciation and amortization	26		25.4		26	
General and administrative	16		16.3		21.1	
Total costs and expenses	61.3		60.1		65.1	
Operating income	38.7		39.9		34.9	
Other income, net	6.8		3.6		3.7	
Financial expenses, net	(20.6)		(16.7)		(17.4)	
Income before taxes on income	24.9		26.8		21.2	
Taxes on income	(10 )		(9.7 )		(8.8 )	
Equity share in losses of associates, net	(2 )		(10.1)		(16.6)	
Net income	12.9		7.0		(4.2 )	
Net income attributable to non-controlling interest	11.7		13.8		12.5	
Net income (loss) attributable to Optibase Ltd.	1.2		(6.8 )		(16.7)	



## Results of Operations for the Years Ended 2018 and 2017

Fixed income from real estate rent. Our fixed income real estate rent in 2018 and in 2017, totaled to \$16.6 million.

Cost of real estate operations. Our cost of real estate operation decreased in 2018 to \$3 million, compared to \$3.1 million in 2017.

Real estate depreciation and amortization. Our real estate depreciation and amortization increased in 2018 to \$4.3 million, compared to \$4.2 million in 2017.

General and Administrative Expenses. General and administrative expenses increased in 2018 to \$3.5 million, compared to \$2.7 million in 2017, mainly attributable to non-recurring legal proceeding expenses due to a claim received by our subsidiary Eldista GmbH from its tenant as detailed in Item 8. "Financial Information - Legal Proceedings".

Operating Income. As a result of the foregoing, we recorded operating income of \$5.8 million in 2018 compared to an operating income of \$6.6 in 2017. The decrease in our operating income in 2018, is mainly attributed to increase in general and administrative expenses and depreciation and amortization, offset by a decrease in cost of real estate operations.

Other income (loss). We recorded other income of \$607,000 in 2018, compared to other income of \$570,000 million in 2017, related to dividend received and interest income on loan to an associated company.

Financial Expenses, Net. We recorded financial expenses, net of \$2.9 million in 2018, compared with financial expenses, net of \$2.8 million in 2017.

Taxes on Income. We and our subsidiaries account for income taxes in accordance with ASC Topic 740 "Income Taxes", or ASC 740. Under the requirements of ASC 740, we reviewed all of our tax positions and determined whether the position is more-likely-than-not be sustained upon examination by regulatory authorities. The tax expenses of \$1.5 million in 2018, compared to \$1.6 Million in 2017, mainly related to our Luxemburg and Germany subsidiaries.

Equity share in losses of associates, Net. We recorded an equity gain/loss of \$2.8 million in 2018, compared to an equity loss of \$1.7 million in 2017, mainly attributable to associated with equity losses of Optibase Chicago 300 LLC partially off set by equity gains from 2 Penn Philadelphia LP. For further details regarding 2 Penn Philadelphia LP and Optibase Chicago 300 LLC, see Item 7.B. "Related Party Transactions" and Item 10.C "Material Contracts", respectively.

Net Income. As a result of the foregoing, recorded net loss of \$704,000 in 2018, compared with a net income of \$1.2 million in 2017.

Net Income Attributable to Non-Controlling Interest. Net income attributed to non-controlling interest was first recorded in 2011 following the acquisition of the CTN complex in March 2011. We have entered into the said transaction with The Phoenix, who owns 49% of the property. Thus, 49% of the net operating results of the property are attributed to them.

Net income (loss) attributable to Optibase Ltd. Net income (loss) attributed to Optibase Ltd., is the result of net income (loss) as affected by net income attributed to non-controlling interest. As a result of the foregoing, we recorded net loss of \$2.8 million in 2018, compared with a net loss of \$1.1 million in 2017.

## Results of Operations for the Years Ended 2017 and 2016

Fixed income from real estate rent. Our fixed income real estate rent increased in 2017 to \$16.6 million, compared to \$16.3 million in 2016.

Cost of real estate operations. Our cost of real estate operation decreased in 2017 to \$3.1 million, compared to \$3.2 million in 2016.

Real estate depreciation and amortization. Our real estate depreciation and amortization in 2017 and in 2016, totaled to \$4.2.

General and Administrative Expenses. General and administrative expenses increased in 2017 to \$2.7 million, compared to \$2.6 million in 2016.

Operating Income. As a result of the foregoing, we recorded operating income of \$6.6 million in 2017 compared to an operating income of \$6.3 in 2016. The increase in our operating income in 2017, is mainly attributed to increase in fixed income from real estate rent and due to decrease in cost of real estate operations, offset by an increase in general and administrative expenses.

Other income (loss). We recorded other income of \$597,000 in 2017, compared to other income of \$1.1 million in 2016, related to dividend received and interest income on loan to an associated company. The decrease in other income in 2017 is mainly attributed to the realization of two shopping centers of Texas portfolio during 2016.

Financial Expenses, Net. We recorded financial expenses, net of \$2.8 million in 2017, compared with financial expenses, net of \$3.4 million in 2017. The decrease can be mainly attributed to one-time \$335,000 interest refund from the Swiss tax authorities.

Taxes on Income. We and our subsidiaries account for income taxes in accordance with ASC Topic 740 "Income Taxes", or ASC 740. Under the requirements of ASC 740, we reviewed all of our tax positions and determined whether the position is more-likely-than-not be sustained upon examination by regulatory authorities. The tax expenses of \$1.6 million in 2017 and in 2016, mainly related to our Luxemburg and Germany subsidiaries.

Equity share in losses of associates, Net. We recorded an equity loss of \$1.7 million in 2017, compared to an equity loss of \$323,000 in 2016 associated with 2 Penn Philadelphia LP and Optibase Chicago 300 LLC. For further details regarding 2 Penn Philadelphia LP and Optibase Chicago 300 LLC, see Item 7.B. "Related Party Transactions" and Item 10.C "Material Contracts", respectively.

Net Income. As a result of the foregoing, we recorded net income of \$1.2 million in 2017, compared with a net income of \$2.1 million in 2016.

Net Income Attributable to Non-Controlling Interest. Net income attributed to non-controlling interest was first recorded in 2011 following the acquisition of the CTN complex in March 2011. We have entered into the said transaction with The Phoenix, who owns 49% of the property. Thus, 49% of the net operating results of the property are attributed to them.

Net income (loss) attributable to Optibase Ltd. Net income (loss) attributed to Optibase Ltd., is the result of net income (loss) as affected by net income attributed to non-controlling interest. As a result of the foregoing, we recorded net loss of \$1.1 million in 2017, compared with a net income of \$195,000 in 2016.



## Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with U.S. GAAP. These accounting principles require management to make certain estimates, judgments and assumptions based upon information available at the time that they are made, historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting among available alternatives would not produce a materially different result. Our management reviewed these critical accounting policies and related disclosures with our audit committee. See Note 2 to our Consolidated Financial Statements, which contain additional information regarding our accounting policies and other disclosures required by U.S. GAAP.

Our management believes the significant accounting policies which affect management's more significant judgments and estimates used in the preparation of our consolidated financial statements and which are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Long-lived assets including intangible assets

- Investment in companies

- Contingencies; and

- Income Taxes.

### Long- Lived Assets including intangible assets

The Company and its subsidiaries long-lived assets are reviewed for impairment in accordance with ASC 360, "Property, Plant and Equipment", whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

The Company reviewed assets on a component-level basis, which is the lowest level of assets for which there are identifiable cash flows that can be distinguished operationally and for financial reporting purposes. The carrying amount of the asset group was compared with the related expected undiscounted future cash flows to be generated by those assets over the estimated remaining useful life of the primary asset. In cases where the expected future cash flows were less than the carrying amounts of the assets, those assets were considered impaired and written down to their fair values. Fair value was established based on discounted cash flows.

### Investment in companies

Investments in non-marketable equity securities of companies in which the Company does not have control or the ability to exercise significant influence over their operation and financial policies are recorded at cost.



Management evaluates investments in non-marketable equity securities for evidence of other-than temporary declines in value. When relevant factors indicate a decline in value that is other-than temporary the Company recognizes an impairment loss for the decline in value.

#### Contingencies

We periodically estimate the impact of various conditions, situations and/or circumstances involving uncertain outcomes to our financial condition and operating results. These events are called “contingencies”, and the accounting treatment for such events is prescribed by the ASC 450 “Contingencies”. ASC 450 defines a contingency as “an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur”. Legal proceedings are a form of such contingencies.

In accordance with ASC 450, accruals for exposures or contingencies are being provided when the expected outcome is probable. It is possible, however, that future results of operations for any particular quarter or annual period could be materially affected by changes in our assumptions, the actual outcome of such proceedings or as a result of the effectiveness of our strategies related to these proceedings.

#### Income Taxes

The Company and its subsidiaries accounts for income taxes in accordance with ASC Topic 740, “Income Taxes” or ASC 740, which prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to amounts more likely than not to be realized.

ASC 740 clarifies the accounting for uncertainties in income taxes by establishing minimum standards for the recognition and measurement of tax positions taken or expected to be taken in a tax return. Under the requirements of ASC 740, the Company must review all of its tax positions and make a determination as to whether its position is more-likely-than-not to be sustained upon examination by regulatory authorities. If a tax position meets the more-likely-than-not standard, then the related tax benefit is measured based on a cumulative probability analysis of the amount that is more-likely-than-not to be realized upon ultimate settlement or disposition of the underlying issue. Our policy is to accrued interest and penalties related to unrecognized tax benefits in our financial expenses.

#### Recently issued and adopted accounting pronouncements

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted ASU 2016-18 during the first quarter of 2018. The adoption of this new guidance had no material impact on the Company’s consolidated balance sheets, statements of operations and cash flows.

In January 2016, the FASB issued ASC 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU s effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The ASU, among other targeted changes for financial assets and liabilities: requires equity investments with readily determinable fair values to be measured at fair value with changes recognized in net income. In accordance with ASU 2016-01, an entity may choose to measure

equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issue. The Company has equity investments in a privately-held company. This investment is recorded at cost reduced by any impairment write-downs plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, because it has no readily determinable fair values. The investment is included in investments in companies and associates in long term investments the accompanying balance sheets. The Company monitors the investment and if facts and circumstances indicate any observable price changes or that the investment may be impaired, then it conducts an impairment test of its investment.

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## New accounting pronouncements not yet effective

In February 2016, the FASB issued ASU 2016-02, "Leases", on the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset ("ROU") and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in a manner similar to the accounting under existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales- type leases, direct financing leases and operating leases. ASC 842 supersedes the previous leases standard, ASC 840, "Leases". The guidance is effective for the interim and annual periods beginning on or after December 15, 2018, and the Company has adopted the standard on January 1, 2019. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. The standard provides a number of optional practical expedients in transition. The Company is electing the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. To adopt this new standard, the Company has implemented changes to our existing systems and processes in conjunction with a review of existing vendor agreements. The Company expect adoption of the standard to have an immaterial impact on the Company's consolidated balance sheets which will result in the recognition of ROU assets and lease liabilities of approximately \$436 to \$528 at January 1, 2019. The most significant impact from recognition of ROU assets and lease liabilities relates to our office space. However, the Company do not anticipate that the adoption of this standard will have an immaterial impact on the operating expenses in our consolidated statements of operations since the expense recognition under this new standard will be similar to current practice. The Company's financial income (expenses), net will be impacted by the revaluation of the lease liabilities in non-USD denominated currencies. Furthermore, the Company does not anticipate the adoption of this standard will have immaterial impact in their revenue recognition.

In January 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses on Financial Instruments", which requires that expected credit losses relating to financial assets measured on an amortized cost basis and available for sale debt securities be recorded through an allowance for credit losses. ASU 2016-13 limits the amount of credit losses to be recognized for available for sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. The new standard will be effective for interim and annual periods beginning after January 1, 2020, and early adoption is permitted

## 5.B. LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations primarily through private and public sales of our equity securities and banks credit. As of December 31, 2018, we had cash and cash equivalents of \$13.8 million, and as of March 20, 2019, we have available cash, and cash equivalents of approximately \$15.4 million.



Net cash provided by our operating activities was \$6.9 million, \$7.9 million, and \$7.3 million in December 31 of each of the years 2018, 2017 and 2016, respectively. Net cash provided for operating activities in 2018 was primarily the result of net income for the period, as adjusted for depreciation and amortization, equity share in losses of associates, net and decrease in other accounts receivable and prepaid expenses, offset by increase in trade receivables, decrease in deferred tax liabilities and in land lease liabilities and decrease in accrued expenses and other accounts payable. Net cash provided for operating activities in 2017 and in 2016 was primarily the result of net income for the period, as adjusted for depreciation and amortization and equity share in losses of associates, net, increase in accrued expenses and other accounts payable, offset by the increase in other accounts receivable and prepaid expenses and in trade receivables, and by decrease in deferred tax liabilities and in land lease liabilities.

Net cash used for investment activities in 2018 totaling \$2 million reflects primarily the proceeds from our associates, offset by investment in building improvements. Net cash provided by investment activities in 2017 totaling \$1.1 million reflects primarily the return of \$3 million investment in 300 River Holdings, LLC a Joint Venture Company held by our wholly-owned subsidiary Optibase Chicago 300 LLC offset by investment in building improvements. Net cash used for investment activities in 2016 totaling \$5 million reflects primarily the additional investment in 300 River Holdings, LLC a Joint Venture Company held by our wholly-owned subsidiary Optibase Chicago 300 LLC., and investment in building improvements.

Net cash used for financial activities in 2018 totaling \$11.1 million reflects loans and bonds repayment, dividend distribution to non-controlling interests partially. Net cash used for financial activities in 2017 totaling \$5.4 million reflects loans and bonds repayment, dividend distribution to non-controlling interests partially offset by \$5.1 million proceeds from controlling shareholders' loan. Net cash used for financial activities in 2016 totaling \$9.6 million reflects loans and bonds repayment, dividend distribution to non-controlling interests and proceeds from shares capital issuance.

Non-GAAP NOI increased by \$87,000, or 0.6%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. The increase in NOI was primarily driven by the increase in fixed income from real estate rent and due to decrease in cost of real estate operations, and was offset by an increase in general and administrative expenses. For further details regarding the definition of NOI please see Item 4.B.

Non-GAAP Recurrent FFO decreased by \$958,000, or 24.1%, for the year ended December 31, 2018, compared to the year ended December 31, 2017. The decrease in FFO was mainly due to increase in Equity share in losses of associates, related to the investment in 300 River Holdings, LLC and increase in general and administrative expenses offset by increase in fixed income from real estate rent and decrease in taxes on income. For further details regarding the definition of Recurrent FFO please see Item 4.B.

During 2018, we invested our available cash solely in various bank deposits and money market funds with various banks. As of the date hereof, we do not have any material contractual commitments related to capital expenditure.

In March 2017, our audit committee and board of directors approved, in accordance with the Israeli Companies Regulations (Relieves for Transactions with Interested Parties) of 2000, the receipt of a \$5.1 million loan, or the Loan, from our Controlling shareholder. The Loan was granted to the Company on March 28, 2017 for the purpose of strengthening the Company's liquidity. The Loan does not bear any interest or linkage differentials and is unsecured. In May 2018, the parties entered into an amendment to the Loan's agreement, under which the Company repaid the Controlling Shareholder \$2.5 million on account of the Loan's account. The repayment by the Company of the remaining Loan's amount of a \$2.5 million has been postponed from April 1, 2019 to April 1, 2020, however, we may prepay the Loan prior to such date at our sole discretion without any penalty.

In June 2017, Aberdeen Associates LLC, a Delaware limited liability company, or Aberdeen Lender, extended a \$7 Million, 5-year fixed-rate loan facility, the Aberdeen Loan Facility, to the Company's subsidiary, Optibase Inc.. As the date hereof, Optibase Inc. has not drawn down any funds under the Aberdeen Loan Facility. The Aberdeen Loan Facility may be drawn down in \$250,000 increments, and beginning with the first such draw-down, will bear interest at an annual rate of 5% of the amount drawn, and is compounded and paid quarterly until the maturity on June 1, 2022, at which point all outstanding principal and interest will become due and payable. The Aberdeen Loan Facility is secured by a pledge by Optibase Inc. of 100% of its membership interest in Optibase Chicago 300, LLC. Prepayments of principal on the Aberdeen Loan Facility are allowed without penalty, on ten (10) days' prior notice to the Aberdeen Lender.

In November 2017, Shinhan Bank, a Korean Bank, or Shinhan, extended a \$175 Million, 5-year fixed-rate loan, the Shinhan Loan, to South Riverside Building LLC, or 300 Riverside Owner, an entity in which Optibase owns a thirty percent (30%) beneficial interest. The Shinhan Loan bears interest at an annual rate of 5.50% and is compounded and paid monthly until the Shinhan Loan matures in November, 2022, at which point all remaining principal and interest will become due and payable. The Shinhan Loan is secured by 300 South Riverside Plaza, a newly renovated, 22-story LEED Gold Certified office tower located in the West Loop of Chicago, IL, USA which is owned by 300 Riverside Owner. Optibase Ltd. received a repayment of its senior notes to 300 Riverside Owner's parent company, 300 River Holdings LLC, in the amount of USD \$3 million plus accrued interest from the proceeds of the Shinhan Loan.

The following table summarizes the principle terms of our material financing agreements of the Company in effect as of December 31, 2018:

Type of Facility	Borrower	Original Date and Maturity Date	Original Amount*	Outstanding Amount (as of December 31, 2018)**	Annual Interest	Payment Terms	Principal Securities	Principal Covenants	Additional Information
Non-convertible Series A Bonds issued to the public in Israel	The Company	Original Date- August 9, 2015; Maturity Date- December 31, 2021	NIS 60 million (app. \$15 million)	NIS 30 million (app. \$8 million)	6.7%	Interest - payable in semi-annual payments  Principal - payable in semi-annual payments on June 30 and on December 31 of each of the years of 2016 through 2021 (last payment on December 31, 2021)	none	· negative pledge regarding the creation of a floating charge on all of the Company's assets, subject to certain exceptions. · no distributions in an amount greater than 35% of the profits · no distributions that immediately	The bonds are rated at "Baa1" on a local scale by Midron, an affiliate of Moody's. Events of default include among the ex-concerns the Company will not meet its obligations towards

following which the Company's equity (excluding minority interest) will decrease below \$50 million · increase of interest rate in case of certain decreases in the bonds' rating. · minimum equity (excluding minority interest) will not be less than \$33 million · equity (including minority interest) to balance sheet ratio will not be less than 25% · net financial debt to CAP ratio will not be greater than 70% · net financial debt to EBITDA ratio will not be greater than 16.

As of  
December

31, 2018, the  
Company  
meets all the  
required  
covenants.

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Type of Facility	Borrower	Original Date and Maturity Date	Original Amount*	Outstanding Amount (as of December 31, 2018)**	Annual Interest	Payment Terms	Principal Securities	Principal Covenants	Additional Information
Refinancing agreement of the CTN complex	OPCTN, S.A. (Mezzanine Borrower)	Original Date- October 3, 2011; Maturity Date- Up to 7.5 years from the original date.	CHF 15 million (app. \$16.5 million).	CHF 0.5 million (app. \$0.5 million).		LIBOR + either: (a) 1.30%; or (b) a maximum of 2.50% if the lender's risk assessment requires such a change.	Interest due quarterly, beginning March 31, 2012.  CHF 2 million to be paid per year on a quarterly basis, beginning 31.12.2011.	A senior mortgage over the property + a pledge of Eldista's shares	· Transfers/sales of property are prohibited. Any sale will result in the loan being repayable and a prepayment fee of 0.1%, plus difference between interest rate at time of termination and interest rate that bank can achieve for residual interest (LIBOR) term. · Distributions of dividends/shareholder loans are only permitted in line with available yearly profit after loan payments.
	Eldista GmbH (Senior Borrower)	Original Date- October 3, 2011; Maturity Date- 2061	CHF 85 million (app. \$93.5 million).	CHF 85 million (app. \$86.3 million).		LIBOR + 0.75% per annum.	Interest due quarterly, beginning March 31, 2012.  CHF 2 million to be paid per year on a quarterly basis, beginning 31.12.2018.		· Distributions of dividends/shareholder loans are only permitted: (a) to OPCTN to make its loan payments; and (b) otherwise in line with available yearly profit after loan payments.

Type of Facility	Borrower	Original Date and Maturity Date	Original Amount*	Outstanding Amount (as of December 31, 2018)**	Annual Interest	Payment Terms	Principal Securities	Principal Covenants	Additional Information
Financing agreement (as amended) of the Edeka Portfolio	Optibase Bavaria GmbH & Co. KG	Original Date- May 2015; Maturity Date- May 31, 2020	€21 million (app. \$23 million) of which €20.5 million (app. \$22.5 million) has been drawn down	€19 million (app. \$21.6 million)	3 month Euro Interbank Offer Rate + either: (a) 1.75%; or (b) if certain mortgage requirements under German law are not met, 1.89%.	Quarterly amortization of €105,000 each from June 30, 2015 until the maturity date.	Land charges over the Portfolio properties; Assignment of rent, insurance right and claims as well as claims of all future purchase agreements; Pledge of rent accounts; Enforceable abstract promise of debt; Assignment of right and claims under the Hedge Agreement.	· Debt service cover ratio ("DSCR") of at least 130% (breach is a "Soft Default", requiring surplus income from the portfolio properties to be used to remedy the breach) or of at least 110% (breach is a "Hard Default" requiring payment by Borrower to fully remedy the breach- DSCR of 130% must be restored). DSCR must be proven towards the bank by the Borrower every six months from December 31, 2015. · Loan to value of 70% in the first three years and 65% in the fourth and fifth years (breach requires Borrower to make payment	· The Borrower should pay certain amounts set out in loan agreement a mortgage property sold prior the maturity date. The release amount is higher of the minimum re-payment amount agreed for sold property or (ii) 75% of the net sale proceeds received the sold property. · Exit Fee prepayment prior to Maturity equal to 0.30% per annum of the term plus compensation for loss of interest to Lender. · The Bank has a claim for damages in the event

by the Borrower to remedy the breach). Portfolio was valued at approximately €32.4 million on December 3, 2014, and new valuations may be done at intervals of two years (first on September 30, 2016) at the cost of the Borrower or at any other time at the Lender's cost.

As of December 31, 2018, the Company meets all the required covenants.

a partial full prepayment of the loan amount. · If the Borrower fulfils certain requirements with respect to expanding its property portfolio by December 31, 2017, part of the undrawn amount in the amount of €525,884 will be paid out to the Borrower. The conditions are not met or by December 2017 the loan will be reduced to €525,884. The Borrower will repay an amount of €74,116. As of the date, the Company is negotiating with the Lender regarding an extension until December 2018. · The Lender has authorized the syndicate to transfer part of the loan at its cost.

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Type of Facility	Borrower	Original Date and Maturity Date	Original Amount*	Outstanding Amount (as of December 31, 2018)**	Annual Interest	Payment Terms	Principal Securities	Principal Covenants	Additional Information
Financing agreement of condominium units in Miami	Optibase Real Estate Miami, LLC	Original Date- July 7, 2015; Maturity Date- July 8, 2018, extended to July 8, 2020	\$9.4 million	\$9 million	Libor (30-day rate) + either: (a) 2.65%; or (b) 3.25% if Borrower and Guarantor fail to maintain depository accounts with the Lender totaling \$1.5 million.	Interest – payable monthly commencing on August 1, 2015. Principal: is amortized on a monthly basis with principal payments of approximately \$19,000 per month until the loan matures on July 8, 2020 when all remaining principal and interest become due and payable.	(i) A senior mortgage spread over 25 residential condominium units; and (ii) Guaranty from Optibase, Inc., under which Optibase, Inc. guarantees the obligations of the Borrower, including the punctual payment of amounts owed under the loan documents.	· Borrower to keep \$1 million in a Restricted Account, from which interest payments are deducted if such payments are not paid in cash. · Guarantor and the Borrower must collectively maintain unrestricted and unencumbered Liquid Assets of at least \$2 million including any amounts held as Interest Reserve under the Loan Agreement. Guarantor not to transfer a material portion of its assets, other than in the ordinary course of business, for fair market terms, and such transfer will not have material adverse effect on its ability to	· The Mortgage to be paid and released that a Unit of occurrence provided Event Default at the Borrower's presence contract sale to Lender's execution buyer is to a bona-fide third party purchase upon terms condition out in B of the Agreement. · Lender to obtain or upon Approval the Principal Borrower's experience annual more an Event Default or if not by a governing or bankruptcy agency

perform its obligations. author  
Guarantor can make advances to affiliates in ordinary course of business without consent.

As of December 31, 2018, the Company meets all the required covenants.

Type of Facility	Borrower	Original Date and Maturity Date	Original Amount*	Outstanding Amount (as of December 31, 2018)**	Annual Interest	Payment Terms	Principal Securities	Principal Covenants	Additional Information	
Financing agreement of the property in Rumlang	Optibase RE 1 SARL	Original Date- October 2009; Maturity Date- 2059	CHF 18.8 million (\$18.4 million)	CHF 15.4 million (app. \$15.7 million)	Libor (for a period determined by borrower per each interest payment for the next payment) + 0.8%	Interest - payable in four quarterly payments annually; The principal amount is payable in four quarterly amortization payments annually, each in the amount of CHF 94,000 (approximately \$92,000 as of the purchase date).	A senior mortgage over the property + Pledge over the holdings in borrower.	· Undertaking not to grant any encumbrance or mortgage on the Rümlang property without the lender's approval.  As of December 31, 2018, the Company meets all the required covenants.	· The le may ad the mar its sole discreti account deterior in Optib RE 1's c standing the valu the prop · The principa paymen may be adjusted lender's discreti the leas major to is termi and no replacem tenant i found w 6 month · Borrow may rep mortgag any tim subject prior no three m with no subject penalty · The le holds th to accel future le paymen upon	

Loan Agreement	The Company	Original date-March 2017 Maturity Date-April 1, 2018, and extended to April 1, 2019	\$5.1 million	\$2.5 million	The loan does not bear any interest or linkage differentials	we may prepay the loan prior to the maturity date at our sole discretion without any penalty.	The loan is unsecured	none
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In March 2017, our audit committee and board of directors approved, in accordance with the Israeli Companies Regulations (Relief from Transaction with Interest Parties) 2000, the receipt of \$5.1 million loan, on our behalf, from our controlling shareholders. The Loan was granted to the Company in March 2017 for the purpose of strengthening the Company's liquidity. The Loan does not bear any interest or linkage differentials and is unsecured. We may prepay the Loan prior to such date

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(1) In November 2017, our subsidiary, Optibase Real Estate Miami, LLC, refinanced 25 residential apartment units in Miami, Florida, with City National Bank of Florida.

\* Translation of the amounts into US Dollar was made in accordance with the representative rate of exchange of the relevant currency into US Dollar as of the date the loan was taken.

\*\* Translation of the amounts into US Dollar was made in accordance with the representative rate of exchange of the relevant currency into US Dollar as of December 31, 2018.

We believe that, considering the use of cash in our ongoing operations, together with the existing sources of liquidity described above, our working capital will be sufficient to meet our present requirements and our needs for cash for at least the next 12 months. However, our liquidity and capital requirements are affected by many factors, some of which are based on the normal ongoing operations of our businesses and some of which arise from uncertainties related to global economies and the markets that we target for our services. In addition, we routinely review potential acquisitions, which may require additional funds than are currently available. Therefore, we would likely seek additional equity or debt financing, although we cannot assure you that we would be successful in obtaining such financing on favorable terms or at all.

#### 5.C. RESEARCH AND DEVELOPMENT

Irrelevant.

#### 5.D. TREND INFORMATION

During 2014 and through 2015 the U.S. real estate market has shown signs of improvement and a consistent increase in assets prices as the demand for investments increased significantly also driven by financial institutions increased willingness to finance new transactions along with low interest rates. Economically, that had been supported by moderate job growth, record housing affordability and fewer distressed property sales. During 2016 and 2017, we have witnessed a decrease in demand for high end residential projects in the U.S. market, while the demand for other quality projects both in the residential and the commercial markets kept stable and in certain cases showing a moderate increase. During 2018 and to date the high end residential market in the U.S. is showing a significant decrease in demand while other segments remain stable.

In addition, during 2015 and throughout 2016, as Swiss interest rates declined, Swiss real estate prices remained stable in most segments, while other segments were showing signs of increase mainly due to the low interest rates and lack of investments alternatives. At the same time, there was no increase in the demand for new rental spaces and the rental market appeared to be slowing down further, in particular the demand for prime office space and the price for such real estate properties. Although economic conditions were promising in 2013, stagnating sales, depressed income and ongoing structural challenges meant that demand for retail floor space was modest. In addition, the two most highly developed tenant markets, Zurich and Geneva, are still exposed to growing oversupply of office space. Despite the above, during 2014 and 2015, market values on direct investments generally continued to rise, mainly due to low interest rates, and lack of investment alternatives, but have been stable during 2016, 2017 and throughout 2018. As this was accompanied by moderate demand for rents and stability in rental prices, the overall yields on such investments have decreased further. During 2015 throughout 2018 and to date, the Swiss Central Bank has set negative interest rates for CHF deposits. This in-turn pushed investors to further invest in the real estate market while looking for investments alternatives to generate positive returns on their investments.

Over the course of 2016, 2017 and 2018, the German real estate market continued its expansion and growth. While the majority of European countries are still suffering from the world economic downturn which have started back in 2008, the German economy and its real estate sector have shown significant signs of improvement supported by a decrease in interest rates and an increase in availability of financing. In addition, an increasing demand by foreign investors also supported the increase in assets value as well as the gradual devaluation of the Euro against the USD which made the German market also appealing for U.S. investors.

Our financial income is affected by changes in the 6-month Libor rate, see Item 3.D. “Risk Factors - Risks Relating to the Economy, Our Financial Condition and Shareholdings” above.

In 2014 and 2016 we were profitable, while in 2015, 2017 and 2018 we operated at a loss. During 2015, we operated at a loss mainly due to acquisition-related costs of \$2.4 million related to the acquisition of the twenty-seven (27)

supermarkets in Bavaria. During 2017 and 2018, we operated at a loss mainly due to equity losses related to the investment in 300 River Holdings, LLC, which beneficially owns the rights to a 23-story Class A office building located at 300 South Riverside Plaza in Chicago, IL.

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## 5.E. OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

## 5.F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Set forth below are our contractual obligations and other commercial commitments as of December 31, 2018:

Contractual Obligations	Payments Due by Period (USD in thousands)				
	Total	Less than 1 year	1- 3 years	3-5 years	more than 5 years
Long-Term Debt*	136,403	3,121	37,212	4,826	91,244
Capital Lease Obligations	10,777	187	375	375	9,840
Lease Obligations	284	141	143	-	-
Bonds*	7,906	2,667	5,239	-	-
Total Contractual Cash Obligations	155,370	6,116	42,969	5,201	101,084

\* Excluding interest

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

## 6.A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information with respect to the individuals who are currently our directors and executive officers. All of these individuals are presently serving in the respective capacities described below:

	Age	Position
Alex Hilman	66	Executive Chairman of the board of directors
Amir Philips	51	Chief Executive Officer
Shlomo (Tom) Wyler	67	Chief Executive Officer of Optibase Inc.
Yakir Ben-Naim	47	Chief Financial Officer
Orli Garti Seroussi <sup>(1)(2)(3)</sup>	59	Director
Danny Lustiger <sup>(1)(3)</sup>	51	Director
Chaim Labenski <sup>(1)(2)(3)</sup>	71	Director
Reuwen Schwarz	42	Director

(1)Member of our audit committee, financial statements review committee and nominating committee.

(2)External director.

(3)Member of our compensation committee.



On December 20, 2018, our shareholders approved the re-election of Alex Hilman, Danny Lustiger and Reuwen Schwarz as directors of the Company. On February 14, 2019, our shareholders approved an extension to the Company's engagement with Shlomo (Tom) Wyler as the Chief Executive Officer of Optibase Inc., our subsidiary, including an adjustment of his compensation, and an extension of the Company's engagement with Amir Philips, the Company's Chief Executive Officer.

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Alex Hilman serves as Executive Chairman of our board of directors since September 2009. He has joined our board of directors in February 2002. Mr. Hilman is a certified accountant in Israel (C.P.A ISR.), and a partner in Hilman & Co., accountancy firm which provides auditing, tax and business consulting services to corporations. Mr. Hilman serves as a board member in other companies in Israel and abroad. Mr. Hilman was the president of the Israeli Institute of Certified Public Accountants in Israel, served on the board of IFAC (International Federation of Accountants), and was a member of the Small & Medium Practices committee in IFAC. Mr. Hilman has published professional works on tax and accounting, among them, The Israel Tax Guide. Mr. Hilman has also held professional and management positions at the ITA (the Israeli Tax Authorities) and lectured Taxation in Tel Aviv University. Mr. Hilman holds a B.A. in Accountancy and Economics from Tel-Aviv University.

Amir Philips serves as our Chief Executive Officer. Mr. Philips has been serving in this position since June 2011. Prior to this position, Mr. Philips served as our Chief Financial Officer from May 2007, and as Vice President Finance of Optibase Inc. from July 2004. From 2000 until 2004, Mr. Philips held the position of Group Controller and Financial Manager at Optibase Ltd. Before joining Optibase, Mr. Philips was an accountant and auditor at Lotker Stein Toledano and Co., currently a member of BDO Ziv Haft. Mr. Philips is a Certified Public Accountant in Israel. He holds an MBA from the Kellogg-Recanati School of Business and a B.B. degree in Accounting and Business Management from the Israeli College of Management.

Shlomo (Tom) Wyler serves as the Chief Executive Officer of our subsidiary Optibase Inc. Until December 19, 2013, Mr. Wyler has served as a president and a member our board of directors. Since his investment in us in September 2001 (then through Festin Management Corp.), Mr. Wyler has served in various senior executive positions. His other areas of involvement include investment banking, foreign exchange, financial futures and real-estate. In the early 1990s, Mr. Wyler turned his efforts to real estate interests. Mr. Wyler holds a Masters degree in Business Economics from the University of Zurich. Mr. Wyler is Reuwen Schwarz' father in law.

Yakir Ben-Naim serves as our Chief Financial Officer. Ms. Ben-Naim has been serving in this position since June 2011. From 2004 until May 2011, Ms. Ben-Naim held the position of Corporate Controller and Financial Manager at Optibase Ltd. Before joining Optibase, Ms. Ben-Naim was a controller at V.Box Communications Ltd., and an accountant at Ernst & Young. Ms. Ben-Naim is a Certified Public Accountant in Israel and holds a B.A degree in social sciences from Bar Ilan University.

Orli Garti Seroussi joined our board of directors on January 31, 2008 as an external director. Ms. Garti-Seroussi serves as an Independent Business Consultant and as an external director of Unet Credit Financial Services Ltd., Apio (Africa) Ltd. and of Gamatronic Ltd. From May 2017, Ms. Garti-Seroussi serves as a director of Meuhedet Healthcare Organization from May 2016, as a board member in the Israel Electricity Company Ltd. and as a council member of the Public Israeli Broadcast Corporation. During 2012 and 2013, Ms. Garti-Seroussi served as the Deputy Director and CFO of the Jerusalem Cinematheque - Israel Film Archive. From August 2001 until June 2011, Ms. Garti-Seroussi served as the General Manager of the Bureau of Municipal Corporation in the municipality of Tel-Aviv Jaffa. From June 1999 until July 2001 Ms. Garti-Seroussi served as manager of consulting department in Shif-Hazenfrats & Associations, CPA firm. Prior to that, Ms. Garti-Seroussi served as Deputy Director of the Department of Market Regulation in the Israel Securities Authority and as an Auditor in the Tel Aviv Stock Exchange. Ms. Garti-Seroussi holds an M.P.A from Harvard University and M.B.A degree and a B.A degree in economics and accounting from Tel Aviv University. Ms. Garti-Seroussi is a Certified Public Accountant in Israel.

Danny Lustiger joined our board of directors in October 2009. Mr. Lustiger is the president and Chief Executive Officer of Cupron Scientific Ltd. and has over 22 years of experience in various aspects of Hi-Tech industry at senior positions together with Real estate and infrastructure industries, experience at senior position in public companies. From 2007 until 2009, Mr. Lustiger served as the Chief Financial officer of Shikun & Binui Holdings Ltd. From 1996 and until 2005, Mr. Lustiger served at different managerial positions at Optibase including Chief Financial Officer. From 1993 to 1996 Mr. Lustiger held the position of an accountant and auditor at Igal Brightman & Co. (currently

Brightman Almagor & Co., a member of Deloitte & Touche Tomatsu International). Mr. Lustiger is a Certified Public Accountant in Israel. Mr. Lustiger holds a B.A. degree in Accounting and Economics and an MBA in Finance and International management from the Tel-Aviv University.

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Chaim Labenski joined our board of directors in December 2010. From 1977 to 1999, Mr. Labenski held a number of positions at Securities Division of Bank Hapoalim BM, including being First Vice president and Head of Foreign Securities and was involved in consulting, securities research, trading and I.P.O coordination with global investment houses. Since 1999 he acts as a private investor. Mr. Labenski holds a B.Sc degree in Civil Engineering from Aston University, U.K, a M.Sc degree in Engineering Management from Leeds University and D.B.A degree in Business Administration from Manchester Business School.

Reuwen Schwarz joined our board of directors in July 2014. Mr. Schwarz serves as an independent contractor providing services to the Company since November 2013. Since 2012, Mr. Schwarz serves as a real estate manager for a private company. From 2008 through 2012 Mr. Schwarz has served as a manager for Centris Capital AG. From 2006 through 2008 Mr. Schwarz has served as a banker for Meisl Bank AG, Vienna. Mr. Schwarz holds a Magister (MA) degree from the University of Economic and Business Administration Vienna, Austria. Mr. Schwarz is Mr. Wyler's son in law.

## 6.B. COMPENSATION

The compensation terms for the Company's directors and officers is derived from their employment and services agreements and comply with our compensation policy for Executive Officers and Directors as last approved by the Company's shareholders on February 14, 2019, or the Compensation Policy.

The table and summary below outline the compensation granted to the five highest compensated directors and officers of the Company during the year ended December 31, 2018. The compensation detailed in the table below refers to actual compensation granted or paid to the director or officer during the year 2018.

Name and Position of director or officer	Salary or Monthly Payment <sup>(1)</sup>	Value of Social Benefits <sup>(2)</sup>	Bonuses	Value of Equity Based Compensation Granted <sup>(3)</sup>	All Other Compensation <sup>(4)</sup>	Total
(U.S. dollars in thousands)						
Amir Philips, Chief Executive Officer <sup>(5)</sup>	252	70	-	-	22.7	344.7
Shlomo (Tom) Wyler, Chief Executive Officer of Optibase Inc. <sup>(6)</sup>	200	-	-	-	11	211
Yakir Ben-Naim, Chief Financial Officer <sup>(7)</sup>	120.2	40.9	10	-	4.8	175.9
Alex Hilman, Executive Chairman of our board of directors <sup>(8)</sup>	78.1	-	-	-	-	78.1
Reuwen Schwarz, Director <sup>(9)</sup>	56.7	-	-	-	9.9	66.6

(1) "Salary" means yearly gross base salary with respect to our Executive Officers (Mr. Philips, Mr. Wyler and Ms. Ben-Naim). "Monthly Payment" means the aggregate gross monthly payments with respect to the members of our

board of directors (Mr. Hilman and Mr. Schwarz) for the year 2018.

- (2) “Social Benefits” include payments to the National Insurance Institute, advanced education funds, managers’ insurance and pension funds; vacation pay; and recuperation pay as mandated by Israeli law.
- (3) Consists of amounts recognized as share-based compensation (options and restricted shares) expense on our financial statements for the year ended December 31, 2018.
- (4) “All Other Compensation” includes, among other things, car-related expenses (including tax gross-up), telephone, basic health insurance, and holiday presents.

- Mr. Philips’ employment terms as our Chief Executive Officer provide that Mr. Philips is entitled to a monthly base gross salary of NIS 75,000 (approximately \$20,000). Mr. Philipshe is entitled to 24 vacation days, convalescence pay of 10 days and sick days in accordance with market practice and applicable law, monthly remuneration for a study fund, contribution by us to an insurance policy and pension fund, and additional benefits, including
- (5) communication expenses. In addition, Mr. Philips is entitled to reimbursement of car-related expenses from us (including tax gross-up). Mr. Philips’ employment terms include an advance notice period of 6 months. During such advance notice period, Mr. Philips will be entitled to all of the compensation elements, and to the continuation of vesting of any options or restricted shares granted to him. Mr. Philips is also entitled to bonus payments in accordance with the Compensation Policy.

For details on Mr. Wyler's compensation terms as approved by our shareholders on February 14, 2019, see Item 7.B. "Related Party Transactions", below. In February 14, 2019, following the approval by our compensation (6) committee, audit committee and board of directors, our shareholders approved an amendment to Mr. Wyler's compensation terms in a manner that Mr. Wyler's annual gross base salary shall be \$220,000 for a full time position, as of January 1, 2019.

Ms. Ben-Naim's employment terms as our Chief Financial Officer provide that Ms. Ben-Naim is entitled to a monthly base gross salary of NIS 36,000 (approximately \$10,000). Ms. Ben-Naim is further entitled to vacation days, sick days and convalescence pay in accordance with market practice and applicable law, monthly remuneration for a study fund, contribution by us to an insurance policy and pension fund, and additional benefits including communication expenses. In addition, Ms. Ben-Naim is entitled to reimbursement of car-related (7) expenses from us. Ms. Ben-Naim's employment terms include an advance notice period of three months. During such advance notice period, Ms. Ben-Naim may be entitled to all of the compensation elements, and to the continuation of vesting of her options or restricted shares, if granted. In December 2018, our compensation committee and board of directors approved an amendment to Ms. Ben-Naim's compensation terms in a manner that Ms. Ben-Naim's monthly base gross salary will be updated to NIS 37,800 for a full time position, as of January 1, 2019.

The compensation terms of Mr. Hilman as the Executive Chairman of our board of directors were approved by our (8) shareholders on October 19, 2009. For details on Mr. Hilman's compensation terms, including options and restricted shares granted to him, see Item 7.B. "Related Party Transactions", below.

Mr. Reuwen Schwarz entered into a service agreement with us, for the provision of real estate related consulting (9) services to us, our subsidiaries and affiliates. Such agreement, including the compensation terms of Mr. Schwarz in consideration for the services under the agreement, were approved by our shareholders on December 19, 2013 and on December 29, 2016. For further details see Item 7.B. "Related Party Transactions", below.

In addition, all of our directors and officers are entitled to benefit from coverage under our directors' and officers' liability insurance policies and were granted letters of indemnification by us. For further details see "Indemnification, exemption and insurance of Directors and Officers", below.

In accordance with our Compensation Policy (for further information, see Item 6.D. "The Compensation Committee"), each of our directors (including external directors and independent directors, but excluding the executive chairman of our board of directors and directors who serve in other roles at the Company) is entitled to a grant of compensation pursuant to the fixed amounts permitted to be paid to external directors (depending on our equity level), all in accordance with applicable regulations promulgated under the Companies Law, or the 'External Directors' Compensation Regulations, as may be from time to time. This remuneration is paid plus value added tax (as applicable). Directors are reimbursed for expenses incurred as part of their service as directors. None of the directors have agreements with us that provide for benefits upon termination of service.

As of March 20, 2019, our directors and executive officers beneficially owned 205,065 ordinary shares of the Company (of which 45,840 ordinary shares were held by a trustee for the benefit of our directors and executive officers under our 2006 Plan, vested as of March 20, 2019 or within 60 days thereafter). For further information, see Item 6.E. "Share Ownership".

#### Indemnification, exemption and insurance of Directors and Officers

The Companies Law permits a company to insure its directors and officers, provide them with indemnification, either in advance or retroactively, and exempt its directors and officers from liability resulting from their breach of their duty

of care towards the company, all in accordance with the terms and conditions specified under Israeli law. Our articles of association include clauses allowing us to provide our directors and officers with insurance, indemnification and to exempt them from liability subject to the terms and conditions set forth by the Companies Law, as described below.

In addition, the Israeli Securities Law of 1968, or the Securities Law, includes provisions to make the enforcement of violations of the Securities Law and certain provisions of the Companies Law more efficient by the Israel Securities Authority, or the ISA. Under the Securities Law, the ISA is allowed to initiate administrative proceedings against entities and individuals with respect to such violations, and to impose various sanctions, including fines, payment of damages to the person or entities harmed as a result of such violations, limitations on the service of any individual as director or officer and suspension or cancellation of certain permits granted to the entity. Under the Securities Law, a company is not allowed to indemnify or insure its directors and officers in connection with administrative proceedings initiated against them by the ISA, except that a company is allowed to insure and indemnify its directors and officers for any of the following: (i) financial liability imposed on any director or officer for payment to persons or entities harmed as a result of any violation for which an administrative proceedings has been initiated; (ii) expenses incurred by any director or officer in connection with administrative proceedings, including reasonable litigation fees, and including attorney fees.

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Subject to statutory limitations, our articles of association provide that we may insure the liability of our directors and offices to the fullest extent permitted by the Companies Law. Without derogating from the aforesaid we may enter into a contract to insure the liability of our directors and officer for an obligation or payment imposed on such director or officer in consequence of an act done in his capacity as a director or officer of Optibase, in any of the following cases:

v A breach of the duty of care vis-a-vis us or vis-a-vis another person;

v A breach of the fiduciary duty vis-a-vis us, provided that the director or officer acted in good faith and had a reasonable basis to believe that the act would not harm us;

v A monetary obligation imposed on him or her in favor of another person;

v Financial liability imposed on him or her for payment to persons or entities harmed as a result of violations in Administrative Proceedings, as detailed in section 52(54)(A)(1)(a) of the Israeli Securities Law;

v Expenses incurred by him or her in connection with Administrative Proceedings (as defined above) he was involved in, including reasonable litigation fees, and including attorney fees; or

v Any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of our director or officer.

Our articles of association further provide that we may indemnify our directors and officers, to the fullest extent permitted by the Companies Law. Without derogating from the aforesaid, we may indemnify our directors and officers for liability or expense imposed on them in consequence of an action made by them in the capacity of their position as directors or officers of Optibase, as follows:

v Any financial liability he or she incurs or imposed on him or her in favor of another person in accordance with a judgment, including a judgment given in a settlement or a judgment of an arbitrator, approved by a court.

v Reasonable litigation expenses, including legal fees, incurred by the director or officer or which he or she was ordered to pay by a court, within the framework of proceedings filed against him or her by or on behalf of Optibase, or by a third party, or in a criminal proceeding in which he or she was acquitted, or in a criminal proceeding in which he or she was convicted of a felony which does not require a finding of criminal intent.

v Reasonable litigation expenses, including legal fees he or she incurs due to an investigation or proceeding conducted against him or her by an authority authorized to conduct such an investigation or proceeding, and which was ended without filing an indictment against him or her and without being subject to a financial obligation as a substitute for a criminal proceeding, or that was ended without filing an indictment against him, but with the imposition of a financial obligation, as a substitute for a criminal proceeding relating to an offence which does not require criminal intent, within the meaning of the relevant terms in the Companies Law.

v Financial liability he or she incurs for payment to persons or entities harmed as a result of violations in Administrative Proceedings, as detailed in section 52(54)(A)(1)(a) of the Securities Law. For this purpose “Administrative Proceeding” shall mean a proceeding pursuant to Chapters H3 (Imposition of Monetary Sanction by the Israel Securities Authority), H4 (Imposition of Administrative Enforcement Means by the Administrative Enforcement Committee) or I1 (Settlement for the Avoidance of Commencing Proceedings or Cessation of Proceedings, Conditioned upon Conditions) of the Securities Law, as shall be amended from time to time.





Expenses that he or she incurs in connection with Administrative Proceedings (as defined above) he was involved in,  
v including reasonable litigation fees, and including attorney fees.

Any other obligation or expense in respect of which it is permitted or will be permitted under law to indemnify a  
v director or officer of Optibase.

In addition, our articles of association provide that we may give an advance undertaking to indemnify a director and/or an officer in respect of all of the matters above, provided that with respect to the first matter above, the undertaking is restricted to events, which in the opinion of our board of directors, are anticipated in light of our actual activity at the time of granting the obligation to indemnify and is limited to a sum or measurement determined by our board of directors as reasonable under the circumstances. We may further indemnify an officer therein, save for the events subject to any applicable law.

Our articles of association further provide that we may exempt a director in advance and retroactively for all or any of his or her liability for damage in consequence of a breach of the duty of care vis-a-vis Optibase, to the fullest extent permitted by the Companies Law. Notwithstanding the foregoing, the Companies Law prohibits a company to exempt any of its directors and officers in advance from their liability towards such company for the breach of its duty of care in distribution, as defined in the Companies Law, for such company's shareholders (including distribution of dividend and purchase of such company's shares by the company or an entity held by it).

The above provisions with regard to insurance, exemption and indemnity are not and shall not limit the Company in any way with regard to its entering into an insurance contract and/or with regard to the grant of indemnity and/or exemption in connection with a person who is not an officer of the Company, including employees, contractors or consultants of the Company, all subject to any applicable law.

All of the above shall apply mutatis mutandis in respect of the grant of insurance, exemption and/or indemnification for persons serving on behalf of the Company as officers in companies controlled by the Company, or in which the Company has an interest.

The Companies Law provides that companies may not give insurance, indemnification (including advance indemnification), or exempt their directors and/or officers from their liability in the following events:

a breach of the fiduciary duty, except for a breach of the fiduciary duty vis-à-vis the company with respect to indemnification and insurance if the director or officer acted in good faith and had a reasonable basis to believe that the act would not harm the company;

van intentional or reckless breach of the duty of care, except for if such breach was made in negligence;

van act done with the intention of unduly deriving a personal profit; or

vFine, civil penalty, a financial sanction or penalty imposed on the directors or officers.

We have a directors and officers liability insurance policy, as described below.

On February 14, 2019, following the approval by our compensation committee and board of directors, our shareholders approved an amendment to our Compensation Policy which includes clauses allowing us to provide our directors and officers with insurance and indemnification, and to exempt them from liability subject to the terms and conditions set forth by the Companies Law; provided however, that insurance policies purchased under the Compensation Policy comply with all of the following conditions:

<sup>v</sup> the maximum coverage amount under each policy shall not exceed the higher of: (i) US \$25 million; or (ii) 25% of our shareholders equity (based on our most recent financial statements at the time of approval by our compensation committee) per incident and insurance period (for a one-year period) in addition to reasonable litigation expenses;

<sup>v</sup> the maximum yearly premium to be paid by us for each policy shall not exceed 1.5% of the aggregate coverage of such policy;

<sup>v</sup> the purchase of each policy shall be approved by our compensation committee (and, if required by law, by our board of directors) which shall determine that the policy reflects the current market conditions, and it shall not materially affect our profitability, assets or liabilities.

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We currently have an insurance policy for our directors' and officers' liability, including as directors or officers of our subsidiaries, for the period commencing on December 1, 2018 and ending on November 31, 2019, as approved by our compensation committee and board of directors. The coverage amounts under such policy and the yearly premium to be paid by us for such policy are US \$19 million and US \$189,840, respectively. The terms of such policy are in accordance with our Compensation Policy.

As approved by our shareholders on December 21, 2017, following the approval by our compensation committee and board of directors, we have undertaken to indemnify all of our directors and officers, including Mr. Tom Wyler, the Chief Executive Officer of our subsidiary Optibase Inc., to the fullest extent permitted by the Companies Law and our articles of association and entered into an indemnity letter with each of our directors and executive officers. The aggregate indemnification amount shall not exceed the higher of: (i) 25% of our shareholders' equity, as set forth in our financial statements prior to such payment; or (ii) \$20 million. For further details regarding the approval of an amendment to the indemnification letters, see Item 6.A "Directors and Senior Management".

## 6.C. BOARD PRACTICES

Pursuant to our articles of association, our board of directors is required to consist of three to nine members. Directors are elected at the annual general meeting of our shareholders by a vote of the holders of a majority of the voting power represented at such meeting. Each director holds office until the annual general meeting of shareholders following the annual general meeting at which the director was elected or until his or her earlier resignation or removal. A director may be re-elected for subsequent terms. At present, our board of directors consists of five members, including two external directors appointed in accordance with the Israeli law requirements, as detailed herein. Our articles of association provide that our directors may at any time and from time to time, appoint any other person as a director, either to fill in a vacancy or to increase the number of members of our board of directors.

Under the Companies Law, each Israeli public company is required to determine the minimum number of directors with "accounting and financial expertise" that such company believes is appropriate in light of the particulars of such company and its activities. A director with "accounting and financial expertise" is a person that, due to education, experience and qualifications, is highly skilled and has an understanding of business-accounting issues and financial statements in a manner that enables him/her to understand in depth the company's financial statements and stimulate discussion regarding the manner of presentation of the financial data. Our board of directors resolved on March 30, 2006 and on June 27, 2010 that the minimum number of directors with accounting and financial expertise appropriate for us in light of the size of the board of directors and nature and volume of the Company's operations is one director (such director may serve as an external director, see below).

### External Directors

Under the Companies Law, Israeli public companies are required to appoint at least two external directors to serve on their board of directors (following Amendment 27 to the Companies Law all of such external directors are no longer required to be Israeli residents if a company's shares are listed on a foreign stock exchange, such as our Company). On December 29, 2016, our shareholders approved the re-appointment of Mr. Chaim Labenski and Ms. Orli Garti-Seroussi as our external directors for an additional three years term commencing on December 31, 2016 and January 31, 2017, respectively. In addition, each committee of the board of directors entitled to exercise any powers of the board is required to include at least one external director. The audit committee must include all the external directors, see "Committees of the Board of Directors" below.

Pursuant to the Companies Law, at least one external director is required to have “accounting and financial expertise” and the other is required to have “professional qualification” or “accounting and financial expertise”. A director has “professional qualification” if he or she satisfies one of the following:

- (i) the director holds an academic degree in one of these areas: economics, business administration, accounting, law or public administration;
- (ii) the director holds an academic degree or has other higher education, all in the main business sector of the company or in a relevant area for the board position; or  
the director has at least five years’ experience in one or more of the following or an aggregate five years’ experience in at least two or more of these: (a) senior management position in a corporation of significant business scope; (b) senior public office or senior position in the public sector; or (c) senior position in the main business sector of the company.
- (iii) the evaluation of the professional qualification of a candidate shall be made by our board of directors and our nominating committee.

a director with “accounting and financial expertise” is a person that in light of his or her education, experience and skills has high skills and understanding of business-accounting issues and financial reports which allow him or her to deeply understand the financial reports of the company and hold a discussion relating to the presentation of financial information. The company’s board of directors will take into consideration in determining whether a director has “accounting and financial expertise”, among other things, his or her education, experience and knowledge in any of the following:

- (i) accounting issues and accounting control issues characteristic to the segment in which the company operates and to companies of the size and complexity of the company;
- (ii) the functions of the external auditor and the obligations imposed on such auditor;
- (iii) preparation of financial reports and their approval in accordance with the Companies Law and the securities law.

A company whose shares are traded in certain exchanges outside of Israel, including The NASDAQ Global Market, such as our company, is not required to nominate at least one external director who has accounting and financial expertise so long as another independent director for audit committee purposes who has such expertise serves on board of directors pursuant to the applicable foreign securities laws. In such case, all external directors will have professional qualification.

Under Israeli law, a person may not serve as an external director if he or she is a relative of any of the controlling shareholders or at the date of the person’s appointment or within the prior two years the person, or his or her relatives, partners, employers or entities under the person’s control or entities which he or she are subject to their control, have or had any affiliation with us, with our controlling shareholder, or its relative or any entity controlling, controlled by or under common control with us. Under the Companies Law, “affiliation” includes an employment relationship, a business or professional relationship maintained on a regular basis or control or service as an executive officer, excluding service as a director in anticipation of serving as an external director in a company that is about to offer its shares to the public for the first time.

Furthermore, under Israeli law, a person may not serve as an external director if he or she, or his or her relatives, partners, employers or a person or entity he or she is subordinate to directly or indirectly, or an entity controlled by the external director has business or professional relations (excluding insignificant relations) with a person or entity

whose affiliation with such external director is forbidden.

A person may not serve as an external director if that person's position or other business activities create, or may create, a conflict of interest with the person's service as an external director or may otherwise interfere with the person's ability to serve as an external director. If at the time any external director is appointed, all members of the board (who are not a controlling shareholder or its relative) are the same gender, then the external director to be appointed must be of the other gender.

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External directors are elected by a majority vote at a shareholders' meeting, so long as either:

- (i) the majority of shares voted for the election includes the majority of the shares of non-controlling shareholders or with no personal interest excluding a personal interest not resulting from relation with controlling shareholders, voted at the meeting (votes abstaining shall not be taken into account in counting the shareholders' votes); or
- (ii) the total number of shares to total amount of shareholders listed in subsection (i) above, who voted against the election of the external director does not exceed two percent (2%) of the aggregate voting rights of the company.

The Companies Law provides for an initial three-year term for an external director which may be extended, for two additional three-year terms subject to provision specified in the Companies Law. In the case of a company whose shares are traded in certain exchanges outside of Israel, including The Nasdaq Global Market, such as our company, regulations promulgated under the Companies Law provide that the service of an external director can be extended to additional three-year terms, if both the audit committee and the board of directors confirm that in light of the expertise and contribution of the external director, the extension of such external director's term would be in the interest of the company. Election of external directors requires a special majority, as described above and that the period which that person served as an external director together with the reasons for the extension given by the audit committee presented to the shareholders prior to such approval. External directors may be removed only by the same special majority required for their election or by a court, and then only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company. In the event the number of external directors is less than two external directors, our board of directors is required under the Companies Law to call a shareholders' meeting to appoint a new external director.

External directors may be compensated only in accordance with regulations adopted under the Companies Law.

Our board of directors has a majority of independent directors required pursuant to the NASDAQ Global Market rules.

#### Independent Directors

Under the Companies Law, the majority of the members of the audit committee must be independent directors. In addition, the Companies Law includes a corporate governance recommendation according to which the majority of the members of the board of directors in a public company that does not have a controlling shareholder should be independent directors, and in a company with a controlling shareholder at least third of the board of directors should be independent directors. A public company may classify an external director or an individual serving as a director, as an independent director only if (i) the audit committee has determined that he or she is qualified to serve as an external director (with the exception that such director does not have to have professional qualifications or accounting and financial expertise in order to serve as an independent director), and (ii) he or she is not serving as a director in the company for more than consecutive nine years (only a period of two or more years, in which such person did not serve as a director in the company, shall be deemed to discontinue the nine year sequence).

#### Committees of the Board of Directors

As of the date of this annual report, we have four committees of the board of directors, which includes our audit committee, our financial statements review committee, our nominating committee and our compensation committee, as described below.

## The Audit Committee

The Companies Law requires public companies to appoint an audit committee. The responsibilities of the audit committee include, among others, identifying irregularities and deficiencies in the management of the company's business and approval of related party transactions as required by law. An audit committee must consist of at least three members, and include all of the company's external directors. In addition, the majority of its members shall be independent directors in accordance with the requirements of The Companies Law. However, the chairman of the board of directors, any director employed by the company or by its controlling shareholder or by any other entity controlled by such controlling shareholder or a director providing, on a regular basis, services to the company, to any controlling shareholder or to other entity controlled by such controlling shareholder, or any director whose livelihood relies on any controlling shareholder, may not be a member of the audit committee. Any controlling shareholder and any relative of a controlling shareholder may also not be a member of the audit committee. The chairman of the audit committee must be an external director, who has not been serving as a chairman of the audit committee for more than nine years. An audit committee recommends approval of transactions that are deemed interested party transactions, including directors' compensation and transactions between a company and its controlling shareholder or transactions between a company and another person in which its controlling shareholder has a personal interest. The audit committee must also determine whether a transaction constitute an extraordinary transaction. Pursuant to Amendment 22 to the Companies Law, effective as of January 10, 2014, the responsibilities of the audit committee under the Companies Law also include the following matters: (i) to ensure that a competitive procedure is conducted for related party transactions with a controlling shareholder (regardless of whether or not such transactions are deemed extraordinary transactions), optionally based on criteria which may be determined by the audit committee annually in advance; and (ii) setting forth the approval process for transactions that are 'non-negligible' (i.e. transactions with a controlling shareholder that are classified by the audit committee as non-negligible, even though they are not deemed extraordinary transactions), as well as determining which types of transactions would require the approval of the audit committee, optionally based on criteria which may be determined annually in advance by the audit committee. An audit committee may not approve an action or a transaction with an officer or director, a transaction in which an officer or director has a personal interest, a transaction with a controlling shareholder and certain other transactions specified in the Companies Law, unless at the time of approval the audit committee meets all the criteria required under the Companies Law.

Subject to the exceptions specified in the Companies Law, any person who is not eligible to serve in the audit committee shall not participate in its meetings.

Legal quorum shall be constituted when the majority members of the audit committee shall be present at the meeting, provided that: (a) the majority of the present members are independent directors; and, (b) at least one of the present members is an external director.

Under the Companies Law there are restrictions regarding engagement or benefits with a person who served as an external director (or his or her relative) for period of two years commencing the time when such external director leaves office.

In accordance with the Sarbanes-Oxley Act of 2002 and NASDAQ requirements, our audit committee reviews our internal accounting procedures and consults with and reviews the services provided by our independent auditors.

The rules of NASDAQ currently applicable to foreign private issuers, such as us, require us to establish an audit committee of at least three members, comprised solely of independent directors. All of the members of the audit committee must be able to read and understand basic financial statements, and at least one member must have experience in finance or accounting, requisite professional certification in accounting or comparable experience or background. The board has determined that Ms. Orli Garti-Seroussi is an audit committee financial expert as defined by applicable Securities and Exchange Commission, or the "SEC" or "Commission" regulation. The responsibilities of the



audit committee under the NASDAQ rules include the selection and evaluation of the outside auditors and evaluation of their independence.

The members of our audit committee are Mr. Chaim Labenski, Mr. Danny Lustiger and Ms. Orli Garti-Seroussi. These include our two external directors as required under the Companies Law, and we believe that all of the members of our audit committee are independent of management, and satisfy the requirements of Companies Law, the SEC's rules and NASDAQ rules.

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### The Financial Statements Review Committee

Our board of directors appointed a financial statement review committee, which consists of members with accounting and financial expertise or the ability to read and understand financial statements, with at least one of the members having “accounting and financial expertise” (as defined above). According to a resolution of our board of directors, the audit committee has been assigned the responsibilities and duties of a financial statement review committee, as permitted under relevant regulations promulgated under the Companies Law. From time to time as necessary and required to approve our financial statements, the audit committee holds separate meetings, prior to the scheduled meetings of the entire board of directors regarding financial statement approval.

The function of a financial statement review committee is to discuss and provide recommendations to its board of directors (including the report of any deficiency found) with respect to the following issues: (i) estimations and assessments made in connection with the preparation of financial statements; (ii) internal controls related to the financial statements; (iii) completeness and propriety of the disclosure in the financial statements; (iv) the accounting policies adopted and the accounting treatments implemented in material matters of the company; (v) value evaluations, including the assumptions and assessments on which evaluations are based and the supporting data in the financial statements. Our independent auditors and our internal auditor are invited to attend all meetings of the audit committee when it is acting in a role of the financial statement review committee or at which matters concerning the financial statements are discussed.

The financial statement review committee is required to consist at least three members, all of its members must be directors, and the majority of its members are required to be directors who meet certain independence requirements of the Companies Law. However, the chairman of the board of directors, any director employed by the company or by its controlling shareholder or by any other entity controlled by such controlling shareholder or a director providing, on a regular basis, services to the company, to any controlling shareholder or to other entity controlled by such controlling shareholder, or any director whose livelihood relies on any controlling shareholder, may not be a member of the financial statement review committee. In addition, any controlling shareholder and any relative of a controlling shareholder may also not be a member of the financial statement review committee. All the committee members are required to give a declaration before their appointment, and the chairperson of the committee must be an external director.

Legal quorum shall be constituted when the majority members of the financial statement review committee shall be present at the meeting, provided that: (a) the majority of the present members are independent directors; and, (b) at least one of the present members is an external director.

The members of our financial statement review committee are Mr. Chaim Labenski, Mr. Danny Lustiger and Ms. Orli Garti-Seroussi. These include our two external directors as required under the Companies Law, and we believe that all of the members of our financial statement review committee satisfy with the requirements of the Companies Law.

### The Nominating Committee

The function of our nominating committee is described in the approved charter of the committee and includes responsibility for identifying individuals qualified to become a board members and recommending director nominees to the board of directors for election at the general meeting of shareholders. The nominating committee is also responsible for developing and recommending to the board of directors a set of corporate governance guidelines applicable to the Company, periodically reviewing such guidelines and recommending any changes thereto.

The members of our nominating committee are Mr. Chaim Labenski, Mr. Danny Lustiger and Ms. Orli Garti-Seroussi. We believe that all of the members of our nominating committee are independent of management, and satisfy the requirements of the NASDAQ rules.

### The Compensation Committee

Under the Companies Law, a public company is required to appoint a compensation committee. The compensation committee must consist of at least three directors, must include all the external directors, the majority of its members must be external directors, and its chairman must be an external director. In addition, all members of the compensation committee must meet the requirements under the Companies Law for membership in the audit committee, as described above, and all of its members shall be compensated in accordance with section 244 of the Companies Law.

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Under the Companies Law and our compensation committee charter, our compensation committee is responsible, among others, for (i) recommending to the board of directors regarding its approval of a compensation policy in accordance with the requirements of the Companies Law, and any other compensation policies, incentive-based compensation plans and equity-based plans; (ii) overseeing the development and implementation of such compensation plans and policies that are appropriate in light of all relevant circumstances and recommending to the board of directors regarding any amendments or modifications that the compensation committee deems appropriate; (iii) determining whether to approve transactions concerning the terms of engagement and employment of our officers and directors that require compensation committee approval under the Companies Law or our compensation plans and policies; and (iv) taking any further actions as the compensation committee is required or allowed to under the Companies Law or the compensation plans and policies.

The members of our compensation committee are Mr. Chaim Labenski, Mr. Danny Lustiger and Ms. Orli Garti-Seroussi.

Our current compensation policy, or the Compensation Policy, was approved by our shareholders on February 14, 2019 and is in effect for a period of three years from the date of approval. The Compensation Policy does not, by nature, grant any rights to our directors or officers. The Compensation Policy includes both long-term and short-term compensation elements and is to be reviewed from time to time by our compensation committee and our board of directors, according to the requirements of the Companies Law.

Our Compensation Policy serves as the basis for decisions concerning the financial terms of employment or engagement of office holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment with respect to employment or engagement. According to the Companies Law, the compensation policy must be approved (or reapproved) not longer than every three years and relate to certain factors, including advancement of the company's objectives, the company's business plan and its long-term strategy, and creation of appropriate incentives for office holders. It must also consider, among other things, the company's risk management, size, and nature of its operations. The compensation policy must furthermore consider the following additional factors:

- the knowledge, skills, expertise, and accomplishments of the relevant office holder;
  - the office holder's roles and responsibilities and prior compensation agreements with him or her;
  - the ratio between the terms offered and the average compensation of the other employees of the company, including those employed through manpower companies, and in particular the ratio between the average wage and the median salary of such employees;
  - the impact of disparities in salary upon work relationships in the company;
  - the possibility of reducing variable compensation at the discretion of the board of directors;
  - the possibility of setting a limit on the exercise value of non-cash variable equity-based compensation; and
- as to severance compensation, the period of service of the office holder, the terms of his or her compensation during such service period, the company's performance during that period of service, the person's contributions towards the company's achievement of its goals and the maximization of its profits, and the circumstances under which the person is leaving the company

The compensation policy must also include the following principles:

the linkage between variable compensation and long-term performance and measurable criteria; however, in certain circumstances, we may grant up to three monthly salaries per year of unmeasurable criteria for an office holder who is not our chief executive officer;

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the ratio between variable and fixed compensation, and the ceiling for the value of variable compensation at the time of the payment (or with respect to variable equity compensation that is not paid for in cash, a ceiling for their value on the grant date);

the conditions under which an office holder would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in the company's financial statements;

the minimum holding or vesting period for variable, equity-based compensation with a view to long-term incentives; and

maximum limits for severance compensation

#### Internal auditor

The Companies Law requires the board of directors of a public company to appoint an internal auditor pursuant to the audit committee's proposal. The internal auditor must satisfy certain independence requirements as required by the law. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business procedures. Our internal auditor is Mr. Doron Cohen of Fahn Kanne & Co., a member firm of Grant Thornton International Ltd.

#### Employment Agreements

Each of our executive officers entered into a written employment agreement with us that provides, among other things, that such officers be paid a monthly salary and bonuses. Each such agreement can be terminated either by us, or by the employee, upon prior notice, which ranges between 30 to 120 days for most of the management team. The employment agreements also provide that each executive officer will maintain confidentiality of matters relating to us and will not compete with us during the period of the officer's employment and for a certain period thereafter.

#### 6.D. EMPLOYEES

We currently have 11 employees, including employees in our subsidiaries, all of them employed in our general and administrative, finance and human resources divisions. Out of whom 6 employees are employed in Israel, 4 are employed in the United States and 1 is employed in Europe. All of our employees are currently employed pursuant to personal employment agreements.

#### 6.E. SHARE OWNERSHIP

As of March 20, 2019, our current directors and executive officers (eight persons) beneficially owned an aggregate of 205,065 ordinary shares of our Company, of which 45,840 ordinary shares held by a trustee for the benefit of our directors and executive officers under our 2006 Plan, vested as of March 20, 2019 or within 60 days. All of our directors or executive officers hold less than 1% of our shares except for Mr. Wyler who holds, to the Company knowledge, approximately 159,218 ordinary, which is approximately 3.06% of the Company's outstanding shares. See Item 7.A. "Major Shareholders" for more information regarding Mr. Wyler's holdings.

#### Incentive Plans

As of March 20, 2019, we had no outstanding options and/or unvested restricted shares. As of December 31, 2017, and 2018, the number of options reserved for issuance under our plans was 511,260 and 571,260, respectively.

As of March 20, 2019, or within 60 days thereafter, an aggregate of 235,790 ordinary shares has been reserved for issuance under the 2006 Plan. As of December 31, 2017, and 2018, the number of restricted shares reserved for issuance under the 2006 Plan was 235,790.

The following is a description of our incentive plans currently in effect.

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## 1999 Plans

In January 1999, our shareholders approved the adoption of an Israeli option plan, or the 1999 Israeli Plan, and a U.S. option plan, or the 1999 U.S. Plan, collectively the “1999 Plans” both plans have a joint pool of underlying shares to be granted thereunder. The 1999 Plans were amended from time to time to include different tax tracks. The purpose of the 1999 Plans is to attract and retain the best available personnel, to provide additional incentive to employees, directors and consultants and to promote the success of our business. In December 1999, our board of directors adopted a resolution to amend the 1999 Plans in a manner that as of April 1, 2000, the number of shares made available for grant under the 1999 Plans will be automatically increased annually, to equal 5% of our outstanding share capital at the relevant time. In May 2003 we amended our 1999 Israeli Plan to provide for the grant of options to Israeli optionees under the new capital gains track provisions of the Israeli Tax Ordinance. Unless specifically changed for a certain grantee, options vest monthly over a period of four years, starting one year after the date of grant, subject to the continued employment of the grantee. The exercise price of the options is determined by our board of directors, subject to limitations. Generally, options granted under each of the 1999 Plans will have a term of no more than seven years from the date of grant. All options are subject to earlier termination upon termination of the grantee’s employment or other relationship with us, generally no less than three months from termination. We may make certain exceptions, from time to time, in the vesting and expiration terms of options granted to certain grantees.

## 2006 Israeli Incentive Compensation Plan

In May 2006, our board of directors approved the adoption of the 2006 Israeli Incentive Compensation Plan, or the 2006 Plan, the purpose of which is to secure the benefits arising from ownership of share capital by our employees, officers and directors who are expected to contribute to the Company’s future growth and success. The 2006 Plan provides for the grant of options, restricted shares and restricted share units in accordance with various Israeli tax tracks. We currently use the 2006 Plan for the grant of restricted shares only. The restricted shares are granted for no consideration and with a vesting schedule of two years (50% each year). The restricted shares are granted in accordance with the Israeli capital gains tax track. Termination of employment of a grantee for any reason will result in the forfeiture of such grantee’s unvested restricted shares. All restricted shares are subject to earlier termination upon termination of the grantee’s employment or other relationship with us, generally no less than 90 days from termination. We may make certain exceptions, from time to time, in the vesting and expiration terms of the securities granted to certain grantees. In November 2013, our board of directors approved the increase of number of shares under the 2006 Plan in additional 50,000 shares and in August 2014, our board of directors approved the increase of number of shares under the 2006 Plan in additional 150,000 shares.

NASDAQ Listing Rules permit foreign private issuers to follow home country practices in regard to certain requirements, including the requirement to obtain shareholder approval in connection with the establishment of certain incentive plans. In June and September 2006, we notified NASDAQ that we elected to follow home practices with regard to the adoption of, and the amendment to, the 2006 Plan. Accordingly, the adoption of, and the amendments to, the 2006 Plan were not approved by our shareholders.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### 7.A. MAJOR SHAREHOLDERS

The following table sets forth certain information known to us regarding the beneficial ownership of our outstanding ordinary shares as of March 20, 2019 of (i) each person or group known by us to beneficially own 5% or more of the outstanding ordinary shares and (ii) the beneficial ownership of all officers and directors as a group, in each case as reported by such persons:

Name of Beneficial Owner



	No. of Ordinary Shares Beneficially Owned <sup>(1)</sup>	Percentage of Ordinary Shares Beneficially Owned	
The Capri Family Foundation <sup>(2)</sup>	3,796,284	73.03	%
Shareholding of all directors and officers as a group (eight persons) <sup>(3)</sup>	205,065	3.94	%

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(1) Number of shares and percentage ownership is based on 5,216,256 ordinary shares outstanding as of March 20, 2019. Such number excludes: (i) 17,895 ordinary shares held by us or for our benefit. Beneficial ownership is determined in accordance with rules of the SEC and includes voting and investment power with respect to such shares. Shares subject to options that are currently exercisable or exercisable within 60 days of March 20, 2019 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not deemed to be outstanding and to be beneficially owned for the purpose of computing the percentage ownership of any other person. All information with respect to the beneficial ownership of any principal shareholder has been furnished by such shareholder and, unless otherwise indicated below, we believe that persons named in the table have sole voting and sole investment power with respect to all the shares shown as beneficially owned, subject to community property laws, where applicable. The shares beneficially owned by the directors include the ordinary shares owned by their family members to which such directors disclaim beneficial ownership.

(2) The information is accurate as of March 18, 2015, and based on Amendment No. 6 to Schedule 13D filed with the SEC on March 18, 2015, by The Capri Family Foundation. According to such Amendment No. 6 to Schedule 13D, Capri directly owns 3,796,284 of our ordinary shares. The core activity of Capri is the holding of investments. In addition, the beneficiaries of Capri are the children of Mr. Tom Wyler, the Chief Executive Officer of our subsidiary, Optibase Inc.

(3) Includes 159,225 ordinary shares, of which 45,840 ordinary shares held by a trustee for the benefit of our directors and executive officers under our 2006 Plan, which have vested on March 20, 2019 or within 60 days thereafter. Other than Shlomo (Tom) Wyler, all of our directors or executive officers hold less than 1% of our shares.

There have been no significant changes that we are aware of in the percentage ownership held by any major shareholder during the past three years.

All of our shares have the same voting rights.

On March 20, 2019, registered holders in the United States hold approximately 54% of our ordinary shares. To the best of our knowledge, except as described above, we are not owned or controlled directly or indirectly by any government or by any other corporation. We are not aware of any arrangement, the operation of which may at a subsequent date result in a change in control of us.

#### 7.B. RELATED PARTY TRANSACTIONS

For a description of the insurance, indemnification and exemption granted to our directors and officers, see Item 6.B. "Compensation" above.

Each member of our board of directors is granted compensation pursuant to the fixed amounts permitted to be paid to external directors (depending on our equity level), all in accordance with the 'External Directors' Compensation Regulations, as may be from time to time, for his/her service as a director. For additional information see Item 6.B. "Compensation" above.

On October 19, 2009, our shareholders approved the compensation of Mr. Hilman, a director of the Company, who was appointed on September 1, 2009 as Executive Chairman of the board of directors. The principal terms of such compensation are as follows: a monthly payment of NIS 20,000 plus applicable value added tax, against the receipt of a tax invoice. The Company will also reimburse Mr. Hilman for his reasonable expenses directly incurred by him in the performance of his duties against the production of appropriate receipts. In addition, Mr. Hilman was granted on October 19, 2009, 20,000 options which have been exercised into 20,000 ordinary shares NIS 0.65 nominal value each of the Company under the Company's 1999 Israeli Share Option Plan. All other terms of the options are as stated in the Company's 1999 Israeli Share Option Plan.

On December 19, 2013, and following the approval by our compensation committee and board of directors, our shareholders approved the grant of our 12,000 restricted shares, in three equal consecutive annual grants (commencing on January 1, 2014), to each of Mr. Hilman, the executive chairman of our board of directors, and Mr. Philips, our chief executive officer, or the Recipients, under the Company's 2006 Israeli Incentive Compensation Plan. The restricted shares were granted to the Recipients for no consideration, and vest after a two-year period (50% each year) from their date of grant, subject to the continued employment or service of the Recipients in the Company.

On May 16, 2016, and following the approval by our audit committee, compensation committee and board of directors, our shareholders approved the compensation terms of Mr. Wyler, for his service as Chief Executive Officer of our subsidiary Optibase Inc. According to the terms approved by our shareholders, Mr. Wyler serves as Chief Executive Officer of Optibase Inc. and is responsible for the implementation of our strategy in North America,

recognizing new local opportunities, forming strategic alliances and overseeing the ongoing management of our current U.S. real estate portfolio. The yearly gross base salary in consideration for Mr. Wyler's services as Chief Executive Officer of Optibase Inc. was set at \$200,000 for a full time position as well as reimbursement of health insurance expenses of up to \$24,000 per year, and including reimbursement of reasonable work-related expenses incurred as part of his activities as Chief Executive Officer of Optibase Inc., of up to \$50,000 per year. On February 14, 2019, following the approval by our compensation committee, audit committee and board of directors, our shareholders approved an extension for a 3 year term, of our engagement with Mr. Wyler's, including an adjustment to his compensation terms, in a manner that Mr. Wyler's annual gross base salary was set at \$220,000 for a full time position, as of January 1, 2019.

On December 29, 2016, and following the approval by our audit committee and board of directors, our shareholders approved an extension of the service agreement between the Company and Mr. Schwarz, currently serves also as a member of our board of directors, for the provision of real estate related consulting services to us, our subsidiaries and affiliates. Mr. Schwarz is a relative of the beneficiaries of Capri, our controlling shareholder. According to term of the service agreement with Mr. Schwarz, he will provide us with real estate related consulting services, including: (i) searching, introducing and advising us on real estate transactions, (ii) advising and negotiating with banks and financing institutions, (iii) advising us on our financing agreements, all as requested by us from time to time and at our sole discretion. Such services will be provided by Mr. Schwarz at the request of the Company. Mr. Schwarz will render such services faithfully and diligently for the benefit of the Company, and will devote all necessary time and attention for the performance of the services. Mr. Schwarz will also use his best efforts to implement the policies established by us in the performance of such services. In consideration for such services, we will pay Mr. Schwarz a monthly fee of EURO 4,000 (approximately \$5,350) plus applicable value added tax (if applicable). Mr. Schwarz will also be reimbursed for expenses incurred as part of the services provided by him which shall not exceed EURO 12,000 (approximately \$16,060) per year. In the event the service agreement with Mr. Schwarz is terminated during a certain month, Mr. Schwarz will be entitled to a pro rata fee based on the number of days that has lapsed until the termination date of the service agreement. Mr. Schwarz may either provide the services by himself or through a corporation under his control, provided that the consideration under the service agreement remains unchanged. The service agreement with Mr. Schwarz will be in effect retroactively from November 1, 2016 for a period of three years. Each of Mr. Schwarz and us may terminate the service agreement by giving a prior written notice of 30 days. During such advance notice period, Mr. Schwarz will be required to continue the provision of the services provided by him under the agreement (unless we have instructed him otherwise) and in any event Mr. Schwarz will be entitled to receive the consideration for such period, except for cause.

On December 21, 2017, our shareholders approved, following the approval by our compensation committee, audit committee and board of directors, the following amendment to our prospective undertaking to indemnify our current and future directors, including our Chief Executive Officer and including directors and officers who are affiliated with our controlling shareholder, and the grant of amended letters of indemnification accordingly: an increase of the aggregate and accumulated indemnification amount that the Company may pay its directors and officers, to an amount that shall not exceed the higher of: (i) 25% of the shareholders' equity of the Company, as set forth in the Company's most recent consolidated financial statements prior to such payment; (ii) 20 million U.S. Dollars.

On May 16, 2016, our shareholders approved, following the approval by our compensation committee and board of directors, certain amendments to the compensation terms of Mr. Philips and the grant of special bonus as follows: (a) Mr. Philips' monthly gross base salary was updated to NIS 65,000 for a full time position, as of January 1, 2016 and would increase to NIS 75,000 as of January 1, 2017; and (b) Mr. Philips was awarded a special bonus in the amount of NIS 120,000. On February 14, 2019, our shareholders approved, following the approval by our compensation committee and board of directors, an extension of the engagement with Mr. Philips. As such Mr. Philips' monthly base gross salary is NIS 75,000 (approximately \$20,800), and he is entitled to 24 vacation days, convalescence pay of 10 days and sick days in accordance with market practice and applicable law, monthly remuneration for a study fund, contribution by us to an insurance policy and pension fund, and additional benefits, including communication expenses. In addition, Mr. Philips is entitled to reimbursement of car-related expenses from us (including tax gross-up). Mr. Philips' employment terms include an advance notice period of 6 months. During such advance notice period, Mr. Philips is entitled to all of the compensation elements, and to the continuation of vesting of any options or restricted shares granted to him. Mr. Philips is also entitled to bonus payments in accordance with the Compensation Policy.

On December 29, 2016, our shareholders approved the reappointment of Ms. Garti-Seroussi and Mr. Labenski as external directors of the Company for an additional three years term commencing on January 31, 2017 and on December 31, 2016, respectively, including the compensation terms for their service as external directors of the Company, in the compensation terms specified in Item 6.B. "Compensation" above.

In March 2017, our audit committee and board of directors approved, the receipt of a loan from our Controlling shareholder. The Loan was granted to the Company on March 28, 2017. For further details see Item 5.B. "Operating and Financial Review and Prospects - Liquidity and Capital Resources" above.

As part of the purchase by the Company's subsidiary Optibase Inc. of twelve luxury condominium units located in Miami Beach, Florida, or the Acquisition Transaction, on December 31, 2013, the Company's wholly-owned subsidiary, Optibase Real Estate Miami LLC, a Florida limited liability company, or Optibase Miami, has entered into an agreement with an affiliate of Capri, our controlling shareholder, for the lease of a luxury condominium unit (including 2 parking spaces) in the Continuum on South Beach Condominium, located in Miami Beach, Florida, for a term of 36 months. The rent for the entire period of the lease was prepaid at a rate of \$12,000 per month including sales tax (for a total rent of \$432,000 including sales tax). The rent was paid at the closing date of the Acquisition Transaction in 66,977 ordinary shares of the Company, at a price of \$6.45 per share (which offset the number of ordinary shares to be issued by us in the Acquisition Transaction).

On December 29, 2016, our shareholders approved, following the approval by our audit committee and board of directors, a new lease agreement to be entered into with an affiliate of Capri, or the Tenant. The new lease will be in effect for a one-year term commencing on January 2, 2017, which will be automatically extended by a one-year term and up to a total of three years. The Tenant may decide not to extend the New Lease provided that it has given notice to that effect to the Company at least 45 days before the end of each year. The monthly rent to be paid by the Tenant to the Company is \$25,000, including sales tax, the Rent. The Rent will be increased by 3% every year.

#### Registration Rights Agreement

On October 22, 2014, our shareholders approved, following the approval by our audit committee and board of directors, the entrance by us into a registration rights agreement with Mr. Wyler and Capri, or the Holders, for the filing of a registration statement in order to register for resale all of our ordinary shares of held by them. The following is a short summary of the principal terms of the agreement:

#### Demand registration rights

At any time after nine months following the approval of the agreement by our shareholders, at the request of the holders of at least 5% of the ordinary shares outstanding on the effective date of the agreement, we must register any or all of the Holders' ordinary shares as follows: (i) in the event that we are not eligible under applicable securities laws to file a registration statement on Form F-3, we are required to effect up to two such registrations, but only if the minimum anticipated gross aggregate offering price of the shares to be registered exceeds \$5 million, and (ii) in the event that we are eligible under applicable securities laws to file a registration statement on Form F-3, we are required to effect an unlimited number of registrations, but only (a) if the minimum gross anticipated aggregate offering price of the shares to be registered exceeds \$5 million, and (b) up to two within a period of twelve months. Such registration must also include any additional registrable securities requested to be included in such registration by any other holders who are party to the agreement or entitled thereunder.

Our obligation to effect a registration is subject to certain qualifications and limitations, including our right to postpone a registration during the period that is 90 days before our good faith estimate of the date of filing of, and ending up to 180 days after the effective date of, a registration statement initiated by us and for which the piggyback rights described below will apply, our right to postpone a registration for a period of up to 60 days in the event of our furnishing a certificate signed by our Chief Executive Officer that states that in the good faith judgment of our board of directors, it would be materially detrimental to us or our shareholders for such registration statement to either become effective or remain effective, because such action would (i) materially interfere with a significant acquisition, corporate reorganization, or other similar transaction involving us or (ii) require premature disclosure of material information that we have a bona fide business purpose for preserving as confidential. However, we may not invoke this postponement right for more than an aggregate of 90 days in any 12 month period.

#### Piggyback registration rights

The Holders have the right to request that we include their registrable securities in any registration statement that we file (other than a registration statement on Form S-8, S-4 or other equivalent form). The right of a Holder to include shares in the registration related thereto is conditioned upon the shareholder accepting the terms of the underwriting, if any, as agreed between us and the underwriters and then only in such quantity as the underwriters in their sole discretion determine will not jeopardize the success of our offering. However, we have agreed not to grant any other shareholders priority to have their securities registered prior the securities of a Holder.

#### Expenses

All expenses incurred in effecting a registration provided for under the agreement, including, without limitation, all registration and filing fees, printing expenses, reasonable fees and disbursements of counsel for us and for one U.S. counsel and one Israeli counsel, underwriting expenses (other than share transfer taxes, selling Holder underwriting discounts or commissions), road show expenses, expenses of any audits incident to or required by any such registration, shall be paid by us.

#### Indemnification

The agreement further includes mutual indemnification obligations between the parties, according to which, subject to applicable law, each party to the agreement shall indemnify and hold harmless the other party, from and against any and all losses, claims, expenses, damages or liabilities, joint or several as the same are incurred to which they, or any of them, may become subject under the Securities Act, the Securities Exchange Act of 1934, as amended, other federal or state statutory law or regulation, at common law, or otherwise, insofar as such losses, claims, expenses, damages or liabilities (or action in respect thereof) arise out of or are based upon any of the events specified in the agreement.

#### Termination of Registration Rights

The Holders' right to request registration or to include registrable securities held by them in any registration pursuant to the agreement, shall terminate upon the earlier of (a) seven (7) years following the effective date of the agreement or (b) when all of their registrable securities can be sold without restriction pursuant to Rule 144 under the Securities Act and without the requirement for us to be in compliance with the current public information requirements under Rule 144 as confirmed by an unqualified opinion by counsel of us.

#### Commercial Office Building in Philadelphia

On October 12, 2012, following the approval of our audit committee and board of directors, and the approval of our shareholders during an annual general meeting of our shareholders held on August 16, 2012, our wholly-owned

subsidiary, Optibase 2 Penn, LLC, became a limited partner of 2 Penn Philadelphia LP, a Pennsylvania limited partnership, or the Partnership, which acquired an approximately 20% indirect beneficial interest in the owner of a Class A 20-story commercial office building in Philadelphia known as Two Penn Center Plaza, or the 2 Penn Property, and entered into the Limited Partnership Agreement of the Partnership, or the 2 Penn LPA. As of December 31, 2018, the Company indirect beneficial interest in the 2 Penn Property is 22.16%.

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The general partner of the partnership and certain other limited partners of the Partnership, are persons or entities affiliated with Mr. Wyler, the Chief Executive Officer of our subsidiary, Optibase Inc., who was then our president and member of our board of directors and considered the controlling shareholder of the Company, as detailed herein. The 2 Penn LPA sets forth the terms and conditions of the investment in the Partnership. According to the 2 Penn LPA our subsidiary acquired approximately 26% of the limited partnership interests in the Partnership in consideration for approximately \$4 million.

The Partnership owns a beneficial interest in the owner of the 2 Penn Property by being issued a 85.76% partnership interest in Two Penn Investor LP, a Pennsylvania limited partnership, or the 2 Penn Investor, which acquired 88% (As of December 31, 2018 - 99%) of the limited partnership interests in Crown Two Penn Center Associates Limited Partnership, or the Property Owner, and Two Penn General LLC from Crown Penn Associates, L.P., or Crown Penn. Two Penn General LLC, a Delaware limited liability company controlled by Mr. Alex Schwartz acquired a 1% general partner interest in the Property Owner from Two Penn Center GP Corp., a Pennsylvania corporation, or the Existing General Partner, for the aggregate sum of approximately \$12.8 million.

In connection with the closing of the sale agreement transaction, 2 Penn Investor provided a loan to Crown Penn in the original principal amount of approximately \$1.6 million, or the Purchaser Loan. The Purchaser Loan will bear interest at a rate of 12% per annum and will mature in slightly more than 3 years and will be secured by a pledge of Crown Penn's remaining 11% of the interests in the Partnership.

The 2 Penn Property has existing mortgage financing of approximately \$51.7 million from UBS Real Estate Securities Inc., or UBS. The mortgage loan has a fixed interest rate of 5.61% and matures in May 2021, and requires monthly payments of principal and interest of approximately \$300,000. The acquisition of the partnership interests in the Property Owner from Existing General Partner and Crown Penn and the performance of the transactions as a whole were conditioned on UBS consenting to the change in ownership of the Property Owner.

Below is a description of the main provisions of the 2 Penn LPA setting forth the terms and conditions of our subsidiary's investment in the Partnership:

#### Purpose of the Partnership

The stated purpose of the Partnership is solely to acquire, own, operate and ultimately sell beneficial interests in the 2 Penn Investor (which directly owns partnership interests in the Property Owner) and transact any lawful business that is necessary to accomplish this.

#### Capital Contributions

The partners will contribute initial capital contributions to the Partnership in the aggregate amount of approximately \$15.5 million (of which our subsidiary's share is approximately \$4 million). The Partnership will contribute the initial capital contribution to 2 Penn Investor which will use the funds to acquire the limited partnership interests in the Property Owner, to provide the Purchaser Loan, to pay closing costs for the transaction, and to establish reserves for improvements to the 2 Penn Property.

Additional capital contributions may be requested of limited partners at any time that Two Penn Philadelphia GP LLC (which is the general partner of the Partnership, controlled by Mr. Alex Schwartz, who is affiliated with Mr. Wyler as set forth below, or the General Partner) determines that the Partnership requires additional funds. The General Partner may request loans or capital contributions from the limited partners, provided that if the General Partner requests loans or capital calls exceeding \$2 million during any four-year period it must obtain the approval of partners owning at least 65% of the interests in the Partnership.





If a limited partner does not provide its capital contributions, the other limited partners will have the option to fund the failed contribution in proportion to their relative percentage interests. The portion of the deficiency funded shall be treated as a loan from the lending non-defaulting partners to the defaulting limited partner and shall bear a floating interest rate equal to the prime rate of PNC Bank plus 9% (which shall be compounded annually to the extent not paid). The loan shall be repaid directly on a first priority basis out of any subsequent distributions to the defaulting limited partner. A limited partner's liability for a default loan shall be limited to its share of future distributions from the Partnership.

#### Limited Partner Approval Rights

The General Partner has full management authority over the Partnership, subject to certain major decisions which require the approval of partners owning 65% of the interests in the Partnership. These decisions include: (a) sale or transfer of any asset of the Partnership or granting approval for the sale of the 2 Penn Property; (b) borrowing money from itself or third parties for Partnership purposes or to mortgage, pledge or assign any of the Partnerships assets; (c) requesting capital contributions or borrowing money from the partners in an amount exceeding \$2 million during any four year period; (d) admission of any new partners; (e) removal of the General Partner; (f) termination and dissolution of the Partnership; (g) amendment of the Partnership agreement; (h) merger or consolidation into or with another entity; (i) amendment of the Partnership certificate in a material manner; or (j) entering into a new line of business.

#### Fees Paid to the General Partner

The General Partner or its affiliates may receive an annual management fee of four percent (4%) of gross revenues from the Property from the Property Owner in connection with management of the 2 Penn Property and shall be entitled to be reimbursed for expenses incurred in the management of the Partnership business. The General Partner and its affiliates may not receive any other fees or payments from the Partnership, 2 Penn Investor or from the Property Owner without the consent of limited partners owning at least 65% of the interests in the Partnership.

#### Distributions

All revenue of the Partnership, less the operating expenses and any reserves established by the GP, or Net Cash Flow, will be distributed as follows:

- (a) First, to repay partners who loaned sums to other limited partners who defaulted on their capital contributions;
- (b) Second, to partners that have made voluntary loans to the Partnership;
- (c) Third, to repay the partners their capital contributions; and
- (d) Fourth, to the partners in accordance with their percentage interests in the Partnership.

The General Partner has undertaken to cause Two Penn Investor and Crown 2 Penn LLC to distribute all net cash flow received from the 2 Penn Property to their limited partners. Other than with the consent of partners holding at least 65% of the interests in the Partnership, Crown 2 Penn LLC may only withhold net cash flow in order to: (1) establish reserves not exceeding one million dollars (\$1 million) for future expenses of the 2 Penn Property, (2) reserve funds to service debt or loan document obligations of the Property Owner, and (3) avoid the violation of applicable laws and avoid the imposition of transfer taxes.

#### Transfer Restrictions

General Partner Consent to Transfer of the Company's Percentage Interest: After a three year and one month so long as there has not been a change in the controlling shareholder of the Company, our subsidiary shall be permitted to

transfer all or part of its interests in the Partnership without obtaining the General Partner's prior consent unless:

- (1) the proposed transferee is subject to trade restrictions under US law,
- (2) the transfer would violate federal or state securities laws, or
- (3) the transfer would violate terms of debt obligations which the Property Owner has incurred.

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**LP Consent to GP Transfer:** The General Partner must receive the consent of partners owning at least sixty five percent (65%) of the interests in the Partnership to transfer the General Partner interest. Any transfer of the General Partner must be to a person who or which agrees to serve as a replacement General Partner. So long as the Company is a limited partner, unless otherwise consented to by Partners owning at least 65% of the Partnership interests, the General Partner will ensure that, as long as it is controlled by Alex Schwartz (a) at least 20% of the percentage interests of the Partnership will at all times be held or controlled by Alex Schwartz and his family members and (b) the general partners of Two Penn Investor and the Property Owner shall be solely controlled by Alex Schwartz.

**Right of First Offer:** Transfers by partners of their interests in the Partnership are generally subject to a right of first offer in favor of the other partners. The selling party must first offer the portion of its percentage interest that it is looking to sell to the General Partner and other limited partners, before selling such portion to a third party. If the other partners do not send the selling party a notice of acceptance within the prescribed time or do not agree to purchase all of the percentage interest contained in the offer, the selling party shall have the right to sell such percentage interest to a third party.

**Tag Along:** If the General Partner or Alex Schwartz receive an offer to sell all or a portion of their percentage interests, after which Alex and his family members or entities under his control would collectively own less than 20% of the percentage interests, the other Partners shall have the right to sell to the offering third party the same portion of their percentage interests that such third party is willing to purchase from the General Partner and/or Alex Schwartz, on the same terms. If the third party refuses to purchase the other Partners' percentage interests, the General Partner and/or Alex Schwartz may not sell.

**Bring Along:** If the Partners receive a bona fide offer from a third party to acquire all of the percentage interests of the Partnership and the General Partner and partners holding at least 65% of the interests in the Partnership agree to accept the offer, then the other limited partners will be obligated to sell their percentage interests on the same terms as the other Partners.

#### Removal of the General Partner

For as long as Alex Schwartz is controlling the General Partner, a vote by partners holding 65% or more of the interests in the Partnership is necessary to remove the General Partner. If the General Partner is no longer controlled by Alex Schwartz, a vote of partners owning at least 51% of the interests in the Partnership is required to remove the General Partner. Appointment of a new General Partner requires the consent of 51% of the limited partners. If the General Partner is removed, the replacement General Partner must buy-out the General Partner's interest at fair market value.

#### Amendment of the LPA

Amendment of the LPA requires approval of limited partners owning at least 65% of the Partnership interests provided that any change affecting a Partner's rights must be approved by the affected Partner.

#### Undertaking Ensuring Limited Partner Rights

Together with the signing of the LPA, Alex Schwartz, the General Partner and the general partner of Two Penn Investor will sign an undertaking according to which they shall (1) not permit Two Penn Investor or the Property Owner to take any of the actions set forth in the Section entitled "Limited Partner Approval Rights" above without obtaining the prior written consent of 65% of the limited partners of the Partnership, and (2) not to permit Two Penn Investor or the Property Owner to withhold distributions other than as set forth in the Section entitled "Distributions" above without the consent of partners owning at least 65% of the interests in the Partnership, and (3) not to permit a

change in the ownership of the general partner of the 2 Penn Investor or the Property Owner as long as Alex Schwartz controls the General Partner interest.

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## Indemnification

The Partnership will indemnify the General Partner and its members from any claim, judgment or liability and from any loss or expense which may be imposed on the General Partner as a result of (i) an act performed by the General Partner on behalf of the Partnership or (ii) the inaction of the General Partner or from (iii) any liabilities arising under federal and state securities laws so long as the General Partner acts in good faith in the best interest of the Partnership and the conduct of the General Partner does not constitute gross negligence or willful misconduct.

## 7.C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### 8.A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See Item 18 “Financial Statements” for a list of financial statements filed as part of this annual report on Form 20-F.

#### Legal proceedings

##### Receipt of a Motion to Approve a Derivative Claim

On October 26, 2014, we received a letter on behalf of two purported shareholders of us, or the Shareholders, demanding us to file a derivative claim against our controlling shareholder and our directors and officers, according to procedures of the Companies Law and requesting discovery of our internal documents. The demand alleges, among other things, breach of fiduciary duties by our directors and officers with respect to the approval of the transaction to acquire luxury condominium units in Miami Beach, Florida, or the Transaction. In accordance with the Companies Law, we informed the Shareholders in December 2014 of the way in which we wish to proceed with respect to the demand. At the Shareholders’ request, we presented the Shareholders with certain materials in connection with the Transaction for their review.

On May 12, 2015 we have been served with a motion to approve the filing of a derivative claim (on behalf of the Company) against our controlling shareholder, directors and CEO and against certain former controlling shareholder and directors, or the Motion, and a copy of the derivative claim, or the Claim, which were submitted with the Central (Lod) District Court, by two purported shareholders of the Company, or the Applicants.

The Claim alleges, among other things, a breach of fiduciary duties by the our directors, officers and controlling shareholder, and an exploitation of a business opportunity by the our current and former controlling shareholder with respect to certain private placements of the Company's shares to our controlling shareholder conducted in June 2008, May 2011 and December 2013. The Claim further alleges, that such private placements constitute a prohibited distribution as the shares were issued for an unfair consideration. As a result of the above, the Applicants request the Court to allow them to continue with this derivative claim and ultimately to require all the defendants to pay the Company an aggregate amount of approximately \$41.9 million, as well as required our shareholder (current and former) to pay us approximately \$2.9 million plus interest (for the exploitation of a business opportunity). The Applicants further require reimbursement of expenses, legal fees and award to the Applicants.

On November 8, 2015, we have submitted our response to the Motion and Claim together with an expert opinion. We have raised several arguments against the Motion including, inter alia, preliminary claims to dismiss the Motion in-limine. On November 13, 2015, the directors, CEO and former directors submitted their response to the Motion.

On September 6, 2016, the Applicants submitted to the District Court their answer to our response to the motion to approve the filing of a derivative claim, together with an expert opinion.

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On October 30, 2016, a pre-trial hearing was held during which the Court gave instruction regarding the scope of disclosure that we need to discover.

On March 14, 2017 we, our directors, CEO and former directors' submitted an expert opinion as a response to the expert opinion submitted by the Applicants.

On May 29, 2017 our controlling shareholder submitted an expert opinion as a response to the expert opinion submitted by the Applicants.

The first cross-examination hearing was held on October 31, 2017, and additional hearings were held on November 19, 2017, December 5, 2017, February 25, 2018, October 7, 2018, December 2, 2018 and December 18, 2018.

The summaries submission of the Company is scheduled for March 31, 2019, and of the Applicants is scheduled for April 15, 2019.

At this stage, we cannot provide an assessment as to the chances of the claim and the exposure to the Company.

#### Receipt of a Claim in Connection with an Option Agreement

On March 6, 2019, we have notified that Swiss Pro Capital Limited, a company organized under the laws of Switzerland, has filed a legal claim against our subsidiaries, Optibase RE 1 s.a.r.l and Optibase Real Estate Europe SARL pursuant to which Swiss Pro mainly demands the exercise of a granted option to purchase 20% of the shares of Optibase RE 1 s.a.r.l, the owner of the Rümlang property, or the Option, in connection with an option agreement between Swiss Pro and our subsidiaries, dated March 1, 2010, or the Agreement (for further details on the Agreement see Item 10.C. "Material Contracts").

Swiss Pro alleges that by calculating the formula under the Agreement, the exercise price of the Option is zero, and as such Swiss Pro claims that it holds 20% of the shares of Optibase RE 1 s.a.r.l. as of May 25, 2016, the date on which Swiss Pro has informed our subsidiaries about the exercise of the Option. In addition, Swiss Pro alleges that our subsidiaries be ordered to carry out the actions required for the allotment of the exercisable shares, and demands that Optibase Real Estate Europe SARL be ordered to pay Swiss Pro an amount of CHF 450,000 for additional charges made since the exercise of the Option and its alleged stake in the cash held by Optibase RE 1 s.a.r.l.

The filing of the legal claim was preceded by an exchange of letters between Swiss Pro and us during 2015 and 2016 in connection with Swiss Pro's claim for the exercise of the Option. We have responded to the allegations then raised by Swiss Pro and rejected them all (see the disclosure of such exchange of letters in our annual reports on Form 20-F for the years 2015 through 2017). We maintain our rejection of Swiss Pro's allegations and believe the legal claim to be without merit.

#### Receipt of a Claim from Tenant in the CTN Complex

On April 16, 2015, our subsidiary Eldista GmbH, filed a claim to the court in Switzerland in an amount of approximately CHF 1 million (app. \$1 million) due to damages and unpaid amounts from a specific tenant. Shortly thereafter, the tenant filed a counterclaim against Eldista GmbH in an amount of approximately CHF 157,000 (app. \$171,200) for damages allegedly caused to it. The court suggested the parties to transfer to mediation proceedings which failed. The court handed down a partial judgment on 31, October 2016, dismissing Eldista GmbH's claim (though it had not yet examined the issue of the damages). Eldista GmbH filed an appeal against the judgment, but it was dismissed on June 12, 2017. On May 2, 2018, the court ruled that the damages owned to the tenant amount to CHF 52,916 plus interest 5% as of June 4, 2014. An appeal has been filed and is currently pending before the supreme court. Should the supreme court confirm the first judgment, Eldista GmbH will most likely file a counterclaim against



the former real estate agency that was managing the CTN Complex, although there is also a possibility that a judge would consider that the latter committed no breach or that only a portion of the damage can be recovered from the agency.

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At this stage, we cannot assess whether the supreme court will receive or dismiss the appeal.

#### Receipt of a Claim from Tenant in the CTN Complex

On March 1 2017, our subsidiary Eldista GmbH, received a notice from its largest tenant in Switzerland, LEM Switzerland SA, or LEM, regarding the deposit of the monthly rent for March 2017 amounting to approximately CHF 279,400 (vat inclusive) with Banque cantonale de Genève under the control of the Pouvoir judiciaire of the Canton of Geneva, as a preliminary process for filing a claim with the Commission de Conciliation en Matière de Baux et Loyers of the Canton of Geneva, or the Commission. LEM claims that there are serious defects affecting the rented premises, which merit LEM with a reimbursement of approximately CHF 2.4 million (excluding VAT) as well as approximately CHF 69,200 as indemnification for consequential damages for the years 2014 and 2015. LEM also reserves its claims regarding damages suffered before year 2014.

On April 5, 2017 LEM withdrew the deposit of the monthly rent for March 2017 with Banque cantonale de Genève under the control of the Pouvoir judiciaire of the Canton of Geneva and released the amount to the Company. Thus, paying the full payment of the rent.

Based on LEM's submissions filed during the first hearing before the court, LEM is requesting a 20% rent reduction amounting to a capital amount of CHF 3,094,000 for the period starting from February 1, 2012, until June 30, 2017, with 5% moratory interest per year starting from October 23, 2017, corresponding to CHF 154,700 per year, based on the various defects allegedly affecting the rented premises. In addition, LEM is claiming for related damages an amount of CHF 167,721, subject to amplification, with 5% moratory interest per year starting from October 23, 2017, corresponding to CHF 8,386 per year. LEM's claim for rent reduction was reduced to 10% from July 1, 2017, until repair of the alleged defects or entry into force of the judgment, that is to say a capital amount of CHF 285,600 if considered from July 1, 2017, until June 31, 2018. LEM further demands to be reserved the right to claim the reimbursement of overpaid ancillary fees. A first hearing took place on June 26, 2018, regarding lease matters, and a second hearing took place on November 7, 2018. The next hearing (personal appearance of the parties and witness hearing) is not likely to happen before end of March 2019, and may take place in April or later, depending on the agenda of the court. The Company has sufficient provision to cover the expected outcome of this claim.

#### Dividend Policy

We have not declared or paid any cash dividends on our ordinary shares in the past. We do not expect to pay cash dividends on our ordinary shares in the foreseeable future and intend to retain our future earnings, if any, to finance the development of our business.

A dividend policy, if adopted, will be determined by our board of directors and will depend, among other factors, upon our earnings, financial condition, capital requirements, the impact of the distribution of dividends on our financial condition and tax liabilities, and such other conditions as our board of directors may deem relevant. Under Israeli law, an Israeli company may pay dividends only out of its retained earnings as determined for statutory purposes. Under our articles of association the distribution of dividends will be made by a resolution of our board of directors. See "Description of Share Capital" and "Israeli Taxation".

Cash dividends paid by an Israeli company are normally subject to a withholding tax, except for dividends paid to an Israeli company in which case no tax is withheld unless the dividend is in respect of earnings from an Approved Enterprise. In addition, because we have received certain benefits under Israeli laws relating to Approved Enterprises, the payment of dividends by us may be subject to certain Israeli taxes to which we would not otherwise be subject. The tax-exempt income attributable to the Approved Enterprise can be distributed to shareholders without subjecting us to taxes only upon our complete liquidation. If we decide to distribute cash dividends out of income that has been exempted from tax, the income out of which the dividend is distributed will be subject to corporate tax. See "Israeli

Taxation". In the event that cash dividends are declared in the future, such dividends will be paid in NIS or in foreign currency subject to any statutory limitations. Under current Israeli regulations, any dividends or other distributions paid in respect of ordinary shares will be freely repatriable in such non-Israeli currencies at the rate of exchange prevailing at the time of conversion, provided that Israeli income tax has been paid on, or withheld from, such payments. Because exchange rates between the NIS and the dollar fluctuate continuously, a U.S. shareholder will bear the risks of currency fluctuations during the period between the date such dividend is declared and paid by us in NIS and the date conversion is made by such shareholder into U.S. dollars.

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## ITEM 8.B. SIGNIFICANT CHANGES

Since the date of our financial statements for the year ended December 31, 2018, on March 6, 2019, we have notified that Swiss Pro has filed a legal claim against our subsidiaries, in connection with an option agreement. For further details, see Item 8. “Financial Information - Legal Proceedings”.

## ITEM 9. THE OFFER AND LISTING

### 9.A. OFFER AND LISTING DETAILS

Our ordinary shares are traded on The NASDAQ Global Market under the symbol OBAS since our initial public offering on April 7, 1999. In addition, on April 29, 2015, our ordinary shares were registered for trading on the Tel Aviv Stock Exchange under the symbol OBAS.

On March 20, 2019, the reported closing sale price of our ordinary shares on The NASDAQ Global Market was \$9.74 per share and on the Tel Aviv Stock Exchange was NIS 38.48 per share.

### 9.B. PLAN OF DISTRIBUTION

Not applicable.

### 9.C. MARKETS

Our ordinary shares have been listed on The NASDAQ Global Market since April 7, 1999, under the symbol “OBAS”. On April 2015 we have listed our ordinary shares for trading on the Tel Aviv Stock Exchange under the symbol “OBAS”.

### 9.D. SELLING SHAREHOLDERS

Not applicable.

### 9.E. DILUTION

Not applicable.

### 9.F. EXPENSES OF THE ISSUE

Not applicable.

## ITEM 10. ADDITIONAL INFORMATION

### 10.A. SHARE CAPITAL

Not applicable.

### 10.B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Purposes and Objects of the Company

We are a public company registered under the Companies Law as Optibase Ltd., registration number 52-003707-8.



Pursuant to our articles of association, our objectives are to engage in any lawful business and our purpose is to act pursuant to business considerations to make profits. A consideration to the Company's purpose and objectives can be found in Chapter 1 to the Company's articles of association.

Our articles of association also state that we may contribute a reasonable amount for an appropriate cause, even if the contribution is not within the framework of our business considerations.

#### The Powers of the Directors

The power of our directors to vote on a proposal, arrangement or contract in which the director is interested is limited by the relevant provisions of the Companies Law. In addition, the power of our directors to vote on compensation to themselves or any members of their body is limited in that such decision requires the approval of the compensation committee, the board of directors and the shareholders at a general meeting, see “Approval of Certain Transactions” below.

Under Israeli law each director must act with an independent and sole discretion. Director who does not act this way is in breach of his fiduciary duties.

The powers of our directors to borrow are not limited, except in the same manner as any other transaction by the Company.

#### Rights Attached to Shares

Our registered share capital is NIS 3,900,000 divided into a single class of 6,000,000 ordinary shares, par value NIS 0.65 per share, of which 5,216,256 ordinary shares were issued and outstanding as of March 20, 2019. All outstanding ordinary shares are validly issued, fully paid and non-assessable. The rights attached to the Ordinary Shares are as follows:

##### Dividend rights

Holders of Ordinary Shares are entitled to the full amount of any cash or share dividend subsequently declared. The board of directors may propose a dividend only out of profits, in accordance with the provisions of the Companies Law. Declaration of a dividend requires the approval of our board of directors. Please see Item 10.E. “Taxation” below.

One year after a dividend has been declared and is still unclaimed, the board of directors is entitled to invest or utilize the unclaimed amount of dividend in any manner to our benefit until it is claimed. We are not obligated to pay interest or linkage differentials on an unclaimed dividend.

##### Voting rights

Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future. Currently there are no shares of capital stock outstanding with special voting rights. The quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person or by proxy who hold or represent, in the aggregate, at least thirty three and one third percent (33.3%) of our voting rights. In the event that a quorum is not present within half an hour of the scheduled time, the shareholders' meeting will be adjourned to the same day of the following week, at the same time and place, or such time and place as the board of directors may determine by a notice to the shareholders. If at such adjourned meeting a quorum is not present at the time of opening of such meeting, two shareholders, at least, present in person or by proxy, shall constitute a quorum.

An ordinary resolution, such as a resolution for the election of directors, or the appointment of auditors, requires the approval by the holders of a majority of the voting rights represented at the meeting, in person, by proxy or through a voting instrument and voting thereon. Under our articles of association, if a resolution to amend the articles of association is recommended by our board of directors, such recommended resolution's adoption in a general meeting of the shareholders requires an ordinary majority. In any other case, such a resolution requires approval of a special majority of more than three quarters of the votes of the shareholders entitled to vote themselves, by proxy or through a voting instrument.

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The directors (who are not external directors) are appointed by decision of an ordinary majority at a general meeting. The directors have the right at any time, in a resolution approved by at least a majority of our directors, to appoint any person as a director, subject to the maximum number of directors specified in our articles of association, to fill in a place which has randomly been vacated, or as an addition to the board of directors. Any such director so appointed shall hold office until the next annual general meeting and may be reelected.

Under our articles of association our directors (who are not external directors) are elected by an ordinary majority of the shareholders at each duly convened annual meeting, and they serve until the next annual meeting, provided that external directors shall be elected in accordance with the Companies Law. In each annual meeting the directors that were elected at the previous annual meeting are deemed to have resigned from their office. A resigning director may be reelected.

Under the NASDAQ corporate governance rules, foreign private issuers are exempt from many of the requirements if they instead elect to be exempted from such requirements, provided they are not prohibited by home country practices and disclose where they have elected to do so.

#### Rights in the Company's profits

All of our ordinary shares have the rights to share in our profits distributed as a dividend and any other permitted distribution.

#### Rights in the event of liquidation

All of our ordinary shares confer equal rights among them with respect to amounts distributed to shareholders in the event of liquidation.

#### Changing Rights Attached to Shares

According to our articles of association, our share capital may be divided into different classes of shares or the rights of such shares may be altered by an ordinary majority resolution passed by the general meetings of the holders of each class of shares separately, or after obtaining the written consent of the holders of all of the classes of shares. As of the date hereof, we only have one class of shares.

#### Annual and Extraordinary Meetings

Our board of directors must convene an annual meeting of shareholders every year by no later than the end of fifteen months from the last annual meeting. Notice of at least twenty-one days prior to the date of the meeting is required. An extraordinary meeting may be convened by the board of directors, as it decides or upon a demand of any two directors or 25% of the directors, whichever is lower, or by one or more shareholders holding in the aggregate at least 5% of the voting rights in the Company. Where the board of directors is requisitioned to call a special meeting, it shall do so within twenty-one days, for a date that shall not be later than thirty-five days from the date on which the notice of the special meeting is published. Notice of a general meeting shall be given to all shareholders entitled to attend and vote at such meeting. No separate notice is to be given to registered shareholders of the Company. Notices may be provided by the Company in person, in mail, transmission by fax or in electronic form. A notice to a shareholder may alternatively be served, as general notice to all shareholders, in accordance with the rules and regulations of any applicable securities authority with jurisdiction over the Company or in accordance with the rules of any stock market upon which the Company's shares are traded.



## Limitations on the Rights to Own Securities in the U.S.

Our memorandum and articles of association do not restrict in any way the ownership of our shares by non-residents of Israel, and neither the memorandum and articles of association nor Israeli law restricts the voting rights of non-residents of Israel, except that under Israeli law, any transfer or issue of shares of a company to a resident of an enemy state of Israel is prohibited and shall have no effect, unless authorized by the Israeli Minister of Finance.

## Limitations on Change in Control and Disclosure Duties

Our memorandum and articles of association do not restrict the change of control nor do they impose any disclosure duties beyond the requirements set out in Israeli law. For restriction of change of control provision under Israeli law, see Item 3.D. “Risk Factors”, under the heading “Risks Relating to Operations in Israel – Anti-takeover Provisions” above.

## Changes in Our Capital

Changes in our capital are subject to the approval of the shareholders at a general meeting by an ordinary majority of shareholders participating and voting in the general meeting.

## Fiduciary Duty and Duty of Care of Directors and Officers

The Companies Law codifies the duties directors and officers owe to a company. An “Officer” includes a company’s general manager, general business manager, executive vice president, vice president, any other person assuming the responsibilities of any of the foregoing positions without regard to such person’s title and other directors or managers directly subordinate to the general manager. The directors’ and officers’ principal duties to the company are a duty of care and a fiduciary duty to act in good faith for the company’s benefit which include:

- v the avoidance of any conflict of interest between the director’s or officer’s position with the company and any other position he or she fulfills or with his or her personal affairs;

- v the avoidance of any act in competition with the company’s business;

- v the avoidance of exploiting any of the company’s business opportunities in order to gain a personal advantage for himself or for others; and

- v the disclosure to the company of any information and documentation relating to the company’s affairs obtained by the director or officer due to his or her position with the company.

The Companies Law requires that directors, officers or a controlling shareholder of a public company disclose to the company any personal interest that he or she may have, including all related material facts or documents in connection with any existing or proposed transaction by the company. The disclosure must be made without delay and no later than the first board of directors meeting at which the transaction is first discussed.

## Approval of Certain Transactions

Generally, under the Companies Law, engagement terms of directors, including the grant of an exemption from liability, purchase of directors’ and officers’ insurance, or grant of indemnification (whether prospective or retroactive) and engagement terms of such director with a company in other positions require the approval of the audit committee, the board of directors and the shareholders of the company. In addition, transactions between a public company and its director or officer, or a transaction between such company and other person in which such director or officer has a personal interest must be approved by such company’s board of directors, and if such transaction is considered an

extraordinary transaction (as defined below) it must receive the approval of such company's audit committee as well. The determination whether such transaction is considered extraordinary or not is required to be made by audit committee.

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The Companies Law also requires that any extraordinary transaction between a public company and its controlling shareholder or an extraordinary transaction between such company and other person in which such company's controlling shareholder has a personal interest must be approved by the audit committee, the board of directors and the shareholders of the company by an ordinary majority, provided that (i) such majority vote at the shareholders meeting shall include a majority of the total votes of shareholders having no personal interest in the transaction, participating at the voting (excluding abstaining votes); or (ii) the total number of votes of shareholders mentioned in clause (i) above who voted against such transaction does not exceed two percent (2%) of the total voting rights in the company. An "extraordinary transaction" is defined in the Companies Law as any of the following: (i) a transaction not in the ordinary course of business; (ii) a transaction that is not on market terms; or (iii) a transaction that is likely to have a material impact on the company's profitability, assets or liability. Such an extraordinary transaction which shall last for a period exceeding three years shall be approved again by such company's audit committee, board of directors and general meeting of shareholders by the special majority described above once in every three years.

The Companies Law further provides that the engagement terms of a controlling shareholder or its relative (including by an entity controlled by such controlling shareholder or its relative) with the company, either as an officer or an employee, must also be approved by such company's compensation committee, board of directors and general meeting by the special majority described above. Such an engagement which shall last for a period exceeding three years shall be approved again by such company's audit committee, board of directors and general meeting by the special majority described above once in every three years. However, an engagement described in the beginning of this paragraph only which may be approved for a period exceeding three years, provided that the audit committee approved the engagement term to be reasonable under the circumstances.

The Companies Law prohibits any person who has a personal interest in a matter to participate in the discussion and voting pertaining to such matter in the company's board of directors or audit committee except for in circumstances when the majority of the board of directors' (or the audit committee – as the case may be) has a personal interest in the matter. In case the majority has a personal interest in such matter then such matter must also be approved by the company's shareholders. An officer who has a personal interest may be present for the presentation of the transaction if the chairman of the audit committee or the chairman of the board of directors as the case may be, determined that such officer's presence is required for the presentation of the said transaction.

#### Compensation of Officers and Directors

Pursuant to the Companies Law, Israeli Public Companies are required to establish a compensation committee and adopt a compensation policy regarding the compensation and terms of employment of their directors and officers. For information on the composition, roles and objectives of the compensation committee pursuant to the Companies Law and our compensation committee charter, see Item 6.C. "Board Practices – Committees of the Board of Directors – The Compensation Committee".

The compensation policy must be approved by the company's board of directors after reviewing the recommendations of the compensation committee. The compensation policy also requires the approval of the general meeting of the shareholders, which approval must satisfy one of the following (which we refer to hereinafter as the Majority Requirement): (i) the majority should include at least a majority of the shares of the voting shareholders who are non-controlling shareholders or do not have a personal interest in the approval of the compensation policy (in counting the total votes of such shareholders, abstentions shall not be taken into account) or (ii) the total number of votes against the proposal among the shareholders mentioned in paragraph (i) does not exceed two percent of the aggregate voting power in the company. Under certain circumstances and subject to certain exceptions, the board of directors may approve the compensation policy despite the objection of the shareholders, provided that the compensation committee and the board of directors determines that it is for the benefit of the company, following an additional discussion and based on detailed arguments. The Companies Law provides that the compensation policy must be re-approved every three years, in the manner described above. Moreover, the board of directors is responsible for

reviewing from time to time the compensation policy and deciding whether or not there are any circumstances that require an adjustment to the company's compensation policy.

Pursuant to the Companies Law any transaction with an executive officer (except directors and the CEO of the company) with respect to such officer's compensation arrangements and terms of engagement, requires the approval of the compensation committee and the board of directors. Transactions between Israeli Public Companies and their chief executive officer, with respect to his or her compensation arrangement and terms of engagement, require the approval of the compensation committee, the board of directors and the shareholder's meeting, provided that the approval of the shareholders' meeting must satisfy the Majority Requirement. Notwithstanding the above, the compensation committee and the board of directors may, under special circumstances, approve such transaction with the CEO even if the shareholders' meeting objected to its approval. With respect to transactions relating to the compensation arrangement and terms of engagements of directors in public companies (including companies that have issued only debentures to the public), the Companies Law provides that such transaction shall be subject to the approval of the compensation committee, the board of directors and the shareholders' meeting.

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Such transactions for the approval of compensation arrangements with officers and directors of Israeli Public Companies must be consistent with the provisions of the company's compensation policy, provided that the compensation committee and the board of directors may, under special circumstances, approve such transaction that is not in accordance with the company's compensation policy, if the conditions under the Companies Law are met and the company's shareholders approved the transaction in the Majority Requirement. Notwithstanding the above, with respect to the approval of compensation terms of an executive officer (except directors and the CEO of the company), the compensation committee and the board of directors may, under special circumstances, approve such transaction even if the shareholders' meeting objected to its approval, provided that (i) both the compensation committee and the board of directors re-discussed the transactions and decided to approve it despite the shareholder's objection, based on detailed arguments, and (ii) the company is not a Public Pyramid Held Company. Non material amendments of transactions relating to the compensation arrangement or terms of engagement of executive officer (including the CEO), require only the approval of the compensation committee.

On February 14, 2019, and following the approval by our compensation committee and our board of directors, our shareholders approved a new compensation policy and such policy is in affect for a 3-year term.

On January 11, 2013, the SEC approved the amended NASDAQ listing standards on compensation committees and advisers. Among others, the amended NASDAQ listing standards include provisions relating to the establishment of a compensation committee, the compensation committee charter, compensation committee members' independence requirements, and arrangements relating to advisers retained by the compensation committee. Under the amended rules, the compensation committee adviser and compensation committee authority requirements become effective on July 1, 2013. However, NASDAQ listed companies will have, until their first annual meeting after January 15, 2014, or, if earlier, October 31, 2014, to comply with other standards, including the compensation committee member independence standards and the requirement to have a compensation committee and charter (including any charter amendment to reflect the compensation committee authority requirements). NASDAQ listed companies must certify compliance with the listing standards within 30 days after the applicable implementation deadline. In addition, under the amended rules, foreign private issuers are exempt from compliance with the amended listing standards if home country practice is followed and the listed company discloses with the SEC the reasons why it does not have an independent compensation committee. Our compensation committee charter was updated in accordance with said amendments.

#### Anti-Takeover Provisions; Mergers and Acquisitions

**Special Tender Offer.** The Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if, as a result of the acquisition, the purchaser would become a holder of at least 25% of the voting rights in the company. This rule does not apply if there is already another holder of at least 25% of the voting rights in the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would become a holder of more than 45% of the voting rights in the company and no other shareholder of the company holds more than 45% of the voting rights in the company. These requirements do not apply if the acquisition (i) occurs in the context of a private placement by the company that received shareholder approval, (ii) was from a shareholder holding at least 25% of the voting rights in the company and resulted in the acquirer becoming a holder of at least 25% of the voting rights in the company, or (iii) was from a holder of more than 45% of the voting rights in the company and resulted in the acquirer becoming a holder of more than 45% of the voting rights in the company. The special tender offer may be consummated only if (a) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (b) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

In the event that a special tender offer is made, a company's board of directors is required to express its opinion on the advisability of the offer or shall abstain from expressing any opinion if it is unable to do so, provided that it gives the reasons for its abstention. An executive officer in a target company who, in his or her capacity as an executive officer, performs an action the purpose of which is to cause the failure of an existing or foreseeable special tender offer or is to impair the chances of its acceptance, is liable to the potential purchaser and shareholders for damages, unless such executive officer acted in good faith and had reasonable grounds to believe he or she was acting for the benefit of the company. However, executive officer of the target company may negotiate with the potential purchaser in order to improve the terms of the special tender offer, and may further negotiate with third parties in order to obtain a competing offer.

A special tender offer may not be consummated unless a majority of the shareholders who announced their stand on such offer have accepted it (in counting the total votes of such shareholders, shares held by the controlling shareholder, shareholders who have personal interest in the offer, or shareholder who own 25% or more of the voting rights in the company, shall not be taken into account). If a special tender offer was accepted by a majority of the shareholders who announced their stand on such offer, then shareholders who did not announce their stand or who had objected to the offer may accept the offer within four days of the last day set for the acceptance of the offer.

In the event that a special tender offer is accepted, the purchaser or any person or entity controlling it at the time of the offer or under common control with the purchaser or such controlling person or entity shall refrain from making a subsequent tender offer for the purchase of shares of the target company and cannot execute a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

**Full Tender Offer.** A person wishing to acquire shares or a class of shares of an Israeli public company and who would, as a result, hold over 90% of the target company's issued and outstanding share capital or that certain class of shares is required by the Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company or class of shares. If either (i) the shareholders who do not accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, or (ii) the shareholder who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class, then all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, a shareholder that had its shares so transferred, whether it accepted the tender offer or not, may, within six months from the date of acceptance of the tender offer, petition the court to determine that tender offer was for less than fair value and that the fair value should be paid as determined by the court. If the shareholders who did not accept the tender offer hold at least 5% of the issued and outstanding share capital of the company or of the applicable class of shares, the acquirer may not acquire shares of the company that will increase its holdings to more than 90% of the company's issued and outstanding share capital or of the applicable class from shareholders who accepted the tender offer.

**Merger.** The Companies Law permits merger transactions if approved by each party's board of directors and, unless certain requirements described under the Companies Law are met, a majority of each party's shares voted on the proposed merger at a shareholders' meeting called with at least 35 days' prior notice.

For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the shares represented at the shareholders meeting that are held by parties other than the other party to the merger, or by any person who holds 25% or more of the outstanding shares or the right to appoint 25% or more of the directors of the other party, vote against the merger. If the transaction would have been approved but for the separate approval of each class or the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of a company if the court holds that the merger is fair and reasonable, taking into account the value of the parties to the merger and the consideration

offered to the shareholders.

Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger, and may further give instructions to secure the rights of creditors.

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In addition, a merger may not be completed unless at least 50 days have passed from the date that a proposal for approval of the merger was filed by each party with the Israeli Registrar of Companies and 30 days have passed from the date the merger was approved by the shareholders of each of the merging companies.

**Anti-Takeover Measures Under Israeli Law.** The Companies Law allows us to create and issue shares having rights different from those attached to our ordinary shares, including shares providing certain preferred rights, distributions or other matters and shares having preemptive rights. As of the date of this annual report, we do not have any authorized or issued shares other than our ordinary shares. In the future, if we do create and issue a class of shares other than ordinary shares, such class of shares, depending on the specific rights that may be attached to them, may delay or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization of a new class of shares will require an amendment to our articles of association which requires the prior approval of the holders of a majority of our ordinary shares at a general meeting.

**Tax Law.** Israeli tax law treats some acquisitions, such as a stock-for-stock swap between an Israeli company and a foreign company, less favorably than U.S. tax law. For example, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in a foreign corporation to immediate taxation. Please see Item 10E. “Taxation”.

**The Centralization Law.** The Israeli parliament (the Knesset) approved the new Promotion of Competition and Reduction of Centralization Law, 5774-2013, or the Centralization Law, which, among others, imposes new constraints and stricter corporate governance rules on pyramid conglomerates, and forces separation between equity holdings in significant non-financial corporate businesses and equity holdings in significant financial businesses. The Centralization Law has entered into force on December 11, 2013.

## 10.C. MATERIAL CONTRACTS

### Swiss Pro Capital Limited

On March 1, 2010, the Company’s subsidiary in Luxembourg Optibase RE 1 SARL or Optibase RE 1 entered into an Option Agreement, or the Option Agreement, with a Cypriot company, Swiss Pro, with respect to a commercial building acquired by the Company in October, 2009 in Rümlang, Switzerland. Through its beneficial owner, Swiss Pro introduced Optibase to the Rümlang property and facilitated Optibase’s acquisition and financing of the property. Under the Option Agreement, Optibase RE 1 granted Swiss Pro an option to purchase twenty percent (20%) of the share capital of Optibase RE 1. Swiss Pro undertook to pay a purchase price for the option of CHF 315,000 for the option. The exercise price under the Option Agreement is calculated based on twenty percent (20%) Optibase’s acquisition costs for the Rümlang Property plus interest and an adjustment for proceeds that are distributed to the shareholders of Optibase RE 1. The shares that would be issued to Swiss Pro upon exercise of the option will not have voting rights and would be subject to transfer restrictions in favor of Optibase. The option granted under the Option Agreement has expired at the end of eight years from the entrance into the agreement, i.e.: in October 2017. For details on a legal claim filed by Swiss Pro against our subsidiaries, see Item 8. “Financial Information - Legal Proceedings”.

### Shareholders Agreement with The Phoenix

In connection with the purchase of the office complex in Geneva, Switzerland, we and The Phoenix entered on February 8, 2011 into a Shareholders Agreement regarding our joint shareholdings in OPCTN. The Shareholders Agreement provides that Optibase will manage the day-to-day operations of OPCTN and Eldista but that certain actions of OPCTN and Eldista are subject to the joint approval of and The Phoenix. These actions include amendments to organizational documents, changes to business activity, financing arrangements, related party agreements, lease agreements exceeding twenty five percent of the leasable area of the Property, and requesting



investments from shareholders in excess of CHF one million in a given year and CHF 2.5 million in aggregate.

The Shareholders Agreement also provides that Optibase and The Phoenix will fund operating expenses and necessary capital expenditures for the Property that are not adequately funded by operating income, up to an amount of CHF two million per event or CHF five million per event if the capital expenditures are recommended by a third-party building engineering company. If we or The Phoenix do not provide our respective share of these expenses, the Shareholders Agreement provides that the OPCTN shareholdings (and shareholders loans) of the non-funding shareholder ownership will be diluted.

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The Shareholders Agreement prohibited us and The Phoenix from transferring shares in OPCTN until March 2012 and provides that any transfer of shares thereafter (other than to a related party) is subject to the reasonable approval of Optibase and The Phoenix. In addition, the Shareholders Agreement includes right of first offer, tag along and drag along rights in favor of both Optibase and The Phoenix. The agreement provides that Optibase will make day-to-day decisions and provides The Phoenix with customary protective rights.

#### German Commercial Properties Portfolio

On December 18, 2014, our wholly owned European subsidiary, Optibase Bavaria GmbH & Co. KG, or Optibase Bavaria, entered into a purchase agreement with Lincoln Dreizehnte Deutsche Grundstücksgesellschaft GmbH and Lincoln Land Passau GmbH, unrelated third parties, or the Sellers, to acquire a retail portfolio of twenty-six (26) separate commercial properties in Bavaria, Germany, and one (1) commercial property in Saxony, Germany, or the Transaction Portfolio. On June 2, 2015 Optibase Bavaria completed the acquisition of twenty-five (25) supermarkets from the Seller and on July 8, 2015 Optibase Bavaria completed the acquisition of two (2) supermarkets. The two acquisitions completes the purchase of twenty-seven (27) supermarkets.

#### Purchase Price

The total purchase price paid by us to the Sellers at the closings of the transaction, was EUR 28.75 million (app. \$31.5 million) (EUR 24 million for the twenty-five supermarkets and additional EUR 4.75 million for the two supermarkets), or the Purchase Price. In addition to the Purchase Price, we incurred acquisition costs, including real estate transfer taxes, of approximately EUR 2.1 million (app. \$2.4 million).

We financed a portion of the Purchase Price with the proceeds of a EUR 20 million senior mortgage loan from DG HYP secured by the Transaction Portfolio (as detailed above), and the remaining part through a contribution of equity in part from working capital and in part by obtaining additional financing.

#### Properties

In general, the Transaction Portfolio, which represents a homogenous retail portfolio in established retail locations, has approximately 37,000 square meters of total rental space and currently generates annual net rental income of more than EUR 2.8 million (approximately \$3.3 million). The properties have an average occupancy rate of more than 90% of the total rental area, and an average remaining lease term of approximately seven years.

Upon the acquisition of the Transaction Portfolio, Optibase Bavaria was assigned the Sellers' rights and obligations under the leases. The tenants currently operating on Transaction Portfolio include 26 supermarkets, and one commercial building with mixed retail and office uses. The largest tenant in the Transaction Portfolio is EDEKA Handelsgesellschaft Südbayern mbH, or Edeka, one of the largest supermarket chain in the German market, currently leases 19 of the rental properties in the Transaction Portfolio. In addition to the hypermarkets and supermarkets, smaller shops (such as bakeries and post offices) operate on several locations as subtenants of Edeka.

#### Leases

Optibase Bavaria accepted the assignment of the Sellers' rights and obligations under the leasehold estate agreements in respect of the properties, as of the effective date of the purchase agreement, and the Sellers were released from all rights and claims of the tenants and future tenants relating to the period after the respective closing dates. Optibase Bavaria retained EUR 295,979 of the Purchase Price (i.e. one gross monthly payment from all the lease agreements acquired) to apply to any amounts which tenants erroneously pay to the Sellers. All rental deposits paid by the tenants up until the effective date were transferred by the Sellers to Optibase Bavaria.



## Property-Related Agreements

Upon the closing of the Transaction Portfolio, Optibase Bavaria assumed the Sellers' rights and obligations under certain services and property management agreements.

Under the terms of a Property Management Agreement, McCafferty Asset Management GmbH, or the Manager, manages the Transaction Portfolio for Optibase Bavaria. The property management agreement provides for payment of a yearly property management fee equal to two and one half percent (2.5%) of the net rental income of the Transaction Portfolio. Under the terms of an Asset Management Agreement between Optibase Bavaria and the Manager, the Manager provides asset management services for the Transaction Portfolio and is paid two and one half percent (2.5%) of the net rental income of the Transaction Portfolio, payable monthly in arrears within 10 business days of receipt of the invoice of a statement showing a detailed calculation of the fee.

## Insurance

Optibase Bavaria obtained its own insurance for the Transaction Portfolio from the closing dates of the Transaction Portfolio.

## South Riverside Plaza Office Tower, Chicago

On December 29, 2015 our wholly owned Delaware subsidiary, Optibase Chicago 300 LLC, or Optibase Chicago, completed an investment of 30% interest in 300 River Holdings, LLC, or the Joint Venture Company, which beneficially owns the rights to a 23-story Class A office building, located at 300 South Riverside Plaza in Chicago, or the Property. The Property is under a 99 year ground lease expiring in 2114.

The remaining 70% of the Joint Venture Company is owned by 300 River Plaza One LLC. As part of this transaction, WKEM Riverside Member LLC, or the Outgoing Member, redeemed its 30% interest in the Joint Venture Company.

## Investment Amount

We have invested \$12.9 million, or the Invested Amount, in exchange for a thirty percent (30%) interest in the Joint Venture Company. In addition to the Investment Amount, we incurred acquisition costs of approximately \$242,000.

On June 17, 2016, and in accordance with our initial investment agreement in 300 South Riverside Plaza, Chicago, we have invested an additional amount of \$3 million which accrues interest of 12% per annum which was distributed back to the Company on November 21, 2017.

## Property

In general, the Property is a 23-story, trophy Class A office building located in Chicago's premier West Loop submarket and encompasses approximately 1.1 million square feet of total rental space, of which 98% was occupied at the purchase date. As of the purchase date, the Property generated annual net rental income of \$17.4 million.

The largest tenant in the Property was JP Morgan, which at the date of the purchase leased 486,000 square feet or 46% of the Property. In addition, there are also smaller tenants and retail tenants. JP Morgan has exercised its option to terminate its entire office space at no penalty after September 2016.

## Management

The Joint Venture Partner serves as the Managing and generally has the authority to make decisions on behalf of the Company, subject to certain approval rights of Optibase Chicago set forth in the Operating Agreement of the Joint Venture Company.

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## Debt

As a part of the transaction, the Joint Venture Company executed a promissory notes in favor of the Joint Venture Partner in the amount of \$42 million with no maturity date and in favor of the Outgoing Member in the amount of \$18 million with a maturity date of 7 years. The interest rate for both notes compounds annually and is equal to four percent (4%) for the first three (3) years, five percent (5%) for the fourth (4th) year, six percent (6%) for the fifth (5th) year, and twelve percent (12%) from and following the sixth (6th) year. All payments to be made under the note will be made from and subject to net cash flow of the Joint Venture Company.

The Joint Venture Company will also seek to fund anticipated tenant improvements through the issuance of up to \$40 million of promissory notes, or the Senior Notes, of which Optibase will have the right (but not the obligation) to fund up to 30%. Such promissory notes will rank ahead of the abovementioned promissory notes in favor of the Joint Venture Partner and the Outgoing Member. It is anticipate that the Senior Notes will have a term of six (6) years and an interest rate of twelve percent (12%) per annum, compounding annually.

On June 17, 2016, and in accordance with our initial investment agreement in 300 South Riverside Plaza, Chicago, we have invested an additional amount of \$3 million which accrues interest of 12% per annum which was distributed back to the Company on November 21, 2017.

## Financing Agreements

For a summary of the principal terms of our material financing agreements, see Item 5.B "Operating and Financial Review and Prospects - Liquidity and Capital Resources".

## 10.D. EXCHANGE CONTROLS

Israeli law and regulations do not impose any material foreign exchange restrictions on non Israeli holders of our ordinary shares. In addition, Israeli citizens are freely to invest outside of Israel and convert Israeli currency into non Israeli currencies.

Dividends, if any, paid to holders of our ordinary shares, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, may be paid in non Israeli currency or, if paid in Israeli currency, may be converted into freely repatriable dollars at the rate of exchange prevailing at the time of conversion.

Under Israeli law (and our memorandum and articles of association), persons who are neither residents nor nationals of Israel may freely hold, vote and transfer ordinary shares in the same manner as Israeli residents or nationals. Subject to anti-terror legislations, there are no limitations on the rights of non-resident or foreign owners to hold or vote ordinary shares imposed under Israeli law or under our articles of association.

## 10.E. TAXATION

The following is a discussion of tax consequences material to us and our Israeli and U.S. shareholders. To the extent the discussion is based on new tax legislation, which has not been subject to judicial or administrative interpretation, we cannot assure you that the tax authorities or the courts will accept the views expressed in this section. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations. Holders of our ordinary shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any non-U.S., state or local taxes.



## Israeli taxation

### General Corporate Tax Structure in Israel

Israeli companies are generally subject to corporate tax on their taxable income. As of 2017, the corporate tax rate is 24% (in 2015 and 2016, the corporate tax rate was 26.5% and 25%, respectively). In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018.

### Israeli Tax Consequences for Our Shareholders

The following description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of our ordinary shares. You should consult your own tax advisor concerning the tax consequences of your particular situation, as well as any tax consequences that may arise under the laws of any state, local, foreign or other taxing jurisdiction.

### Certain Israeli Tax Consequences

This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of such investors include residents of Israel or traders in securities who are subject to special tax regimes not covered in this discussion. Because parts of this discussion are based on new tax legislation that has not yet been subject to judicial or administrative interpretation, we cannot assure you that the appropriate tax authorities or the courts will accept the views expressed in this discussion. The discussion below is subject to change, including due to amendments under Israeli law or changes to the applicable judicial or administrative interpretations of Israeli law, which change could affect the tax consequences described below.

### Capital Gains Taxes Applicable to Non Israeli Resident Shareholders.

A non Israeli resident who derives capital gains from the sale of shares in an Israeli resident company that were purchased after the company was listed for trading on a stock exchange outside of Israel should be exempt from Israeli tax so long as the shares were not held through a permanent establishment that the nonresident maintains in Israel. However, non Israeli corporations will not be entitled to the foregoing exemption if Israeli residents: (i) have a controlling interest of 25% or more in such non Israeli corporation or (ii) are the beneficiaries of, or are entitled to, 25% or more of the revenues or profits of such non Israeli corporation, whether directly or indirectly. Such exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be a business income.

Additionally, a sale of shares by a non Israeli resident may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty. For example, under the United States Israel Tax Treaty, the disposition of shares by a shareholder who (i) is a U.S. resident (for purposes of the treaty), (ii) holds the shares as a capital asset, and (iii) is entitled to claim the benefits afforded to such person by the treaty, is generally exempt from Israeli capital gains tax. Such exemption will not apply if: (i) the capital gain arising from the disposition can be attributed to a permanent establishment in Israel; (ii) the shareholder holds, directly or indirectly, shares representing 10% or more of the voting capital during any part of the 12 month period preceding the disposition, subject to certain conditions; or (iii) such U.S. resident is an individual and was present in Israel for a period or periods aggregating to 183 days or more during the relevant taxable year. In such case, the sale, exchange or disposition of our ordinary shares would be subject to Israeli tax, to the extent applicable; however, under the United States Israel Tax Treaty, the taxpayer would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale,



exchange or disposition, subject to the limitations under U.S. law applicable to foreign tax credits. The United States Israel Tax Treaty does not relate to U.S. state or local taxes.

In some instances where our shareholders may be liable for Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at source. Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale. Specifically, in transactions involving a sale of all of the shares of an Israeli resident company, in the form of a merger or otherwise, the Israel Tax Authority may require from shareholders who are not liable for Israeli tax to sign declarations in forms specified by this authority or obtain a specific exemption from the Israel Tax Authority to confirm their status as non Israeli resident, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes at source.

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## Taxation of Non Israeli Shareholders on Receipt of Dividends.

Non-Israeli residents are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, unless relief is provided in a treaty between Israel and the shareholder's country of residence. With respect to a person who is a "substantial shareholder" at the time of receiving the dividend or on any time during the preceding twelve months, the applicable tax rate is 30%. A "substantial shareholder" is generally a person who alone or together with such person's relative or another person who collaborates with such person on a permanent basis, holds, directly or indirectly, at least 10% of any of the "means of control" of the corporation. "Means of control" generally include the right to vote, receive profits, nominate a director or an executive officer, receive assets upon liquidation, or order someone who holds any of the aforesaid rights how to act, regardless of the source of such right. Dividends paid on publicly traded shares, which are registered with and held by a nominee company, to non-Israeli residents are generally subject to Israeli withholding tax at a rate of 25%, unless a different rate is provided under an applicable tax treaty, provided that a certificate from the Israel Tax Authority allowing for a reduced withholding tax rate is obtained in advance. Under the United States-Israel Tax Treaty, the maximum rate of tax withheld at source in Israel on dividends paid to a holder of our ordinary shares who is a U.S. resident (for purposes of the United States-Israel Tax Treaty) is 25%.

U.S. residents who are subject to Israeli withholding tax on a dividend may be entitled to a credit or deduction for United States federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in U.S. tax legislation.

## Excess Tax.

Individuals who are subject to tax in Israel are also subject to an additional tax at a rate of 3% on annual income exceeding NIS 641,880 for 2018 (and as of 2017, the additional tax was on annual income exceeding NIS 640,000), which amount is linked to the annual change in the Israeli consumer price index, including, but not limited to, dividends, interest and capital gain.

## United States Federal Income Tax Consequences

The following is a summary of certain material U.S. federal income tax consequences that apply to U.S. Holders who hold ordinary shares as capital assets. This summary is based on the United States Internal Revenue Code of 1986 or the Code, as amended, Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof, and the U.S.-Israel Tax Treaty, all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively. This summary does not address all tax considerations that may be relevant with respect to an investment in ordinary shares. This summary does not account for the specific circumstances of any particular investor, such as:

v broker-dealers,

v financial institutions,

v certain insurance companies,

v investors liable for alternative minimum tax,

v tax-exempt organizations,

v non-resident aliens of the U.S. or taxpayers whose functional currency is not the U.S. dollar,

v persons who hold the ordinary shares through partnerships or other pass-through entities,

v investors that actually or constructively own 10 percent or more of our voting shares, and

v investors holding ordinary shares as part of a straddle or a hedging or conversion transaction.

This summary does not address the effect of any U.S. Federal taxation other than U.S. Federal income taxation. In addition, this summary does not include any discussion of state, local or foreign taxation. You are urged to consult your tax advisors regarding the non-U. S. and United States federal, state and local tax considerations of an investment in ordinary shares.

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For purposes of this summary, a U.S. Holder is:

an individual who is a citizen or, a resident of the United States for U.S. federal income tax purposes;

a partnership, corporation or other entity created or organized in or under the laws of the United States or any political subdivision thereof;

an estate whose income is subject to U.S. federal income tax regardless of its source;

a trust if: (a) a court within the United States is able to exercise primary supervision over administration of the trust, and (b) one or more United States persons have the authority to control all substantial decisions of the trust; or

a trust, if the trust were in existence and qualified as a “United States person,” within the meaning of the Code, on August 20, 1996 under the law as then in effect and elected to continue to be so treated.

#### Additional Tax on Investment Income

In addition to the income taxes described above, U.S. holders that are individuals, estates or trusts and whose income exceeds certain thresholds will be subject to a 3.8% Medicare contribution tax on net investment income, which includes dividends and capital gains.

#### Taxation of Dividends

The gross amount of any distributions received with respect to ordinary shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. Federal income tax purposes, to the extent of our current and accumulated earnings and profits as determined for U.S. federal income tax principles. You will be required to include this amount of dividends in gross income as ordinary income. Distributions in excess of our earnings and profits will be treated as a non-taxable return of capital to the extent of your tax basis in the ordinary shares and any amount in excess of your tax basis, will be treated as gain from the sale of ordinary shares. See Item 10.D. “Exchange Controls” under the heading “Disposition of Ordinary Shares” below for the discussion on the taxation of capital gains. Dividends will not qualify for the dividends-received deduction generally available to U.S. corporations under Section 243 of the Code.

Certain dividend income received by individual U.S. Holders, may be eligible for a reduced rate of taxation. Such dividend income will be taxed at the applicable long-term capital gains rate (currently, a maximum rate of 20%) if the dividend is received from a “qualified foreign corporation,” and the shareholder of such foreign corporation holds such stock for at least 61 days during the 121-day period that begins on the date that is 60 days before the ex-dividend date for the stock. The holding period is tolled for any days on which the shareholder has reduced his risk of loss. A “qualified foreign corporation” is one that is eligible for the benefits of a comprehensive income tax treaty with the United States. A foreign corporation will be treated as qualified with respect to any dividend paid, if its stock is readily tradable on an established securities market in the United States. Dividend income will not qualify for the reduced rate of taxation if the corporation is a passive foreign investment company, or PFIC (see below), for the year in which the dividend is distributed or for the previous year.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would be treated as U.S. source ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.



Any Israeli withholding tax imposed on such dividends will be a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability, subject to certain limitations set out in the Code (or, alternatively, for deduction against income in determining such tax liability). The limitations set out in the Code include computational rules under which non-U.S. tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. Dividends generally will be treated as foreign-source passive income for United States foreign tax credit purposes. Foreign income taxes exceeding the credit limitation for the year of payment or accrual may be carried back for the first preceding taxable years and forward for the first ten taxable years in order to reduce U.S. federal income taxes, subject to the credit limitation applicable in each of such years. A U.S. Holder will be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on the ordinary shares to the extent such U.S. Holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date or to the extent such U.S. Holder is under an obligation to make related payments with respect to substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the 16-day holding period required by the statute. The rules relating to the determination of the foreign tax credit are complex, and you should consult with your personal tax advisors to determine whether and to what extent you would be entitled to this credit.

#### Dispositions of Ordinary Shares

If you sell or otherwise dispose of ordinary shares, you will recognize gain or loss for U.S. Federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and the adjusted tax basis in ordinary shares. Subject to the discussion below under the heading "Passive Foreign Investment Companies," such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if you have held the ordinary shares for more than one year at the time of the sale or other disposition. In general, any gain that you recognize on the sale or other disposition of ordinary shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of ordinary shares, the amount realized will be based on the U.S. dollar value of the NIS received with respect to the ordinary shares as determined on the settlement date of such exchange. A U.S. Holder who receives payment in NIS and converts NIS into United States dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss that would be treated as U.S. source ordinary income or loss.

#### Passive Foreign Investment Companies, or PFIC

There is a substantial risk that we are a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. Our treatment as a PFIC could result in a reduction in the after-tax return to the U.S. Holders of our ordinary shares and may cause a reduction in the value of such shares.

For U.S. federal income tax purposes, we will be classified as a PFIC for any taxable year in which either (i) 75% or more of our gross income is passive income, or (ii) the average percentage of the value of all of our assets for the taxable year which produce or are held for the production of passive income is at least 50%. For this purpose, cash and real estate properties are considered to be an asset which produces passive income. Passive income includes, among others, dividends, interest, certain types of royalties and rents, annuities, net foreign exchange gains and losses and the excess of gains over losses from the disposition of assets which produce passive income. As a result of our substantial cash position and the decline in the value of our stock, we may be a PFIC under a literal application of the asset test that looks solely to market value. If we are a PFIC for U.S. federal income tax purposes, U.S. Holders of our ordinary shares would be required, in certain circumstances, to pay an interest charge together with tax calculated at maximum rates on certain "excess distributions," including any gain on the sale of ordinary shares.

The consequences described above can be mitigated if the U.S. Holder makes an election to treat us as a qualified electing fund, or QEF. A shareholder making the QEF election is required for each taxable year to include in income a pro rata share of the ordinary earnings and net capital gain of the QEF, subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. We have agreed to supply U.S. Holders with the information needed to report income and gain pursuant to a QEF election. The QEF election is made on a shareholder-by-shareholder basis and can be revoked only with the consent of the Internal Revenue Service, or IRS.

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As an alternative to making the QEF election, the U.S. Holder of PFIC stock which is publicly traded could mitigate the consequences of the PFIC rules by electing to mark the stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the PFIC stock and the U.S. Holder's adjusted tax basis in the PFIC stock. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. Holder under the election for prior taxable years. All U.S. Holders are advised to consult their own tax advisers about the PFIC rules generally and about the advisability, procedures and timing of their making any of the available tax elections, including the QEF or mark-to-market elections.

#### Backup Withholding and Information Reporting

Payments in respect of ordinary shares may be subject to information reporting to the U.S. Internal Revenue Service and to a 28 percent U.S. backup withholding tax. Backup withholding will not apply, however, if you (i) are a corporation or come within certain exempt categories, and demonstrate the fact when so required, or (ii) furnish a correct taxpayer identification number and make any other required certification. Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder's U.S. tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS. Any U.S. holder who holds 10% or more in vote or value of our ordinary shares may be subject to certain additional United States information reporting requirements.

#### U.S. Gift and Estate Tax

An individual U.S. Holder of ordinary shares will be subject to U.S. gift and estate taxes with respect to ordinary shares in the same manner and to the same extent as with respect to other types of personal property.

#### Other Income Tax

Taxable income of the Company's subsidiary in Luxemburg, Switzerland, Germany and the United States is subject to federal tax at the rate of approximately 29%, 24%, 16% and 21% respectively in 2018.

#### 10.F. DIVIDEND AND PAYING AGENTS

Not applicable.

#### 10.G. STATEMENT BY EXPERTS

Not applicable.

#### 10.H. DOCUMENTS ON DISPLAY

We are subject to the information reporting requirements of the Exchange Act, applicable to foreign private issuers, and under those requirements, we file reports with the SEC. Our filings with the SEC are available to the public through the SEC's website at <http://www.sec.gov>.

#### 10.I. SUBSIDIARY INFORMATION

Not applicable.

#### ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK



Most of our revenues are generated in CHF but a portion of our expenses is incurred in NIS and in U.S. dollars. Therefore, our results of operations may be seriously harmed by inflation in Israel and currency fluctuations. In addition, following the closing of the Transaction Portfolio in Germany as detailed in Item 10.C. “Material Contracts” above, our results of operations will be exposed to fluctuations in the exchange rate of NIS against the U.S. dollar and against the EUR as well.

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The deflation rate in Israel was approximately (0.2) % in 2016, an inflation rate of approximately 0.4% in 2017 and a deflation rate of approximately (0.2) % in 2018. The changes of the NIS against the dollar was an appreciation of approximately 1.5% in 2016, 9.8% in 2017, and a devaluation of approximately (8.1)% in 2018. The change of the CHF against the dollar was a devaluation of approximately (2.8)% in 2016, an appreciation of approximately 4.4% in 2017, and a devaluation of approximately (0.8)% in 2018. The change of the Euro against the dollar was a devaluation of approximately (3.6)% in 2016, an appreciation of approximately 13.7% in 2017 and a devaluation of approximately (4.5)% 2018.

Our operations could be adversely affected if we are unable to guard against currency fluctuations in the future. Accordingly, we may enter into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rate of NIS against the U.S. dollar and against the CHF and against the EUR. These measures, however, may not adequately protect us from material adverse effects due to the impact of inflation in Israel.

The presentation currency of the financial statements is the U.S. dollar.

Our functional currency is the U.S Dollar.

The functional currencies of Optibase's subsidiaries are CHF, EUR and U.S dollar. Assets and liabilities of these subsidiaries are translated at the year-end exchange rates and their statement of operations items are translated using the average exchange rates for all periods presented. The resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income in shareholders' equity.

In February 2016, we entered into a hedging of cross currency interest rate swap transaction for the total amount of approximately NIS 34.2 million at fixed interest rate of 6.7% in exchange for approximately \$8.7 million at fixed interest rate of 7.95% with semi-annually payments commencing on June 2016 through December 2021, the termination date.

#### Interest Rate and Rating Risks

Our exposure to market risk for changes in interest rates in Switzerland relates primarily to our long term loan taken for the purchase of our real-estate property in Switzerland and denominated in Swiss Franks (CHF). Changes in Swiss interest rates, could affect our financial results.

#### Investments Risks

As of December 31, 2018, our available net cash was \$13.8 million. As of December 31, 2018, our available cash was invested in various bank deposits and money market funds with various banks. Our available cash is subject to the credit risk of the banks with which the funds are deposited and as such we may suffer losses if those banks fail to repay those deposits.

#### ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable. For a description of our Series A Bonds see "Item 5.B: Operating and Financial Review and Prospects - Liquidity and Capital Resources".

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

### ITEM 15. CONTROLS AND PROCEDURES

(a) Our management, including our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2018. Based on such review, our chief executive officer and chief financial officer have concluded that we have in place effective controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

(b) Our management, under the supervision of our chief executive officer and chief financial officer, is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is defined as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and asset dispositions;

provide reasonable assurance that transactions are recorded as necessary to permit the preparation of our financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our internal control over financial reporting as of December 31, 2018 based on the framework for Internal Control-Integrated Framework (1992) set forth by The Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that the Company's internal controls over financial reporting were effective as of December 31, 2018.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting, because we are neither a “large accelerated filer” nor an “accelerated filer” as those terms are defined in the Securities Exchange Act.

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(c) There were no changes in our internal controls over financial reporting identified with the evaluation thereof that occurred during the period covered by this annual report that have materially affected, or are reasonable likely to materially affect our internal control over financial reporting.

## ITEM 16. [RESERVED]

### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The board of directors has determined that Ms. Orli Garti-Seroussi is an “audit committee financial expert” and that she is independent under the applicable Securities and Exchange Commission and NASDAQ listing rules.

### ITEM 16B. CODE OF ETHICS

We have adopted a Code of Business Conduct and Ethics for our employees, including our chief executive officer and senior financial officers. The Code of Business Conduct and Ethics is attached as Exhibit 11.1 to this annual report, and published on our website in the address: <http://www.optibase-holdings.com>.

### ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Kost, Forer Gabbay & Kasierer, a member of Ernst & Young Global, or Ernst & Young has served as our independent public accountants for each of the fiscal years in the three-year period ended December 31, 2018, for which audited financial statements appear in this annual report on Form 20-F.

The following table presents the aggregate fees for professional services and other services rendered by Kost, Forer Gabbay & Kasierer in Israel and by Ernst & Young in Switzerland and in the United States, to Optibase in 2017 and 2018 (in thousands of dollars):

	2017	2018
Audit fees <sup>(1)</sup>	111	107
Audit-related fees <sup>(2)</sup>	5	5
Tax fees <sup>(3)</sup>	42	43
Total	158	155

(1) Audit fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor can reasonably provide, and include the group audit; statutory audits; comfort letters and consents; attest services; and assistance with and review of documents filed with the SEC.

(2) Audit-related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements or that are traditionally performed by the external auditor, and include consultations concerning financial accounting and reporting standards; internal control reviews of new systems, programs and projects; review of security controls and operational effectiveness of systems; review of plans and control for shared service centers, due diligence related to acquisitions; accounting assistance and audits in connection with proposed or completed acquisitions; and employee benefit plan audits.

(3) Tax fees include fees billed for tax compliance services, including the preparation of original and amended tax returns and claims for refund; tax consultations, such as assistance and representation in connection with tax audits and appeals, tax advice related to mergers and acquisitions, transfer pricing, and requests for rulings or technical advice from taxing authority; tax planning services; and expatriate tax planning and services.



#### Audit Committee Pre-approval Policies and Procedures

Our audit committee's main role is to assist the board of directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and reporting practices of the Company. Our audit committee oversees the appointment, compensation, and oversight of the public accounting firm engaged to prepare or issue an audit report on the financial statements of the Company. Our audit committee's specific responsibilities in carrying out its oversight role include the approval of all audit and non-audit services to be provided by the external auditor and quarterly review the firm's non-audit services and related fees. These services may include audit services, audit-related services, tax services and other services, as described above. It is the policy of our audit committee to approve in advance the particular services or categories of services to be provided to the Company periodically. Additional services may be pre-approved by our audit committee on an individual basis during the year.

During 2017 and 2018, our audit committee approved all the audit-related fees, tax fees or other fees provided to us by Kost, Forer Gabbay & Kasierer in Israel or by Ernst & Young in Switzerland and in the United States.

#### ITEM 16D. EXEMPTION FROM THE LISTING STANDARDS FOR AUDIT COMMITTEE

We have not and do not expect to apply for any exemptions from the NASDAQ listing standards for audit committees.

#### ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

#### ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

#### ITEM 16G. CORPORATE GOVERNANCE

There are no significant ways in which the Company's corporate governance practices differ from those followed by domestic companies listed on the Nasdaq Global Market.

#### ITEM 16H. MINE SAFETY DISCLOSURE

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not Applicable.

ITEM 18. FINANCIAL STATEMENTS

The financial statements required by this item are found at the end of this annual report, beginning on page F-1. The financial statements of 300 RIVER HOLDINGS, LLC are also provided pursuant to Rule 3-09 of Regulation S-X.:

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Consolidated Balance Sheets	F-3 - F-4
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Consolidated Financial Statements of 300 RIVER HOLDINGS, LLC	F-44 –F-58

ITEM 19. EXHIBITS

See Exhibit Index.



OPTIBASE LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018

U.S. DOLLARS IN THOUSANDS

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<u>Notes to Consolidated Financial Statements</u>	F-10 - F-42

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Kost Forer Gabbay & Kasierer                      Tel: +972-3-6232525  
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Tel-Aviv 6492102, Israel                      ey.com

Report of Independent Registered Public Accountig Firm

To the Shareholders and Board of Directors of

Optibase LTD

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Optibase Ltd. and its subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), change in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We did not audit the financial statements of 300 RIVER HOLDINGS LLC ,an associate accounted for using the equity method, amounted to approximately \$ 6,953 thousand as of December 31, 2018, and the Company's share in its net loss amounted to approximately \$ 5,254 thousand for the year ended December 31, 2018. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for 300 RIVER HOLDINGS LLC, is based solely on the report of the other auditor.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since at least 1997, but we are unable to determine the specific year.

Tel-Aviv, Israel KOST FORER GABBAY & KASIERER  
28 March, 2019 A Member of Ernst & Young Global

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## OPTIBASE LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2018	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$13,836	\$20,268
Restricted cash	31	292
Trade receivables (net of allowance for doubtful accounts of \$ 207 and \$ 161 at December 31, 2018 and 2017, respectively)	427	332
Other accounts receivable and prepaid expenses	320	506
Total current assets	14,614	21,398
<b>LONG-TERM INVESTMENTS:</b>		
Long-term deposits	2,477	3,483
Investments in companies and associates	14,377	17,556
Total long-term investments	16,854	21,039
<b>PROPERTY AND OTHER ASSETS, NET</b>		
Real estate property, net	212,349	216,726
Other assets, net	141	140
Total property, equipment and other assets	212,490	216,866
Total assets	\$243,958	\$259,303

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





## OPTIBASE LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands (except share and per share data)

	Year ended December 31,		
	2018	2017	2016
Fixed income from real estate rent	\$16,608	\$16,587	\$16,338
Costs and expenses:			
Cost of real estate operations	2,991	3,057	3,159
Real estate depreciation and amortization	4,317	4,209	4,244
General and administrative	3,500	2,698	2,615
<u>Total</u> costs and expenses	10,808	9,964	10,018
Operating income	5,800	6,623	6,320
Other income	607	597	1,116
Financial expenses, net	(2,882 )	(2,769 )	(3,366 )
Income before taxes on income	3,525	4,451	4,070
Taxes on income	(1,464 )	(1,602 )	(1,627 )
Equity share in losses of associates, net	(2,765 )	(1,677 )	(323 )
Net income (loss)	(704 )	1,172	2,120
Net income attributable to non-controlling interest	2,077	2,295	1,925
Net income (loss) attributable to Optibase Ltd.	\$(2,781 )	\$(1,123 )	\$195
Net earnings per share:			
Basic and diluted net earnings (loss) per share	\$(0.54 )	\$(0.22 )	\$0.04
Weighted average number of shares used in computing basic net earnings per share:	5,185,352	5,180,163	5,147,130
Weighted average number of shares used in computing diluted net earnings per share:	5,185,352	5,180,163	5,157,165

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

## OPTIBASE LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

U.S. dollars in thousands

	Year ended December 31,		
	2018	2017	2016
Net income (loss)	\$(704 )	\$1,172	\$2,120
Foreign currency translation adjustments	(1,052)	3,357	(1,475)
Financial liability related to hedging	88	113	(143 )
Comprehensive income (loss)	(1,668)	4,642	502
Net earnings attributable to non-controlling interests	(2,077)	(2,295)	(1,925)
Other comprehensive loss (income) attributable to non-controlling interests	207	(831 )	522
Comprehensive income (loss) attributable to Optibase Ltd.	\$(3,538)	\$1,516	\$(901 )

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



## OPTIBASE LTD. AND ITS SUBSIDIARIES

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Ordinary shares	Additional paid-in capital	Treasury shares	Other reserves	Accumulated deficit	Total shareholders' equity of Optibase Ltd.	Non-controlling interests	Total shareholders' equity
Balance as of January 1, 2016	988	\$ 137,961	\$ (354 )	\$(1,906)	\$(80,905 )	\$ 55,784	\$ 19,800	\$ 75,584
Stock-based compensation	-	60	-	-	-	60	-	60
Issuance of shares upon exercise of stock options	5	186	-	-	-	191	-	191
Issuance of treasury shares upon vesting of shares	-	(52 )	267	-	(215 )	-	-	-
Dividend to non-controlling interests	-	-	-	-	-	-	(2,209 )	(2,209 )
Other comprehensive loss	-	-	-	(1,096)	-	(1,096 )	(522 )	(1,618 )
Net income	-	-	-	-	195	195	1,925	2,120
Balance as of December 31, 2016	993	138,155	(87 )	(3,002)	(80,925 )	55,134	18,994	74,128
Stock-based compensation	-	15	-	-	-	15	-	15
Dividend to non-controlling interests	-	-	-	-	-	-	(2,089 )	(2,089 )
Other comprehensive income	-	-	-	2,639	-	2,639	831	3,470
Equity component of transaction with controlling shareholder	-	-	-	372	-	372	-	372
Net income (loss)	-	-	-	-	(1,123 )	(1,123 )	2,295	1,172
Balance as of December 31, 2017	993	138,170	(87 )	9	(82,048 )	57,037	20,031	77,068
Stock-based compensation	-	17	-	-	-	17	-	17
Issuance of shares upon exercise of stock options	1	-	-	-	-	1	-	1
Dividend to non-controlling interests	-	-	-	-	-	-	(2,067 )	(2,067 )
	-	-	-	(757 )	-	(757 )	(207 )	(964 )

Other comprehensive  
income (loss)

Equity component of  
transaction with

controlling shareholder	-	-	-	42	-	42	-	42
Net income (loss)	-	-	-	-	(2,781 )	(2,781 )	2,077	(704 )

Balance as of December

31, 2018	\$ 994	\$ 138,187	\$ (87 )	\$ (706 )	\$ (84,829 )	\$ 53,559	\$ 19,834	\$ 73,393
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The accompanying notes are an integral part of the consolidated financial statements.

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## OPTIBASE LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2018	2017	2016
<u>Cash flows from operating activities:</u>			
Net income (loss)	\$(704 )	\$1,172	\$2,120
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,317	4,209	4,244
Stock-based compensation related to options and unvested shares	17	15	60
Increase in trade receivables	(109 )	(112 )	(46 )
Equity share in losses of associates, net	2,765	1,998	520
Decrease in deferred tax liabilities	(173 )	(169 )	(177 )
Decrease in land lease liabilities	(108 )	(106 )	(107 )
Decrease (increase) in other accounts receivable and prepaid expenses	965	(791 )	(370 )
Increase (decrease) in accrued expenses and other accounts payable	(103 )	1,685	1,060
Net cash provided by continuing operations	6,867	7,901	7,304
Net cash used in discontinued operations	-	-	(48 )
Net cash provided by operating activities	6,867	7,901	7,256
<u>Cash flows from investing activities:</u>			
Investment in real estate property	(2,764)	(2,195)	(2,450)
Decrease (increase) in restricted cash	261	(292 )	-
Proceeds from (investments in) associates, net	414	3,338	(2,749)
Decrease (increase) in other long-term deposits	105	265	159
Net cash provided by (used in) investing activities	(1,984)	1,116	(5,040)

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

## OPTIBASE LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2018	2017	2016
<u>Cash flows from financing activities:</u>			
Repayment of long-term bank loans and bonds	(6,558 )	(8,431 )	(8,112 )
Proceeds from bank loan	-	-	530
Dividend paid to non-controlling interests	(2,067 )	(2,089 )	(2,209 )
Proceeds from (repayment of) controlling shareholders' loan	(2,500 )	5,118	-
Issuance of shares upon exercise of stock options	-	-	191
Net cash used in financing activities	(11,125 )	(5,402 )	(9,600 )
Exchange differences on balances of cash and cash equivalents	(190 )	629	(398 )
Increase (decrease) in cash and cash equivalents	(6,432 )	4,244	(7,782 )
Cash and cash equivalents at the beginning of the year	20,268	16,024	23,806
Cash and cash equivalents at the end of the year	13,836	20,268	16,024

(a) Supplemental cash flow activities:

Cash paid during the year for:

Taxes	\$2,521	\$2,744	\$1,420
Interest	\$2,484	\$2,554	\$2,896

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

OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 1:- GENERAL

a. Optibase Ltd. (the "Company") was incorporated and commenced operations in 1990.

During 2009 the Company entered into the fixed-income real estate sector after an acquisition of a commercial building in Switzerland.

Until the sale of its video solutions business to VITEC Multimedia ("Vitec") in July 2010 (see Note 1d below), the Company and its U.S subsidiary, Optibase Inc., provided equipment for a wide range of professional video applications in the Broadband IPTV, Broadcast, Government, Enterprise and Post-production markets. (Collectively, the "Video Activity"). Following the sale of the Video Activity, the Company's only operation is the fixed-income real-estate.

As of December 31, 2018, the Company manages its activity through four active subsidiaries: Optibase Inc. in the United States which was incorporated in 1991 ("Optibase Inc."), Optibase Real Estate Europe SARL ("Optibase SARL") in Luxembourg which was incorporated in October 2009, Optibase RES SARL in Luxembourg which was incorporated in June, 2018 and OPCTN SA, a Luxembourg company owned 51% by the Company which was incorporated in February 2011 ("Subsidiaries"), (collectively, the "Group").

b. Investments in associates:

1. Retail portfolio in Bavaria, Germany:

On December 18, 2014 the Company through Optibase SARL subsidiary, Optibase Bavaria GmbH & Co. KG ("Optibase Bavaria"), entered into a Purchase Agreement with an unrelated third party to acquire a retail portfolio of twenty-seven Commercial properties in, Germany (the "Retail Portfolio in Germany").

The Retail Portfolio in Germany represents a homogenous retail portfolio in established retail locations, it has approximately 37,000 square meters of total rental space.

The largest tenant in the Retail Portfolio in Germany is EDEKA, which currently leases 19 of the rental properties in the portfolio. In addition to the hypermarkets and supermarkets, smaller shops (such as bakeries and post offices) operate on several locations as subtenants of EDEKA.

On June 2, 2015 the first stage of the transaction closing occurred and the Company acquired twenty-five (25) supermarkets in consideration of a purchase price of € 24,000 (approximately \$ 26,249 as of the purchase date). On July 8, 2015 the Company acquired the two (2) remaining supermarkets for an additional purchase price of € 4,750 (approximately \$ 5,224 as of the purchase date).

In addition to the purchase price, the Company incurred acquisition costs, including real estate transfer taxes of € 2,075 (approximately \$ 2,352 during 2015) and presented in the consolidated statements of operations as other operating costs.



## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 1:- GENERAL (Cont.)

The portfolio purchase price has been allocated to real estate properties and other assets, net, in accordance with the Company's accounting policies for business combinations.

The total purchase price was allocated as follows:

Real estate property	\$31,399
Other assets, net	74
Total purchase price	\$31,473

2. 300 South Riverside Plaza, Chicago:

On December 29, 2015, the company through its subsidiary, Optibase Inc., completed an investment in 300 River Holdings, LLC, (the "Joint Venture Company") which beneficially owns the rights to a 23-story Class A office building located at 300 South Riverside Plaza in Chicago under a 99 year ground lease expiring in 2114. The company invested \$ 12,900 in exchange for a thirty percent (30%) interest in the Joint Venture Company. In addition to the Purchase Price, the Company incurred acquisition costs of approximately \$ 242. On June 17, 2016, and in accordance with the Company's initial investment agreement, the Company had invested an additional amount of \$ 3,000 which accrued interest of 12% per annum, and was distributed back to the Company on November 21, 2017.

The Company's two major tenants accounted for 18% and 16%, 18% and 16% and 18% and 18% of the Company c.revenues in the years ended December 31, 2018, 2017 and 2016 respectively. No other tenants accounted for more than 10% of the Company revenues.

For further details regarding a dispute to which OPCTN's subsidiary, Eldista GmbH ("Eldista"), see Note 11e(4).

d. Sale of the Video Activity (discontinued operations):

Until the sale of its video solutions business to VITEC Multimedia ("Vitec") in July 2010, the Company and its U.S subsidiary, Optibase Inc., provided equipment for a wide range of professional video applications in the Broadband IPTV, Broadcast, Government, Enterprise and Post-production markets (collectively, the "Video Activity").

On March 16, 2010, the Company and its subsidiary, Optibase Inc., entered into an asset purchase agreement (the "Agreement") with Optibase Technologies Ltd. and Stradis Inc., wholly owned subsidiaries of S.A. Vitec (also known as Vitec Multimedia) (S.A. Vitec, Optibase Technologies Ltd. and Stradis Inc., collectively, "Vitec"). According to the Agreement, the Company sold to Vitec all of the assets and liabilities related to the Company's Video Solutions Business (the "Video Activity"). The closing of the transaction occurred on July 1, 2010.

## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 1:- GENERAL (Cont.)

The liabilities of the Video activity for the years ended December 31, 2018 and 2017, which relates to the discontinued operations and presented in the consolidated balance sheets, are summarized as follows:

	Year ended December 31,	
	2018	2017
Liabilities:		
Total liabilities attributed to discontinued operations	\$2,061	\$2,061

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

## a. Basis of presentation of the financial statements:

The preparation of financial statements in conformity with U.S generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## b. Functional currency, presentation currency and foreign currency:

The presentation currency of the financial statements is the U.S. dollar.

The functional currency of the Company is the U.S Dollar.

The functional currencies of Optibase's subsidiaries are CHF, EUR and U.S dollar. Assets and liabilities of these subsidiaries are translated at the year-end exchange rates and their statement of operations items are translated using the average exchange rates for all periods presented. The resulting translation adjustments are recorded as a separate component of accumulated other comprehensive income in shareholders' equity.

## c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances have been eliminated upon consolidation.



## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

## d. Non-controlling interests:

Non-controlling interests generally represent the portion of equity that the Company does not own in the consolidated entities. The Company accounts for and reports its non-controlling interests in accordance with the provisions required under the Consolidation Topic of the FASB ASC 810. Non-controlling interests are separately presented within the equity section of the consolidated balance sheets. The amounts of consolidated net earnings attributable to the Company and to the non-controlling interests are presented on the consolidated statement of operations.

## e. Cash equivalents:

Cash equivalents include short-term, highly liquid investments that are readily convertible to cash, with original maturities of three months or less at the date acquired.

## f. Property and equipment:

Real estate properties and equipment are stated at cost net of accumulated depreciation. Costs include those related to acquisition, including building improvements.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

	Years
Building	25 - 63
Buildings' improvements	5 - 20
Condominium units	30

## g. Impairment of long-lived assets and intangible assets:

The Group's long-lived assets are reviewed for impairment in accordance with ASC 360, "Property, Plant and Equipment" and ASC 350, "Intangibles - Goodwill and other", whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of long-lived assets, the Company makes judgments regarding whether impairment indicators exist based on legal factors, market conditions and operating performances of assets or asset groups. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the carrying amount of the assets exceeds the fair value of the assets.

OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company reviews assets on a component-level basis, which is the lowest level of assets for which there are identifiable cash flows that can be distinguished operationally and for financial reporting purposes. The carrying amount of the asset was compared with the related expected undiscounted future cash flows to be generated by those assets over the estimated remaining useful life of the primary asset. In cases where the expected undiscounted future cash flows were less than the carrying amounts of the assets, those assets were considered impaired and written down to their fair values. Fair value was established based on discounted cash flows. As of December 31, 2018 and 2017, no impairment losses have been identified.

h. Investments in companies:

Investments in non-marketable equity securities of companies in which the Company does not have control or the ability to exercise significant influence over their operation and financial policies are recorded at cost.

The management evaluates investments in non-marketable equity securities as evidence of other-than temporary declines in value. When relevant factors indicate a decline in value that is other-than temporary the Company recognizes an impairment loss for the decline in value.

i. Investments in associates:

Associates are companies in which the Company has significant influence over the financial and operating policies without having control. The investment in associates is accounted for using the equity method of accounting. Under the equity method, the investment in associates is accounted for in the financial statements at cost plus changes in the Group's share of net assets, including other comprehensive income (loss) of the associates. The equity method is applied until the loss of significant influence or classification of the investment as non-current asset held-for-sale.

The accounting policy in the financial statements of the associates has been applied consistently and uniformly with the policy applied in the financial statements of the Group.

j. Intangibles assets:

Intangible assets consist of above-market value of in-place leases that were recorded in connection with the acquisition of the properties. Intangible assets are amortized and accreted using the straight-line method over the term of the related leases. When a lease is terminated early, any remaining unamortized balances under lease intangible assets or liabilities are charged to earnings.

OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Derivative instruments:

The Company accounts for derivatives and hedging based on ASC No. 815, "Derivatives and Hedging". ASC No. 815 requires the Company to recognize all derivatives at fair value. The accounting for changes in the fair value of a derivative instrument (i.e., gains or losses) depends on whether it has been designated and qualified as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualified as hedging instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. If the derivatives meet the definition of a hedge and are so designated, depending on the nature of the hedge, changes in the fair value of such derivatives will either be offset against the change in fair value of the hedged assets, liabilities, firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings.

The ineffective portion of a derivative's change in fair value is recognized in earnings. As of December 31, 2018 and 2017, the Company had outstanding hedging instruments in the amount of \$ 206 and \$ 294 respectively, which included in long-term liabilities, and a outstanding hedging instruments in the amount of \$ 313 and \$ 986, respectively, which included in long-term Assets.

At times, the Company may use derivative instruments to manage exposure to variable interest and currency rate risk. Occasionally, the Company enters into interest and currency rate swaps to manage its exposure to variable interest and currency rate risk and treasury locks to manage the risk of interest and currency rates rising prior to the issuance of debt.

l. Revenue recognition:

The Company generates revenues from fixed income real-estate according to ASC 840 which derived from its buildings held through its subsidiaries in Switzerland (Rümlang and Geneva), Germany and Miami FL.

Rental income includes minimum rents which are recognized on an accrual basis over the terms of the related leases on a straight-line basis. Lease revenue recognition commences when the lessee is given possession of the leased space and there are no contingencies offsetting the lessee's obligation to pay rent.

Revenue of maintenance expenses recoveries from the tenants for mainly electricity, heating and water is reported net from the related expenses.

m. Contingencies:

The Company periodically estimates the impact of various conditions, situations and/or circumstances involving uncertain outcomes to its financial condition and operating results.

OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company accounts for contingent events as required by ASC 450 "Contingencies". ASC 450 defines a contingency as "an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur". Legal proceedings are a form of such contingencies.

In accordance with ASC 450, accruals for exposures or contingencies are being provided when the expected outcome is probable. However, it is possible that future results of operations for any particular quarter or annual period could be materially affected by changes in the Company's assumptions, the actual outcome of such proceedings or as a result of the effectiveness of the Company strategies related to these proceedings.

n. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with ASC Topic 740, "Income Taxes" "ASC 740", prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to amounts more likely than not to be realized.

ASC 740 clarifies the accounting for uncertainties in income taxes by establishing minimum standards for the recognition and measurement of tax positions taken or expected to be taken in a tax return. Under the requirements of ASC 740, the Company must review all of its tax positions and make a determination as to whether its position is more-likely-than-not to be sustained upon examination by regulatory authorities. If a tax position meets the more-likely-than-not standard, then the related tax benefit is measured based on a cumulative probability analysis of the amount that is more-likely-than-not to be realized upon ultimate settlement or disposition of the underlying issue. The Company policy is to accrue interest and penalties related to unrecognized tax benefits in its tax expenses.

The Company believes that its tax positions are all highly certain of being upheld upon examination. As such, as of December 31, 2018 and 2017 the Company has not recorded a liability for uncertain tax positions.

o. Concentrations of credit risk:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, accounts receivables and long-term lease deposits.

OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Cash and cash equivalents are invested in U.S. dollar deposits with major banks in Israel, the United States, Switzerland and Germany. Cash and cash equivalents in the United States may be in excess of insured limits and are not insured in other jurisdictions. The Company maintains cash and cash equivalents with diverse financial institutions and monitors the amount of credit exposure to each financial institution.

Accounts receivable includes amounts billed to tenants and accrued expense recoveries due from tenants. The Company makes estimates of un-collectability from its accounts receivable using the specific identification method related to base rents, straight-line rent balances, expense reimbursements and other revenues.

The Company also analyzes accounts receivable and historical bad debt levels, tenant credit-worthiness, payment history and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. Accounts receivable are written-off when they are deemed to be uncollectible and the Company is no longer actively pursuing collection. The Company's reported net income is directly affected by the management's estimate of the collectability of accounts receivable.

p. Earnings (loss) per share:

Basic net earnings (losses) per share are computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net earnings (losses) per share is computed based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares considered outstanding during the year, in accordance with ASC 260, "Earning Per Share".

Options and restricted shares that have been excluded from the calculations of diluted net income per share were 10,035 for the years ended December 31, 2016.

q. Accounting for stock-based compensation:

ASC Topic 718 "Compensation - Stock Compensation" "ASC 718", requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model.

The Company recognizes these compensation costs net of forfeiture rate and recognizes the compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of four years.

OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company estimates the fair value of stock options granted using the Black-Scholes- Merton option pricing model. The option-pricing model requires a number of assumptions, of which the most significant are the expected stock price volatility and the expected option term. Expected volatility is calculated based upon actual historical stock price movements. The expected term of options granted is based upon historical experience and represents the period of time that options granted are expected to be outstanding. The risk free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. The Company has historically not paid dividends and has no foreseeable plans to pay dividends.

The fair value was estimated at the date of grant using the Black-Scholes model. During 2018 and 2017 there were no new grants.

r. Treasury shares:

During the past years, the Company repurchased certain Ordinary shares on the open market and holds such shares as treasury shares. The Company presents the cost to repurchase treasury shares as a reduction from the shareholders' equity. From time to time the Company reissues treasury shares under the stock purchase plan, upon exercise of option and upon vesting of restricted stock units.

When treasury stock is reissued, the Company accounts for the re-issuance in accordance with ASC No. 505-30, "Treasury Stock" and charges the excess of the purchase cost, including related stock-based compensation expenses, over the re-issuance price to retained earnings. The purchase cost is calculated based on the specific identification method. In case the purchase cost is lower than the re-issuance price, the Company credits the difference to additional paid-in capital.

s. Fair value of financial instruments:

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, other accounts receivable, trade payables, other accounts payable, and accrued liabilities, approximate fair value because of their generally short-term maturities.

ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

As a basis for considering such assumptions, ASC 820 establishes a three-level value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Swap instruments are measured at fair value under ASC 820 on a recurring basis as of December 31, 2018 and 2017.

t. Comprehensive income:

The Company accounts for comprehensive income in accordance with ASC No. 220, "Comprehensive Income". Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

u. Recently issued and adopted accounting pronouncements:

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted ASU 2016-18 during the first quarter of 2018. The adoption of this new guidance had no material impact on the Company's consolidated balance sheets, statements of operations and cash flows.

In January 2016, the FASB issued ASC 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The ASU, among other targeted changes for financial assets and liabilities, requires equity investments with readily determinable fair values to be measured at fair value with changes recognized in net income. In accordance with ASU 2016-01, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issue.

The Company has equity investments in a privately-held company. This investment is recorded at cost reduced by any impairment write-downs plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, because it has no readily determinable fair values. The investment is included in investments in companies and associates in long term investments the accompanying balance sheets. The Company monitors the investment and if facts and circumstances indicate any observable price changes or that the investment may be

## OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

**New accounting pronouncements not yet effective:**

In February 2016, the FASB issued ASU 2016-02, "Leases", on the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset ("ROU") and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in a manner similar to the accounting under existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASC 842 supersedes the previous leases standard, ASC 840, "Leases". The guidance is effective for the interim and annual periods beginning on or after December 15, 2018, and the Company has adopted the standard on January 1, 2019. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. The standard provides a number of optional practical expedients in transition. The Company is electing the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. To adopt this new standard, the Company has implemented changes to our existing systems and processes in conjunction with a review of existing vendor agreements. The Company expect adoption of the standard to have an immaterial impact on the Company's consolidated balance sheets which will result in the recognition of ROU assets and lease liabilities of approximately \$436 to \$528 at January 1, 2019. The most significant impact from recognition of ROU assets and lease liabilities relates to our office space. However, the Company do not anticipate that the adoption of this standard will have an immaterial impact on the operating expenses in our consolidated statements of operations since the expense recognition under this new standard will be similar to current practice. The Company's financial income (expenses), net will be impacted by the revaluation of the lease liabilities in non-USD denominated currencies.

Furthermore , the Company does not anticipates the adoption of this standart will have immaterial impact in their revenue recognition.

In January 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses on Financial Instruments", which requires that expected credit losses relating to financial assets measured on an amortized cost basis and available for sale debt securities be recorded through an allowance for credit losses. ASU 2016-13 limits the amount of credit losses to be recognized for available for sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. The new standard will be effective for interim and annual periods beginning after January 1, 2020, and early adoption is permitted.



## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 3:- REAL ESTATE PROPERTY, NET

	Land	Building	Condominium units	Currency translation adjustment	Total
Cost:					
At January 1, 2017	\$33,874	\$186,829	\$ 20,455	\$ (14,676 )	\$226,482
Additions	-	1,945	250	11,266	13,461
At December 31, 2017	33,874	188,774	20,705	(3,410 )	239,943
Additions	-	2,056	708	(3,208 )	(444 )
At December 31, 2018	33,874	190,830	21,413	(6,618 )	239,499
Accumulated depreciation:					
At January 1, 2017	-	17,509	1,720	(437 )	18,792
Depreciation charge for the year	-	3,696	394	335	4,425
At December 31, 2017	-	21,205	2,114	(102 )	23,217
Depreciation charge for the year	-	3,931	392	(390 )	3,933
At December 31, 2018	-	25,136	2,506	(492 )	27,150
Real estate property, net:					
At December 31, 2018	\$33,874	\$165,694	\$ 18,907	\$ (6,126 )	\$212,349
At December 31, 2017	\$33,874	\$167,569	\$ 18,591	\$ (3,308 )	\$216,726

Estimated depreciation expenses by years are as follows:

<u>Year</u>	Estimated depreciation expenses
2019	4,271
2020	4,271
2021	4,271
2022 and thereafter	165,662
	\$ 178,475



## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 4:- OTHER ASSETS, NET

	Above, below market value of in-place leases	Currency translation adjustment	Total
Cost:			
At January 1, 2017	\$ 1,524	\$ (82 )	\$ 1,442
Additions	-	55	55
Disposals	(315 )	(31 )	(346 )
At December 31, 2017	1,209	(58 )	1,151
Additions	-	-	-
Disposals	(1,062 )	(12 )	(1,074)
At December 31, 2018	147	(70 )	77
Accumulated amortization:			
At January 1, 2017	1,307	(110 )	1,197
Amortization charge for the year	120	40	160
Disposals	(346 )	-	(346 )
At December 31, 2017	1,081	(70 )	1,011
Amortization charge for the year	(6 )	(7 )	(13 )
Disposals	(1,062 )	-	(1,062)
At December 31, 2018	13	(77 )	(64 )
Other assets, net:			
At December 31, 2018	\$ 134	\$ 7	\$ 141
At December 31, 2017	\$ 128	\$ 12	\$ 140

Intangible assets consist of lease contracts with tenants deriving from the purchase of a building complex in Geneva in 2011 and purchase of retail portfolio in Germany. See Note 1b(1).

Estimated amortization expenses by years are as follows:

<u>Year</u>	Estimated amortization
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expenses

2019	(19 )
2020	-
2021	33
2022 and thereafter	127
	\$ 141

## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 5:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2018	2017
Prepaid expenses	\$32	\$367
Income receivable	143	95
Others	145	44
	\$320	\$506

## NOTE 6:- LONG-TERM DEPOSITS

	December 31,	
	2018	2017
Bonds deposit (1)	\$1,755	\$1,897
Restricted account (2)	320	519
SWAP (3)	313	986
Other	89	81
	\$2,477	\$3,483

(1) Bonds deposit of one payment of principal and interest reserves. See Note 10.

(2) Restricted amount of \$ 320 related to the hedging transaction, see details (3) below.

(3) Hedging of cross currency interest rate swap transaction for the total amount of approximately NIS 34,200 at fixed interest rate of 6.7% in exchange for approximately \$ 8,700 at fixed interest rate of 7.95% with semi-annually payments commencing on June 2016 through December 2021, the termination date. As of December 31, 2018 the hedging amount is \$ 4,357.

## NOTE 7:- INVESTMENTS IN COMPANIES AND ASSOCIATES

On October 12, 2012, the Company acquired through its subsidiary beneficial interests in Two Penn Center Plaza in Philadelphia, Pennsylvania. This investment is accounted for using the equity method of accounting as the

a. Company's indirect beneficial interest in Two Penn Center Plaza is 22.16% and therefore is considered to be more than minor.

	December 31,	
	2018	2017
Invested in equity	\$4,025	\$4,025
Distributions	(1,087)	(672 )
Accumulated net income (loss)	486	(84 )

Total investment	\$3,424	\$3,269
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## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 7:- INVESTMENTS IN COMPANIES AND ASSOCIATES (Cont.)

On December 31, 2012 the Company acquired through its subsidiary Optibase Inc. approximately 4% indirect beneficial interest in a portfolio of shopping centers located in Texas, USA in consideration for \$ 4,000 which accounted for the cost method of accounting. The Company believes that its beneficial interests in Texas portfolio are considered to be so minor that they create virtually no influence over the operating and financial policies of the Real Estate Asset and therefore this investment accounted for cost method of accounting.

On December 29, 2015, the Company through its subsidiary, Optibase Inc., completed an investment in 300 River Holdings, LLC, (the "Joint Venture Company") which beneficially owns the rights to a 23-story Class A office building located at 300 South Riverside Plaza in Chicago under a 99 year ground lease expiring in 2114. The Company invested \$ 12,900 in exchange for a thirty percent (30%) interest in the Joint Venture Company. In addition to the Purchase Price, the Company capitalized acquisition costs of approximately \$ 242. See Note 1b(2). On June 17, 2016, and in accordance with the Company's initial investment agreement, the Company had invested an additional amount of \$ 3,000 which accrued interest of 12% per annum, and was distributed back to the Company on November 21, 2017.

	December 31,	
	2018	2017
Invested in equity	\$ 13,142	\$ 13,142
Accumulated net loss	(6,189 )	(2,855 )
Total investment	\$ 6,953	\$ 10,287

d. Investments in associates accounted for using the equity method of accounting:

Summarized data of the financial statements of associates, unadjusted to the Company's percentage of holdings: \*)

	December 31,	
	2018	2017
Assets	\$ 346,267	\$ 364,805
Liabilities	\$ 451,914	\$ 446,335
Income	\$ 44,876	\$ 41,546
Net loss	\$ (14,669 )	\$ (13,206 )

\*) The information presented does not include excess cost and goodwill.

## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 8:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2018	2017
Employees and payroll accruals	\$ 193	\$ 206
Accrued expenses	2,165	1,406
Government (mainly tax provision)	460	1,245
Advance tenants payments	649	684
Tenant security deposits	125	124
Trade payables	511	697
Total	\$4,103	\$4,362

## NOTE 9:- LONG-TERM LOANS

On October 29, 2009, Optibase SARL received a mortgage loan (the "Loan") from a financial institution in Switzerland, in the amount of CHF 18,800 for the purpose of purchasing the real estate property located in Rümlang, Switzerland (the "Property"). The loan bears a variable interest rate based on current money and capital markets in Switzerland plus the bank's customary margins 0.8%. The financial institution may increase the margin at any time if creditworthiness of the borrower or quality of the property is impaired. Principal and interest of the loan are payable quarterly. The loans are repaid at a rate of CHF 376 per year. The mortgage loan may be repaid at any time with a three months prior written notice by the Company. The mortgage loan is governed by the laws of Switzerland and bears other terms and conditions customary for that type of mortgage loans. The Company pledged to the bank the property and all accounts and assets of the Company's subsidiary which are deposited with the bank against the loan received. The Company is required to meet certain covenants under this mortgage loan. As of December 31, 2018, the Company met the required covenants.

Maturities of the loan by years are as follows:

Year ended December 31,	
2019 (current maturity)	\$ 382
Long-term portion:	
2020	382
2021	382
2022	382
2023	382
Thereafter	13,747
Total	\$ 15,275





## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 9:- LONG-TERM LOANS (Cont.)

On October 2011, OPCTN and Eldista entered into a CHF 100,000 bank loan refinancing with Credit Suisse for the above mentioned loan. Under the new financing agreement, Credit Suisse provided a new loan to OPCTN and Eldista which replaced the mortgage loan that Credit Suisse provided to Eldista. The loan bears a variable interest rate based on current money and capital markets in Switzerland plus the bank's customary margins, the combined interest margins rate is 0.83%. The loans are repaid at a rate of CHF 2,000 per year and are secured by a first mortgage over the property and by a pledge of Eldista's shares. The Company is required to meet certain covenants under this mortgage loan. As of December 31, 2018, the Company met these covenants.

Maturities of the loan by years are as follows:

Year ended December 31,	
2019 (current maturity)	\$2,031
Long-term portion:	
2020	2,031
2021	2,031
2022	2,031
2023	2,031
Thereafter	77,497
Total	\$85,621

Optibase Bavaria negotiated a loan agreement with a Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft ("DG HYP"), for the provision of a senior mortgage loan in the amount of up to Euro 21,000 of which the Company utilized Euro 20,474. The effective interest rate was closed at 2.15%. The loan is repaid in quarterly installments of EUR 105 each, up until April 30, 2020. The terms of the loan includes certain covenants, a debt service cover ratio requirement of between 130% and 110%, and a loan to value requirement of 70% in the first three years and 65% in the fourth and fifth years. As of December 31, 2018, the Company met these covenants.

Maturities of the loan by years are as follows:

Year ended December 31,	
2019 (current maturity)	\$480
Long-term portion:	
2020	21,136
Total	\$21,136

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## OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

## NOTE 9:- LONG-TERM LOANS (Cont.)

On July 8, 2015, the Company subsidiary, Optibase Inc., entered into a loan agreement with City National Bank of Florida (“CNB”) for a gross amount of \$ 15,000 for the financing of 25 condominium units the Company owns in Miami and Miami Beach, Florida. The loan is secured by a senior mortgage over the condominium units. The loan was taken for a term of three (3) years, with an interest rate of Libor 30-day-rate plus 2.65%. Interest is paid monthly commencing August 1, 2015, and the principal is reduced in six-month intervals beginning July 2016. On November 24, 2017 Optibase Inc., refinanced the loan. Under the refinancing, the existing principle loan balance of \$ 9,390 bears an interest rate of Libor 30- day rate plus 2.65% which may be increased to 30-day Libor plus 3.25% if Optibase Inc. or its subsidiary, fail to maintain depository accounts with totaling \$ 1,500. The principal of the Loan is amortized on a monthly basis with principal payments of approximately \$ 19 per month plus accrued interest until the loan matures on July 8, 2020 when all remaining principal and interest become due and payable. The securities for the Loan include a restricted cash deposit of approximately \$ 300. As of December 31, 2018 Loan issuance costs of \$ 110 reported in the balance sheet as a direct deduction from the gross amount of the loan and are amortized in accordance with the loan payments. The covenants under the new financing agreement are substantially the same as under the previous loan agreement. As of December 31, 2018, the Company met these covenants.

Maturities of the loan by years are as follows:

Year ended December 31,	
2019 (current maturity)	\$228
Long-term portion:	
2020	\$8,774

e.For information regarding a loan received from the controlling shareholder, see note 17b(5).

## NOTE 10:- LONG-TERM BONDS

In August 2015, the Company issued gross amount of NIS 60,000 (approximately \$ 15,700 as of the issue date) in aggregate principal amount of Series A Bonds bearing annual fixed interest of 6.7% payable in semi-annual installments on June 30 and on December 31 of each of the years 2015 through 2021, commencing on December 31, 2015 and ending on December 31, 2021. The principal will be repaid in semi-annual installments on June 30 and on December 31 of each of the years of 2016 through 2021, commencing on June 30, 2016 and ending on December 31, 2021. The bonds (principal and interest) are not linked to any currency or index.

## OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

## NOTE 10:- LONG-TERM BONDS (Cont.)

Debt issuance costs of \$ 384 reported in the balance sheet as a direct deduction from the gross amount of the bonds according to Accounting Standards Update, or ASU, 2015-03 issued by the Financial Accounting Standards Board In April 2015. The Company elected to adopt this standard early, effective August 10, 2015. The debt issuance costs are amortized in accordance with the bonds payments. As of December 31, 2018 the unamortized amount of the debt issuance costs is \$ 102. The Company is required to meet certain covenants under this bonds. As of December 31, 2018, the Company met these covenants.

Maturities of the bonds by years are as follows:

Year ended December 31,	
2019 (current maturity)	\$2,667
Long-term portion:	
2020	2,667
2021	2,572
Total	\$5,239

## NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES

## a. Lease commitments:

The Company and its subsidiaries facilities leased and motor vehicles leased under several operating lease agreements for different periods ending in 2020.

Future minimum lease commitments under non-cancelable operating leases are as follows:

Year ended December 31,	
2019	\$ 141
2020	110
2021	33
Total	\$284

## b. Assets pledged as collateral:

As collateral for the Company's loan mortgages, a fixed pledge has been placed on the Company's subsidiaries in Luxemburg shareholders' equity. See Note 9a.



OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Israel Innovation Authority commitments:

Until the sale of the Video Activity the Company participated in programs sponsored by the Israeli Government and by the European Commission for the support of research and development activities.

The Company was obligated to pay royalties to the Israel Innovation Authority ("IIA"), in the amount of 3%-3.5% of the sales recorded from products and other related revenues generated from such projects, up to 100% of the grants received, linked to the U.S. dollar and for grants received after January 1, 1999 also bearing interest at the rate of LIBOR. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales, no payment is required. The Company was undergoing an audit by the IIA for royalties paid before the sale of the Company's Video business. As of December 31, 2018, the Company has sufficient provisions to cover the expected outcome of such review process. The provision for the above commitments was recorded under liabilities attributed to discontinued operations as the Company has no further obligation to pay royalties on revenues generated by the Video Activity subsequent to its sale.

In June 2017, Aberdeen Associates LLC, a Delaware limited liability company, extended a \$7,000, 5-year fixed-rate loan facility (the "Loan Facility") to the Company's subsidiary, Optibase Inc. secured by a pledge of 100% of its membership interest in Optibase Chicago 300, LLC. The Loan Facility will bear interest at an annual rate of 5% of the amount drawn, and is compounded and paid quarterly until the maturity on June 1, 2022. As of December 31, 2018, the Company has not drawn down any funds under the Loan Facility.

e. Legal claims and contingent liabilities:

On October 26, 2014, the Company received a letter on behalf of two purported shareholders (the "Shareholders") demanding the Company to file a derivative claim against its controlling shareholder and directors and officers, according to procedures of the Companies Law and requesting discovery of internal documents. The demand alleges, among other things, breach of fiduciary duties by directors and officers with respect to the approval of the transaction to acquire condominium units in Miami Beach, Florida, (the "Transaction"), in accordance with the Companies Law. The Company presented the Shareholders, at their request, with certain materials in connection with the Transaction for their review.

On May 12, 2015 the Company has been served with a motion to approve the filing of a derivative claim against its controlling shareholder, directors and CEO and against certain former controlling shareholder and directors, (the "Motion").

The Claim alleges, among other things, a breach of fiduciary duties by the Company directors, officers and controlling shareholder, and an exploitation of a business opportunity by the Company current and former controlling shareholder with respect to certain private placements of the Company's shares to its controlling shareholder.

OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

The Claim further alleges, that such private placements constitute a prohibited distribution as the shares were issued for an unfair consideration. As a result of the above, the Applicants request the Court to allow them to continue with this derivative claim and ultimately to require all the defendants to pay the Company an aggregate amount of approximately \$ 41,900, as well as required the Companies shareholder (current and former) to pay to the Company approximately \$ 2,800 plus interest (for the exploitation of a business opportunity). The Applicants further require reimbursement of expenses, legal fees and award to the Applicants.

On November 8, 2015, The Company has submitted its response to the Motion and Claim together with an expert opinion. The Company has raised several arguments against the Motion including, inter alia, preliminary claims to dismiss the Motion in-limine. On November 13, 2015, the directors, CEO and former directors submitted their response to the Motion.

On September 6, 2016, the Applicants submitted to the District Court their answer to the Company's response to the motion to approve the filing of a derivative claim, together with an expert opinion.

On October 30, 2016, a pre-trial hearing was held during which the Court gave instruction regarding the scope of disclosure that the Company needs to discover.

On March 14, 2017 the Company, the Company's directors, CEO and former directors' submitted an expert opinion as a response to the expert opinion submitted by the Applicants.

On May 29, 2017 our controlling shareholder submitted an expert opinion as a response to the expert opinion submitted by the Applicants.

The first cross-examination hearing was held on October 31, 2017, and additional hearings were held on November 19, 2017, December 5, 2017, February 25, 2018, October 7, 2018, December 2, 2018 and December 18, 2018.

The summaries submission of the Company is scheduled for March 31, 2019, and of the Applicants is scheduled for April 15, 2019.

At this stage the Company cannot provide an assessment as to the chances of the claim and the exposure to the Company.

On March 6, 2019, the Company has notified that Swiss Pro Capital Limited, a company organized under the laws of Switzerland, has filed a legal claim against the Company's subsidiaries, Optibase RE 1 s.a.r.l and Optibase Real 2.Estate Europe SARL pursuant to which Swiss Pro mainly demands the exercise of a granted option to purchase 20% of the shares of Optibase RE 1 s.a.r.l, the owner of the Rümlang property, or the Option, in connection with an option agreement between Swiss Pro and the Company's subsidiaries, dated March 1, 2010, or the Agreement.



OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Swiss Pro alleges that by calculating the formula under the Agreement, the exercise price of the Option is zero, and as such Swiss Pro claims that it holds 20% of the shares of Optibase RE 1 s.a.r.l. as of May 25, 2016, the date on which Swiss Pro has informed the Company's subsidiaries about the exercise of the Option. In addition, Swiss Pro alleges that the Company's subsidiaries be ordered to carry out the actions required for the allotment of the exercisable shares, and demands that Optibase Real Estate Europe SARL be ordered to pay Swiss Pro an amount of CHF 450 for additional charges made since the exercise of the Option and its alleged stake in the cash held by Optibase RE 1 s.a.r.l.

The filing of the legal claim was preceded by an exchange of letters between Swiss Pro and the Company during 2015 and 2016 in connection with Swiss Pro's claim for the exercise of the Option. The Company has responded to the allegations then raised by Swiss Pro and rejected them all (see the disclosure of such exchange of letters in its annual reports on Form 20-F for the years 2015 through 2017). The Company maintain its rejection of Swiss Pro's allegations and believe the legal claim to be without merits.

On April 16, 2015, the Company's subsidiary Eldista GmbH, filed a claim to the court in Switzerland in an amount of CHF 961 due to damages and unpaid amounts from a specific tenant. Shortly thereafter, the tenant filed a counterclaim against Eldista GmbH in an amount of CHF 157 for damages allegedly caused to it. The court suggested the parties to transfer to mediation proceedings which failed. The court handed down a partial judgment on 31, October 2016, dismissing Eldista GmbH's claim (though it had not yet examined the issue of the damages). Eldista GmbH filed an appeal against the judgment, but it was dismissed on June 12, 2017. On May 2, 2018, the court ruled that the damages owned to the tenant shall amount to approximately CHF 53 plus interest 5% as of June 4, 2014. An appeal has been filed and is currently pending before the supreme court. Should the supreme court confirm the first judgment, Eldista GmbH will most likely have a counterclaim against the former real estate agency that was managing the CTN Complex, although there is also a possibility that a judge would consider that the latter committed no breach or that only a portion of the damage can be recovered by the agency.

At this stage, the Company cannot assess whether the supreme court will receive or dismiss the appeal.

On March 1 2017, the Company's subsidiary Eldista GmbH, received a notice from its largest tenant in Switzerland, LEM Switzerland SA, or LEM, regarding the deposit of the monthly rent for March 2017 amounting to approximately CHF 279 vat inclusive with Banque cantonale de Genève under the control of the Pouvoir judiciaire of the Canton of Geneva, as a preliminary process for filing a claim with the Commission de Conciliation en Matière de Baux et Loyers of the Canton of Geneva, or the Commission. LEM claims that there are serious defects affecting the rented premises, which merit LEM with a reimbursement of approximately CHF 2,400 ((excluding VAT) as well as approximately CHF 69 as indemnification for consequential damages for the years 2014 and 2015. LEM also reserves its claims regarding damages suffered before year 2014.

OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

On April 5, 2017 LEM withdrew the deposit of the monthly rent for March 2017 with Banque cantonale de Genève under the control of the Pouvoir judiciaire of the Canton of Geneva and released the amount to the Company. Thus, paying the full payment of the rent.

Based on LEM's submissions filed during the first hearing before the court, LEM is requesting a 20% rent reduction amounting to a capital amount of CHF 3,094 for the period starting from February 1, 2012, until June 30, 2017, with 5% moratory interest per year starting from October 23, 2017, corresponding to approximately CHF 154 per year, based on the various defects allegedly affecting the rented premises. In addition, LEM is claiming for related damages an amount of approximately CHF 168, subject to amplification, with 5% moratory interest per year starting from October 23, 2017. LEM's claim for rent reduction was reduced to 10% from July 1, 2017, until repair of the alleged defects or entry into force of the judgment, that is to say a capital amount of approximately CHF 286 if considered from July 1, 2017, until June 31, 2018. LEM further demands to be reserved the right to claim the reimbursement of overpaid ancillary fees. A first hearing took place on June 26, 2018, before the first instance court for lease matters, and a second hearing took place on November 7, 2018. The next hearing (personal appearance of the parties and witness hearing) could be appointed by the court, which is not likely to happen before end of March 2019, or even after Easter, depending on the agenda of the court.

As of December 31, 2018, the Company has sufficient provisions to cover the expected outcome of this claim.

NOTE 12:- FAIR VALUE MEASUREMENTS

a. Recurring fair value measurements:

The fair value of the interest rate swaps is based on the estimated amount the Company would receive or pay to terminate the contract at the reporting date and is determined using interest rate pricing models and observable inputs.

As of December 31, 2018 and 2017, the Company has an interest rate swap agreements for Optibase Bavaria loan. The fair value of the interest rate swap consisted of a liability of \$ 206 and \$ 294, respectively, is included in long-term liabilities, and the net unrealized income on the Company interest rate swap is included in accumulated other comprehensive loss.

The fair value of the currency swaps is based on the estimated amount the Company would receive or pay to terminate the contract at the reporting date and is determined using currency rate pricing models and observable inputs.

As of December 31, 2018 and 2017, the Company has a currency rate swap agreements for Optibase Series A bonds. The fair value of the currency rate swap consisted of an assets of \$ 313 and \$ 986, respectively.

OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 12:- FAIR VALUE MEASUREMENTS (Cont.)

b. Valuation methods:

In accordance with ASC 820, the Company measures its interest rate swap derivative instruments at fair value using the market approach valuation technique. The fair value of interest rate swap derivative instruments is classified within Level 2 value hierarchy, as the valuation inputs are based on quoted prices.

NOTE 13:- TAXES ON INCOME

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the a. Tax Cuts and Jobs Act (the "TCJA"). The TCJA makes broad and complex changes to the Code. The changes include, but are not limited to:

1. A corporate income federal tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017 ("Rate Reduction");
2. The transition of U.S international taxation from a worldwide tax system to a territorial system by providing a 100 percent deduction to an eligible U.S. shareholder on foreign sourced dividends received from a foreign subsidiary;
3. A one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017; and
4. Taxation of GILTI earned by foreign subsidiaries beginning after December 31, 2017. The Global Intangible Low-Taxed Income GILTI tax imposes a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which allowed the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. As a result, a provisional estimate of the effect of the Tax Act was recorded in the 2017 financial statements. During the preparation of the 2018 income tax provision, the analysis was completed and no additional adjustments were recorded.

b. Corporate tax rates:

Israeli companies are generally subject to corporate tax on their taxable income. As of 2018, the corporate tax rate is 23% (in 2017 and 2016, the corporate tax rate was 24% and 25%, respectively).

In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018. Capital gains derived by an Israeli company are subject to the prevailing corporate tax rate.

## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 13:- TAXES ON INCOME (Cont.)

Taxable income of the Company's subsidiary in Luxemburg, Switzerland and the United States may be subject to the following statutory federal (approximate) tax rates:

	Year ended December 31,			
	2018	2017	2016	
Luxemburg	29%	29 %	29 %	
Switzerland	24%	24 %	24 %	
United States	21%	34 %	34 %	
Germany	16%	16 %	16 %	

## c. Tax assessments:

The Company has final tax assessments through the tax year 2013.

## d. Deferred tax assets and liabilities:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred tax assets and liabilities mainly derive from the acquisitions of commercial buildings in Switzerland. The deferred taxes are computed at the average tax rate of 24%, based on the corporate income tax in Switzerland, which is the tax rate that will be in effect when the differences are expected to reverse.

Significant components of the Company and its subsidiary deferred tax assets are as follows:

	December 31,	
	2018	2017
Deferred tax assets:		
Net Operating losses	\$25,892	\$24,972
Lease provision	1,472	1,511
Other	196	203
Deferred tax assets	27,560	26,686
Deferred tax liabilities:		
Land	(5,362 )	(5,408 )
Building	(10,058)	(10,344)
Other	(2,571 )	(605 )
Deferred tax liabilities	(17,991)	(16,357)
Valuation allowance	(23,321)	(24,371)

Deferred tax liabilities, net \$(13,752) \$(14,042)

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## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 13:- TAXES ON INCOME (Cont.)

## e. Net operating losses carry-forward:

Through December 31, 2018, Optibase Ltd. had net operating losses carry-forward for tax purposes in Israel of approximately \$ 61,000 which may be carried forward and offset against taxable income in the future, for an indefinite period.

As of December 31, 2018, Optibase Inc. had U.S. federal net operating loss carry-forward of approximately \$ 47,000 that can be carried forward and offset against taxable income for 20 years, no later than 2038. Utilization of U.S. net operating losses may be subject to the substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986, and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization. Based upon the weight of available evidence, which includes the Company's historical operating performance and the recorded cumulative net losses in all prior fiscal periods, the Company has provided a full valuation allowance against its Israeli and U.S. deferred tax assets.

## f. Reconciliation of the theoretical tax expenses to the actual tax expenses:

A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to the income of the Company and the actual tax expense as reported in the statements of operations is as follows:

	Year ended December 31,		
	2018	2017	2016
Income before taxes as reported	\$3,525	\$4,451	\$4,070
Theoretical tax benefit computed at the statutory rate 23%, 24% and 25% for the years 2018, 2017 and 2016, respectively	811	1,068	1,018
Income tax at rate other than the Ltd. statutory tax rate	52	(226 )	(163 )
Tax adjustments in respect of currency translation	2	33	86
Adjustment of deferred tax balances following a decrease in statutory tax rates	-	4,225	1,229
Deferred taxes on losses and other temporary differences for which valuation allowance was provided	446	(3,600)	(638 )
Taxes for previous years	47	(80 )	-
Other non-deductible expenses	106	182	95
Income tax expense	\$1,464	\$1,602	\$1,627

## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 13:- TAXES ON INCOME (Cont.)

f. Income before taxes on income consists of the following:

	Year ended December 31,		
	2018	2017	2016
Domestic	\$(2,515)	\$(84 )	\$(1,239)
Foreign	6,040	4,535	5,309
	\$3,525	\$4,451	\$4,070

g. Income tax expenses are comprised as follows:

	Year ended December 31,		
	2018	2017	2016
Current	\$1,637	\$1,771	\$1,801
Deferred	(173 )	(169 )	(174 )
	\$1,464	\$1,602	\$1,627
Domestic	\$-	\$-	\$-
Foreign	1,464	1,602	1,627
	\$1,464	\$1,602	\$1,627

h. As of December 31, 2018, the total amount of gross unrecognized benefits was \$560, none of which would have an impact on our effective tax rate, if recognized.

NOTE 14:- SHAREHOLDERS'  
EQUITY

a. General:

1. The Ordinary shares of the Company are traded on the NASDAQ Global Market since April 1999 and on the Tel Aviv Stock Exchange Ltd. Since April 2015.

Ordinary shares confer on their holders the right to receive notice to participate and vote in general meetings of the Company, the right to a share in excess assets upon liquidation of the Company and the right to receive dividends, if declared.

2.

On December 31, 2013 following the approval of the Company board of directors and the approval of the Company shareholders, the Company issued a net sum of 1,300,580 ordinary shares in consideration for the purchase of twelve luxury condominium units in Miami Beach, Florida from a private companies indirectly controlled by Capri, The Company's controlling shareholder. See Note 1b(1).



## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

## b. Stock options:

In 1999, the Company adopted an Israeli Option Plan ("1999 Israeli option plan"), and a U.S. Option Plan ("1999 U.S. option plan") (collectively, the "1999 plans"). Under the terms of the above option plans, options may be granted to employees, officers, directors and consultants. The options generally become exercisable monthly over a four-year period, commencing one year after date of the grant, subject to the continued employment of the employee. The options generally expire no later than seven years from the date of the grant.

In May 2003 the Company amended its 1999 Plan to provide for the grant of options to Israeli optionees under Section 102 of the Israeli Tax Ordinance.

The exercise price of the options granted under the above mentioned plans may not be less than the nominal value of the shares into which such options are exercised. Any options, which are forfeited or cancelled before expiration, become available for future grants.

The total number of options available for future grants as of December 31, 2018 was 571,260.

A summary of the Company's stock option activity, and related information, is as follows:

	Year ended December 31, 2018		
	Amount	Weighted average exercise price	Weighted average remaining contractual term (years)
Outstanding at the beginning of the year	62,000	\$ 9.93	0.83
Granted	-		
Forfeited	(60,000)	\$ 10	
Exercised	(2,000 )	\$ 7.97	
Outstanding at the end of the year	-	-	-
Exercisable options at end of year	-	-	-
Options vested and expected to vest at end of year	-	-	-

The aggregate intrinsic value represents the total intrinsic value (the difference between the Company's closing stock value as of December 31, 2018 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2018. This amount may change based on the fair market value of the Company's stock. As of December 31, 2018 and 2017, the

total intrinsic value of outstanding options was \$ 0.

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## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 14:- SHAREHOLDERS' EQUITY (Cont.)

As of December 31, 2018, the compensation cost related to options granted under the Company's stock option plans were fully recognized.

## c. Non-vested shares:

In May 2006, the Board of Directors approved the adoption of the 2006 Israeli Incentive Compensation Plan (the "2006 Plan"). The 2006 Plan provides for the grant of options, restricted shares and restricted share units in accordance with various Israeli tax tracks.

The Company currently uses the 2006 Plan for the grant of restricted shares only.

The restricted shares are granted at no consideration and with a vesting schedule of two years (50% each year). The restricted shares are granted in accordance with the Israeli capital gains tax track. In November 2013 and in August 2014, the Company's board of directors approved the increase of 50,000 shares and 150,000 shares under the 2006 Plan.

As of December 31, 2018 an aggregate sum of 235,790 ordinary shares has been reserved for issuance under the 2006 Plan, respectively.

A summary of the status of the entity's restricted shares as of December 31, 2018, and changes during the year ended December 31, 2018, is presented below:

Restricted shares	Shares	Weighted average grant date fair value
Non-vested at January 1, 2018	4,000	\$ 7.47
Granted	-	
Vested	(4,000)	\$ 7.47
Non-vested at December 31, 2018	-	-

As of December 31, 2018, the compensation cost related to unvested share-based compensation arrangements granted to employees under the Plan were fully recognized.

d. The total equity-based compensation expense related to all of the Company's equity-based awards, recognized for the years ended December 31, 2018, 2017 and 2016, was comprised as follows:

Year ended  
December 31,

2018 2017 2016

General and administrative - 15 60

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## OPTIBASE LTD. AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

## NOTE 15:- FINANCIAL EXPENSES, NET

Financial income (expenses):

	Year ended December 31,		
	2018	2017	2016
Interest	\$(2,827)	\$(3,143)	\$(3,170)
Re-measurement of derivatives	(562 )	616	22
Foreign currency translation adjustments	507	(565 )	(218 )
Other	-	323	-
	\$(2,882)	\$(2,769)	\$(3,366)

## NOTE 16:- GEOGRAPHIC INFORMATION

Summary information about geographic areas:

The Company manages its business on a basis of one reportable segment (see Note 1 for a brief description of the Company activity). The data is presented in accordance with ASC 280, "Segment Reporting". Revenues in the table below are attributed to geographical areas based on the location of the end customers.

The following present total revenues for the years ended December 31, 2018, 2017 and 2016 and real estate property as of December, 31, 2018, 2017 and 2016:

	2018		2017		2016	
	Total	Real	Total	Real	Total	Real
	revenues	estate	revenues	estate	revenues	estate
		property,		property,		property,
		net		net		net
Switzerland	\$ 12,322	\$ 162,706	\$ 12,288	\$ 165,981	\$ 12,104	\$ 160,089
Germany	3,261	30,736	3,268	32,152	3,338	28,864
United States	1,025	18,907	1,031	18,593	896	18,737
	\$ 16,608	\$ 212,349	\$ 16,587	\$ 216,726	\$ 16,338	\$ 207,690

OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 17:- MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

a. Controlling shareholders:

To the Company's knowledge there are no arrangements, the operation of which may at a subsequent date result in a change in control of the Company. To the best of The Company's knowledge, the Company's controlling shareholder, the Capri Family Foundation, holds approximately 73% of the Company's ordinary shares.

b. Related party transactions:

On December 19, 2013, and following the approval of the Company's audit committee, compensation committee, board of directors, and the Company's shareholders the Company approved the compensation terms of Mr. Shlomo (Tom) Wyler, for his service as Chief Executive Officer of the Company's subsidiary Optibase Inc. The yearly gross base salary will be \$ 170 as well as reimbursement of health insurance expenses of up to \$ 24 per year, and including reimbursement of reasonable work-related expenses incurred up to \$ 50 per year. On May 16, 2016, following the approval by the Company's compensation committee, audit committee and board of directors, the Company's shareholders approved an amendment to Mr. Wyler's compensation terms in a manner that Mr. Wyler's annual gross base salary shall be \$ 200 for a full time position, as of January 1, 2016, as well as reimbursement of health insurance expenses of up to \$ 24 per year, and including reimbursement of reasonable work-related expenses incurred as part of his activities as Chief Executive Officer of Optibase Inc., of up to \$ 50 per year. On February 14, 2019, following the approval by the Company's compensation committee, audit committee and board of directors, the Company's shareholders approved an extension for a 3 year term, of the engagement with Mr. Wyler's, including an adjustment to his compensation terms, in a manner that Mr. Wyler's annual gross base salary was set at \$220,000 for a full time position, as of January 1, 2019.

On December 19, 2013, and following the approval Of the Company's audit committee, board of directors, and the Company's shareholders approved the a service agreement between the Company and Mr. Reuwen Schwarz, currently serves also as a member of the Company's board of directors, who is a relative of the beneficiaries of Capri, the Company's controlling shareholder, for the provision of real estate related consulting services in consideration for a monthly fee of € 4 plus applicable value added tax (if applicable) and reimbursement for expenses incurred up to € 12 per year. On December 29, 2016, and following the approval by the Company's audit committee and board of directors, the Company's shareholders approved the extension of Mr. Schwarz' service agreement, which will be in effect retroactively from November 1, 2016 for a period of three years. Each of Mr. Schwarz and the Company may terminate the service agreement by giving a prior written notice of 30 days. During such advance notice period, Mr. Schwarz will be required to continue the provision of the services provided by him under the agreement (unless the Company have instructed him otherwise) and in any event Mr. Schwarz will be entitled to receive the consideration for such period, except for cause.

OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 17:- MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS (Cont.)

On October 22, 2014, following the approval by the Company's audit committee and board of directors the Company's shareholders approved the entrance into a registration rights agreement with Mr. Shlomo (Tom) Wyler and Capri, for the filing of a registration statement in order to register for resale all of the Company's Ordinary shares held by them. As of December 31, 2018 registration has not been implemented yet.

On December 29, 2016, the Company's shareholders approved, following the approval by the Company's audit committee and board of directors, a new lease agreement to be entered into with an affiliate of Capri, or the Tenant. The new lease will be in effect for a one-year term commencing on January 2, 2017, which will be automatically extended by a one-year term and up to a total of three years. The Tenant may decide not to extend the New Lease provided that it has given notice to that effect to the Company at least 45 days before the end of each year. The monthly rent to be paid by the Tenant to the Company is \$ 25, including sales tax. The Rent will be increased by 3% every year.

In March 2017, the Company's audit committee and board of directors approved, in accordance with the Israeli Companies Regulations (Relieves for Transactions with Interested Parties) of 2000, the receipt of a \$ 5,118 loan, (the "Loan"), from the Company's controlling shareholder. The Loan was granted to the Company on March 28, 2017 for the purpose of strengthening the Company's liquidity. The Loan does not bear any interest or linkage differentials and is unsecured. In May 2018, the parties entered into an amendment to the Loan's agreement, under which the Company repaid the Company's controlling shareholder \$2.5 million on account of the Loan's account. The repayment by the Company of the remaining Loan's amount of approximately \$2.6 million has been postponed from April 1, 2019 to April 1, 2020, however, the Company may prepay the Loan prior to such date at its sole discretion without any penalty. The loan was recognized at fair value to reflect its interest beneficiary terms at the date of the transaction. The difference between the fair value and the loan principal, in the amount of \$ 372 is reported as a reserve from transaction with controlling shareholder in the balance sheet. As of December 31, 2018 an amount of \$ 133 was recorded as a finance expense and an amount of \$ 142 is reported in the balance sheet as a direct deduction from the gross amount of the loan and will be amortized throughout the duration of the loan.

In December 2017, following the approval of the Company's board of directors and compensation committee, the Company's shareholders approved an amendment to the Company's undertaking to indemnify Mr. Shlomo (Tom) Wyler, the Chief Executive Officer of the Company's subsidiary Optibase Inc. who is affiliated with the controlling shareholder of the Company; and Mr. Reuwen Schwarz, a member of the Company's Board of Directors, who is affiliated with the controlling shareholder of the Company, to the fullest extent permitted by the Companies Law and our articles of association. The aggregate indemnification amount shall not exceed the higher of: (i) 25% of the Company shareholders' equity, as set forth in the Company's financial statements prior to such payment; or (ii) \$20 million.

OPTIBASE LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands (except share and per share data)

NOTE 18:- SUBSEQUENT EVENTS

On March 6, 2019, the Company has notified that Swiss Pro Capital Limited, a company organized under the laws of Switzerland, has filed a legal claim against the Company subsidiaries, Optibase RE 1 s.a.r.l and Optibase Real Estate Europe SARL pursuant to which Swiss Pro mainly demands the exercise of a granted option to purchase 20% of the shares of Optibase RE 1 s.a.r.l, the owner of the Rümlang property, or the Option, in connection with an option agreement between Swiss Pro and the Company subsidiaries, dated March 1, 2010. (for further details see Note 11e(2)).

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300 RIVER HOLDINGS, LLC  
(a Delaware limited liability company)

CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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300 RIVER HOLDINGS, LLC  
(a Delaware limited liability company)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Members of  
300 River Holdings LLC

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of 300 River Holdings LLC (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, members' deficit, and cash flows for the years ended December 31, 2018, 2017 and 2016, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ EISNERAMPER LLP

We have served as the Company's auditor since 2011.

New York, New York  
March 28, 2019

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300 River Holdings, LLC  
(a Delaware limited liability company)

Consolidated Balance Sheets

	December 31, 2018	December 31, 2017
<b>ASSETS</b>		
Real estate, net of accumulated depreciation	\$215,113,786	\$205,954,819
Cash	6,078,386	1,600,282
Segregated cash and other escrows	29,707,831	60,021,513
In-place and other lease values, net of accumulated amortization of \$38,752,061 and \$38,046,694, respectively.	710,354	1,415,721
Tenant account receivable		
Current	309,695	735,524
Unbilled straight-line rent	10,657,818	9,020,360
Prepaid expenses and other assets	116,622	260,315
Deferred leasing costs, net of accumulated amortization of \$6,496,670 and \$4,681,639, respectively.	20,375,889	17,459,273
	\$283,070,381	\$296,467,807
<b>LIABILITIES AND MEMBERS' DEFICIT</b>		
Lease financing obligation, less unamortized value of deferred lease financing costs of \$8,874,841 and \$8,968,193, including accrued interest of \$2,866,379 and \$2,088,884, respectively.	\$213,991,538	\$213,120,691
Mortgage payable, net of unamortized deferred financing costs of \$2,394,103 and \$3,056,305, respectively	172,605,897	171,943,695
Notes payable	3,200,000	-
Accounts payable, accrued expenses and other liabilities	8,014,555	6,316,762
Below market lease values, net of accumulated amortization of \$47,043,159 and \$46,526,230, respectively	1,334,038	1,850,967
	399,146,028	393,232,115
Members' deficit	(116,075,647)	(96,764,308)
	\$283,070,381	\$296,467,807

See notes to consolidated financial statements

300 River Holdings, LLC  
(a Delaware limited liability company)

Consolidated Statements of Operations  
For The Years Ended December 31,

	2018	2017	2016
Revenue:			
Base rent	\$19,912,661	\$16,356,447	\$15,379,671
Escalation and other income	12,429,451	12,268,628	15,012,537
Amortization of aquired below market leases	516,929	520,668	3,288,769
	32,859,041	29,145,743	33,680,977
Expenses:			
Depreciation and amortization	12,375,251	9,974,917	11,391,330
Operating expenses	12,844,531	11,923,628	13,360,786
Real estate taxes	4,188,424	6,275,477	5,680,623
Management fees	1,068,504	796,197	1,067,626
	30,476,710	28,970,219	31,500,365
Operating income	2,382,331	175,524	2,180,612
Interest including amortization of deferred financing costs of \$755,554, \$93,350, and \$93,350, respectively and related party interest of \$14,729, \$3,693,394, and \$3,129,229 respectively.	(21,682,362)	(17,688,251)	(13,914,762)
Net loss	\$(19,300,031)	\$(17,512,727)	\$(11,734,150)

See notes to consolidated financial statements  
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300 River Holdings, LLC  
(a Delaware limited liability company)

Consolidated Statements of Members' Deficit

Balance – December 31, 2015	\$(67,430,037 )
Net loss	(11,734,150 )
Distributions	(190,600 )
Balance - December 31, 2016	(79,354,787 )
Net loss	(17,512,727 )
Contributions	103,206
Balance - December 31, 2017	(96,764,308 )
Net loss	(19,300,031 )
Distributions	(11,308 )
Balance - December 31, 2018	\$(116,075,647)

See notes to consolidated financial statements

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300 River Holdings, LLC  
(a Delaware limited liability company)

Consolidated Statements of Cash Flows  
For the Years Ended December 31,

	2018	2017	2016
Cash flows from operating activities:			
Net loss	\$(19,300,031)	\$(17,512,727 )	\$(11,734,150)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	13,130,805	10,068,269	11,484,680
Amortization of below market leases	(516,929 )	(520,668 )	(3,288,769 )
Accrued interest on notes payable	14,729	-	2,400,000
Unbilled straight-line rental income	(1,637,458 )	(3,412,660 )	(680,417 )
Lease financing obligation	777,495	748,099	725,980
Bad debt expense	-	-	743,308
Changes in assets and liabilities:			
Tenant accounts receivable	425,829	(391,942 )	367,208
Prepaid expenses and other assets	143,693	956,073	(834,808 )
Accounts payable, accrued expenses and other liabilities	(369,200 )	(2,390,516 )	751,244
Net cash used in operating activities	(7,331,067 )	(12,456,072 )	(65,724 )
Cash flows from investing activities:			
Additions to leasing costs	(4,466,356 )	(4,435,230 )	(4,750,682 )
Additions to real estate	(17,226,847)	(31,538,381 )	(5,136,943 )
Net cash used in investing activities	(21,693,203)	(35,973,611 )	(9,887,625 )
Cash flows from financing activities:			
Proceeds from notes payable	3,200,000	26,600,000	15,000,000
Repayment of notes payable	-	(101,600,000)	-
Proceeds from mortgage payable	-	175,000,000	-
Additions to financing costs	-	(3,056,305 )	-
Distributions to members	(11,308 )	-	(190,600 )
Contributions by members	-	103,206	-
Net cash provided by financing activities	3,188,692	97,046,901	14,809,400
(Decrease) increase in cash, cash equivalents, and escrows	(25,835,578)	48,617,218	4,856,051
Cash, cash equivalents and escrows at beginning of period	61,621,795	13,004,577	8,148,526
Cash, cash equivalents and escrows at end of period	\$35,786,217	\$61,621,795	\$13,004,577
Supplemental disclosures of cash flow information:			
Interest paid	\$20,133,281	\$19,299,760	\$11,421,412
Supplemental disclosures of noncash investing activities:			
Accrued additions to real estate	\$2,649,609	\$862,636	\$-

Accrued additions to leasing costs	\$557,636	\$292,345	\$1,183,174
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The following table provides a reconciliation of cash, cash equivalents and escrows reported within the balance sheet:

	December 31, 2018	December 31, 2017	December 31, 2016
Cash and cash equivalents	\$6,078,386	\$1,600,282	\$1,159,374
Segregated cash and other escrows	29,707,831	60,021,513	11,845,203
Total cash, cash equivalents and escrows shown in the statement of cash flows	\$35,786,217	\$61,621,795	\$13,004,577

Amounts included in segregated cash and other escrows as of December 31, 2018 and 2017 represent tenant security deposits, cash received through the Company's lockbox account and monies required to be set aside by the Mortgagee in connection with the Mortgage note payable. Amounts included in segregated cash and other escrows as of December 31, 2016 represent tenant's security deposits, cash received through the Company's lockbox bank account, monies set aside by ownership for certain annual expenses and monies required to be set aside by various contractual agreements which were released during 2017.

See notes to consolidated financial statements  
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300 RIVER HOLDINGS, LLC  
(a Delaware limited liability company)

Notes to Consolidated Financial Statements  
December 31, 2018, 2017 and 2016

#### NOTE A - ORGANIZATION

300 River Holdings, LLC, a Delaware limited liability company ("Holdings"), was formed on September 21, 2010 between 300 River Plaza One LLC (the "70% Member") and WKEM Riverside Member LLC (the "Original 30% Member") (collectively, the "Original Members").

Holdings owns a 100% interest in the following Subsidiaries (all Delaware single member limited liability companies):

- South Riverside Building LLC (the "Building LLC")
- South Riverside Mezz LLC (the "Mezz LLC")
- 300 Riverside Master Lease LLC (the "Master Lease LLC")

Holdings and Subsidiaries are collectively referred to as the Company. The purpose of the Company is to acquire, own, and operate a commercial office building and all related tangibles and intangibles at 300 South Riverside Plaza, Chicago, IL (the "Property").

In a transaction accounted for as a purchase business combination (see Note B[6]) on December 29, 2010 (the "Closing Date"), the Building LLC acquired the Property and South Riverside (the "Rights LLC") acquired the related land, which was then leased to Building LLC for \$190 million, including the assumption of the existing mortgage notes on the land of approximately \$24 million. The Company incurred closing costs of approximately \$3.1 million in connection with this transaction, which were expensed.

On February 10, 2015 (the "Sale Date"), the Company through Rights LLC, its wholly owned subsidiary, sold the Property for \$220 million and simultaneously re-leased the Property (See Note F with respect to the accounting for this transaction as a financing).

On December 28, 2015 (the "Interest Transfer Date") in connection with a series of transactions the Company admitted a new member and redeemed out a member, resulting in net additional capital contributions of approximately \$6 million. Also, on the Interest Transfer Date, the Company issued notes to the 70% and the Original 30% Member in the principal amounts of \$42 million and \$18 million, respectively, (See Note H) and made a non-cash distribution of \$60 million to the Original Members.

#### NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### [1]Basis of presentation

The accompanying consolidated financial statements include the accounts of Holdings and its Subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

##### [2]Use of estimates:

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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300 RIVER HOLDINGS, LLC  
(a Delaware limited liability company)

Notes to Consolidated Financial Statements  
December 31, 2018, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[3]Concentration of credit risk:

Cash balances are insured up to a \$250,000 maximum aggregate balance. The Company places its cash investments with high-credit-qualified financial institutions which account balances, at times, exceed the federally insured limits. The Company's policy is to maintain funds only with financial institutions which it considers reputable and where management believes that the risk of loss is minimal.

[4]Deferred costs:

Deferred costs consist of fees and costs incurred to obtain the finance lease and to obtain the mortgage payable. Such costs are being amortized on the straight-line basis over the term of the lease (99 years) and the mortgage (5 years). Such amortization is included in interest expense in the accompanying consolidated statement of operations.

Deferred leasing commissions and deferred leasing costs incurred prior to January 1, 2018 are being amortized using the straight-line method over the terms of the related leases. Such amortization is included in depreciation and amortization in the accompanying consolidated statement of operations.

[5]Real estate:

Real estate is carried at cost. The building, building improvements and site improvements are being depreciated on the straight-line basis over an estimated useful life of 40 years. Tenant Improvements are being depreciated on the straight-line basis over the life of the associated tenant lease. Machinery and Equipment are being depreciated on the straight-line basis over an estimated useful life of 5 years. The leasehold interest in the platform on which the building sits is being amortized over the life of the lease (99 years).

In accordance with Accounting Standards Codification ("ASC") Topic 360, the Real Estate is evaluated for impairment whenever indicators of impairment exist. If an indicator of impairment exists, the estimated future cash flows of the Real Estate are compared, on an undiscounted basis, to its carrying value. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, then an impairment write-down is measured based on fair value compared to carrying value, with fair value typically based on a discounted cash flow analysis or an income capitalization model. There were no indications of impairment for the year ended December 31, 2018.

[6]Purchase accounting for acquisition of real estate:

In accordance with the guidelines outlined in ASC Topic 805, and based on an evaluation by the Company utilizing an independent appraisal, the estimated fair value of the Property as of the date of acquisition was allocated to (i) the acquired tangible assets consisting of a leasehold interest and (ii) the identified intangible assets and liabilities consisting then of above-market, below-market, and in-place lease values, including various lease origination costs and assumed debt at purchase was adjusted to fair value.

The fair value of the Property's acquired tangible assets is determined by valuing the Property as if it were vacant. The "as-if-vacant" value is then ascribed to land and building and all acquired intangibles based on fair value.

The identified intangible assets included (i) above market lease values, representing the favorable element of contractual rents in excess of prevailing market rents for certain existing leases; (ii) in-place lease values, representing the lost revenues during the lease-up period to achieve the Property's occupancy level at the time of acquisition; and (iii) lease origination costs (legal, marketing, commissions, tenant improvements, etc.) that would have been incurred to procure the existing leases. Above market lease values were amortized over the remaining non-cancelable lease term of such leases. In-place lease values and lease origination costs are amortized over the remaining non-cancelable lease term of each lease.

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300 RIVER HOLDINGS, LLC  
(a Delaware limited liability company)

Notes to Consolidated Financial Statements  
December 31, 2018, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Purchase accounting for acquisition of real estate (Continued):

Below market lease values, an intangible credit, represents the unfavorable element of contractual rents below prevailing market rents for existing leases. Such credit is amortized over the estimated remaining term of the leases, including anticipated and estimated renewal periods (approximately 10 years).

In the event a tenant vacates prior to the end of their lease term, any unamortized intangible lease values associated with such lease are written off to operations as of the date of vacancy.

[7] Revenue recognition and unbilled straight-line rent:

In accordance with ASC Topic 820, base rental revenue generated from leases is recognized on a straight- line basis over such term. Such amounts in excess of amounts currently receivable per the terms of the leases are reflected as unbilled straight-line rent in the accompanying balance sheet.

The Company makes estimates of the uncollectibility of its accounts receivable based on all the facts and circumstances surrounding each tenant account. An allowance for doubtful accounts has been provided for tenant accounts receivable that are estimated to be uncollectable. Once an amount is deemed uncollectible it is written off.

[8] Income taxes:

No provision has been made in the accompanying financial statements for any liability for federal, state or local taxes since each item of income, gain or loss, deduction or credit is reportable for income tax purposes by the Company's Members.

In accordance with the provisions of ASC 740-10-05, management is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Company has evaluated whether it has any uncertain tax positions and has determined that there are none that would materially impact the financial position of the Company.

[9] Debt issuance costs:

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2015-03, Interest-Imputation of Interest (Subtopic 835-30): which requires that debt issuance costs related to a recognized debt liability are presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

Debt issuance costs are amortized to interest expense over the term of the related debt.

[10] Subsequent events:

Management has evaluated events occurring through March 28, 2019, the date the financial statements were available for issuance.

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300 RIVER HOLDINGS, LLC  
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Notes to Consolidated Financial Statements  
December 31, 2018, 2017 and 2016

#### NOTE C – RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (the "Revenue Standard") which, as amended, is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2017. The Revenue Standard outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customer. In February 2016, the FASB issued ASU 2016-02, "Leases" (the "Leasing Standard"), which is effective for fiscal years and interim periods within those years beginning after December 15, 2018 and requires a modified retrospective approach to adoption. The effect of the Revenue Standard on real estate entities is not applicable until the Leasing Standard is adopted by the Company. The Leasing Standard was amended by ASU 2018-11, "Targeted Improvements" (the "Practical Expedient Amendment") in July of 2018 by allowing lessors to elect to combine lease and associated nonlease components, by classes of underlying asset, in contracts meeting certain criteria. The Company adopted the Revenue Standard effective January 1, 2018. The Company adopted the Leasing Standard and applied the Leasing standard, including the Practical Expedient Amendment, retroactively to January 1, 2018. The adoption of the Revenue and Leasing Standards, including the Practical Expedient Amendment, did not have a significant impact on the consolidated financial statements and footnote disclosures. The only future impact on the Company will be to substantially limit the lease acquisition costs that the Company may capitalize to direct brokerage commissions incurred upon execution of a lease.

In September 2016, FASB issued ASU No. 2016-03, "Financial Instruments - Credit Losses" (ASU 2016-03). ASU 2016-03 requires measurement and recognition of expected credit losses for financial assets held. The update is effective for the Company beginning January 1 2020. The Company is continuing to evaluate this guidance however, it does not expect the adoption of ASU 2016-03 to have a significant impact on its financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations: Clarifying the Definition of a Business" (ASU 2017-01), which amends guidance that assists preparers in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business, likely resulting in more acquisitions being accounted for as asset acquisitions. There are certain differences in accounting under these models, including the capitalization of transaction expenses and application of a cost accumulation model in an asset acquisition. The standard is effective for annual periods beginning after December 15, 2017, including interim periods within those periods with early adoption permitted for certain transactions. The Company adopted ASU 2017-01 effective January 1, 2018 and it did not have a significant impact on its consolidated financials statements and footnote disclosures and will not unless the Company acquires property.

#### NOTE D - REAL ESTATE

As of December 31, 2018 and 2017 the Company's real estate consisted of the following:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Leasehold interest	\$25,310,232	\$25,310,232
Building and improvements	175,272,024	171,427,267
Tenant improvements	79,497,251	64,328,188

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Equipment	1,729,420	1,729,420
	281,808,927	262,795,107
Less: accumulated depreciation	(66,695,141 )	(56,840,288 )
	\$215,113,786	\$205,954,819

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300 RIVER HOLDINGS, LLC  
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Notes to Consolidated Financial Statements  
December 31, 2018, 2017 and 2016

#### NOTE E - DEFERRED LEASING COSTS AND OTHER LEASE INTANGIBLES

As of December 31, 2018 and 2017, the Company's deferred leasing costs consisted of the following:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
In-place and other lease intangibles	\$39,462,415	\$39,462,415
Less: accumulated amortization	(38,752,061)	(38,046,694)
	\$710,354	\$1,415,721
	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Below market lease values	\$(48,377,197)	\$(48,377,197)
Less: accumulated amortization	47,043,159	46,526,230
	\$(1,334,038 )	\$(1,850,967 )

Amortization for the next five years is as follows:

<b>Year Ending December 31, 2018</b>	<b>In-Place and Other Lease Intangibles</b>	<b>Below Market Value Leases</b>
2019	486,843	(495,931)
2020	116,257	(274,517)
2021	44,484	(233,748)
2022	44,484	(233,748)
2023	18,286	(96,094 )

#### NOTE F - LEASE FINANCING OBLIGATION

On February 10, 2015 (the "Sale Date"), the Company sold the Property for \$220,000,000 (the "Obligation Principal") and simultaneously entered into a related lease (the "Lease") through February 2114 (the "Maturity Date"). The Lease requires minimum monthly payments aggregating \$9,900,000 annually (the "Lease Payment") until the Maturity Date. Commencing February 2015, the Lease Payment shall be increased by an amount calculated by a formula, as provided in the lease agreement, which is based on the increase in CPI subject to a cap in certain years plus an additional \$500,000 annual increase every tenth year. The proceeds of the sale were used to pay the then existing mortgage debt

and accrued interest thereon with the balance distributed to the Members.

In accordance with ASC Topic 840, the sale of the Property was not recognized, accordingly, the Lease has been treated as a financing transaction for financial reporting purposes. Upon closing of the transaction, the Company recorded a lease financing obligation in the amount of the Obligation Principal, net of the related costs of the transaction (approximately \$9,242,000). The minimum payments provided under the financing obligation results in an effective interest rate of 4.81% thru January 31, 2016, 4.84% thru January 31, 2017, 4.92% thru January 31, 2018, 5.02% thru January 31, 2019 and 5.11% thereafter, as a result of the change in CPI creating an increased minimum rent payment. Given the current effective rate of 5.02% on the obligation, annual interest expense is expected to exceed the payment requirements through approximately the 40th anniversary of the Lease. For the years ended December 31, 2018, 2017 and 2016 the required minimum rent payments made by the Company were approximately \$10,376,000, \$10,162,000, and \$9,966,000 respectively. Total interest expense for the lease financing obligation for the years ended December 31, 2018, 2017 and 2016 was approximately \$11,153,000, \$10,910,000, and \$10,692,000 respectively.

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300 RIVER HOLDINGS, LLC  
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Notes to Consolidated Financial Statements  
December 31, 2018, 2017 and 2016

## NOTE G – MORTGAGE PAYABLE

	December 31, Rate	2018	2017
A-Note	4.61 %*	\$ 100,000,000	\$ 100,000,000
B-Note	5.80 %*	50,000,000	50,000,000
Mezz Note	8.46 %*	25,000,000	25,000,000
		175,000,000	175,000,000
Less: unamortized debt issuance costs		(2,394,103 )	(3,056,305 )
		\$ 172,605,897	\$ 171,943,695

\* The weighted average interest rate for the notes is 5.50% per annum

[1] Senior notes:

On November 20, 2017 (the "Mortgage Closing Date"), the Building LLC (the "Senior Borrower") entered into a loan agreement (the "Senior Note Agreement") with unrelated lenders (the "Senior Lenders") to borrow a principal amount of \$150,000,000 (the "Senior Notes").

The Senior Notes, which are collateralized by the building and an assignment of its rent and leases, mature on November 6, 2022 (the "Mortgage Maturity Date"), at which time the entire principal is due and payable. The Senior Notes require monthly payments of interest only equal to the rates reflected above per annum (based on a 360-day year) until the Maturity Date. The Senior Notes are also jointly and severally guaranteed by individuals affiliated with the Members.

On the Mortgage Closing Date, pursuant to the Senior Note Agreement, the Senior Borrower deposited into escrow reserve accounts approximately (i) \$16,700,000 for a tenant improvement and leasing commission reserve, (ii) \$10,623,000 for a master lease reserve, (iii) \$10,358,000 for a free rent reserve, (iv) \$19,372,000 for unfunded obligations related to lease in place at the Mortgage Closing Date, (v) \$2,142,000 in real estate tax funds, (vi) \$266,000 in insurance funds, (vii) \$848,000 in ground rent funds and (viii) \$150,000 in maintenance funds. Release of escrow funds for approved expenditures require the approval of the lender. The Borrower is also required to deposit funds on a monthly basis into escrow accounts for real estate taxes and insurance. At December 31, 2018 and 2017 the total balance of these accounts was approximately \$27,968,000 and \$57,662,000, respectively.

The Company can prepay the Senior Notes without penalty following the fourth anniversary of the Mortgage Closing Date.

Under the Senior Note Agreement, the Company is required to deposit all rental revenue received into a restricted account, which is under the Lender's control. At December 31, 2018 and 2017 the balance of this account was approximately \$1,740,000 and \$2,409,000, respectively.

[2] Mezz-Note:

On the Mortgage Closing Date, the Mezz LLC (the "Mezz Borrower") entered into a loan agreement (the "Mezz Note Agreement") with an unrelated lender (the "Mezz Lender") to borrow a principal amount of \$25,000,000 (the "Mezz Note").

The Mezz Note, which is collateralized by the building and an assignment of its rent and leases, matures on the Mortgage Maturity Date, at which time its entire principal is due and payable. The Mezz Note requires monthly payments of interest only equal to 8.46% per annum (based on a 360-day year) until the Mortgage Maturity Date, at which time the entire outstanding principal amount of the note is due. The Mezz Note is also jointly and severally guaranteed by individuals affiliated with the Members.

The Company can prepay the Mezz Note without penalty following the fourth anniversary of the Mortgage Closing Date.

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300 RIVER HOLDINGS, LLC  
(a Delaware limited liability company)

Notes to Consolidated Financial Statements  
December 31, 2018, 2017 and 2016

## NOTE H – NOTES PAYABLE

[1] Notes Payable - related party:

On the Interest Transfer Date, the Company issued notes to the 70% Member and the Original 30% Member in the principal amounts of \$42,000,000 and \$18,000,000, respectively. The notes provided for interest ranging from 4% to 12% per annum through maturity in December 2022. Principal and interest were payable from available cash flow, as provided in the Company's operating agreement. The notes were repaid on the Mortgage Closing Date with the funds received from the mortgage. Total interest expense for the notes payable-related party for the years ended December 31, 2018, 2017 and 2016 was approximately \$0 and \$2,169,000, and \$2,400,000 respectively.

[2] Notes Payable:

During 2016 and 2017, the Company issued notes in the amount of \$41,600,000, \$17,950,000 of which were to members and affiliates of the Company. The notes provided for interest at 12 % per annum. Principal and interest were payable from available cash flow, provided for in the Company's operating agreement. The notes issued during 2016 and 2017 were paid off on the Mortgage Closing Date with the funds received from the mortgage.

During 2018, the Company issued notes in the amount of \$3,200,000 to members and affiliates of the Company. The notes provided for interest at 12% per annum through maturity in November 2020. Principal and interest were payable from available cash flow, as provided in the Company's operating agreement. Total interest expense for the notes payable was approximately \$15,000, \$3,397,000, and \$729,000 in 2018, 2017 and 2016, of which approximately \$15,000, \$1,524,000, and \$491,000 was with members and affiliates of the Company, respectively.

## NOTE I - TENANT LEASES

[1] Space in the Property is leased to various tenants under operating leases which generally provide for renewal options and additional rentals based on increases in real estate taxes and certain operating expenses.

Base rent from the two largest tenants in the Property (who collectively occupy approximately 25% of the building's rentable square footage during 2018) accounted for approximately 36% of the building's base rental income for the year ended December 31, 2018. The leases with such tenants expire from April of 2026 through June of 2031. For the year ended December 31, 2017, base rent from the five largest tenants in the Property (who collectively occupied approximately 45% of the building's rentable square footage during 2017) accounted for approximately 69% of the building's base rental income. For the year ended December 31, 2016, base rent from the two largest tenants in the Property (who collectively occupied approximately 55% of the building's rentable square footage during 2016) accounted for approximately 44% of the building's base rental income.

[3] As of December 31, 2018, future minimum rentals under the Company's operating leases with its tenants, for the next five years and thereafter are approximately as follows:

	Total
2019	\$20,189,000
2020	23,105,000
2021	23,554,000

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2022	23,868,000
2023	23,211,000
Thereafter	126,592,000
	\$240,519,000

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300 RIVER HOLDINGS, LLC  
(a Delaware limited liability company)

Notes to Consolidated Financial Statements  
December 31, 2018, 2017 and 2016

#### NOTE J - RELATED PARTY TRANSACTIONS

During the years ended December 31, 2018, 2017 and 2016 the Property was managed by an affiliate of the Member (the “Manager”), pursuant to the annual management agreement, which renews automatically unless terminated by either party, for 3.5% of gross revenue as defined in the annual management agreement. The Company incurred approximately \$1,068,000, \$796,000, and \$1,068,000 for the year ended December 31, 2018, 2017 and 2016 respectively, of the property management fees with the Manager.

An affiliated party (the “Affiliate”) acting in a professional capacity provided legal services to the Property, for which the Affiliate was paid \$133,000, \$96,000, and \$96,000 for the years ended December 31, 2018, 2017 and 2016 respectively. In addition, affiliates of the Managing member were paid approximately \$240,000, \$201,000, \$235,000 for the years ended December 31, 2018, 2017 and 2016, respectively. These amounts are included in legal and professional fees.

Advances from affiliates represent operating expenses on behalf of the Company by and affiliate. Such balances are non-interest bearing and are due on demand.

Pursuant to an informal arrangement the Company incurred approximately \$650,000, annually, to a related entity for the estimated maintenance costs of the plenum located in the Property and under the Property subject to adjustment for out of pocket expenses incurred directly by the Company. During the year ended December 31, 2017, the Company was reimbursed approximately \$1,000,000 from a related entity for the maintenance costs relating to the plenum for expenses incurred in prior periods. Approximately \$100,000 of this amount is included in Accounts payable, accrued expenses and other liabilities as of December 31, 2017 on the accompanying consolidated balance sheets, representing the estimated amount of common area maintenance that may be due to tenants. The balance was recorded as a reduction of repairs and maintenance which is included in operating expenses on the consolidated statement of operations. For the years ended December 31, 2018, 2017 and 2016 the net effect of the transactions between the Company and the related entity were approximately (\$425,000), (\$260,000) and \$1,300,000 respectively, which are included in operating expenses on the consolidated statement of operations. As of December 31, 2018 and 2017, the Company has recorded receivables of approximately \$41,000 and \$452,000 representing maintenance costs incurred by the Company related to the plenum due to the related entity, which are included in tenant accounts receivable - current on the consolidated balance sheet.

On December 20, 2018 a non-related party was contracted to assume all responsibilities previously held with the related entity for the estimated maintenance costs of the plenum located in the Property and under the Property subject to an adjustment for out of pocket expenses incurred directly by the Company.

#### NOTE K – SUBSEQUENT EVENTS

Through March 28, 2019 the Company borrowed \$3,800,000 evidenced by notes of which \$3,280,000 was borrowed from members and affiliates of the Company under substantially the same terms as described in Note H[2].





SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: March 28, 2019 OPTIBASE LTD.

By: /s/ Amir Philips  
Name: Amir Philips  
Title: Chief Executive Officer

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## EXHIBIT INDEX

### Exhibit Number Description of Document

- 1.1 Amended and Restated Memorandum of Association of Optibase Ltd. (incorporated by reference to Exhibit 3.1 to the Registrant's Report on Form 6-K dated February 19, 2002).
- 1.2 Amended and Restated Articles of Association of Optibase Ltd. (incorporated by reference to Exhibit 1.2 to the Registrant's Annual Report on Form 20-F dated April 30, 2014).
- 4.1 Form of Letter of Indemnification between Optibase, Inc. and its directors and officers (incorporated by reference to Exhibit 4.9 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2002).
- 4.2 1999 Israel Share Option Plan, as amended (incorporated by reference to exhibits filed with the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 1999).
- 4.3 102 Plan (incorporated by reference to exhibits filed with the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 1999).
- 4.4 2003 Amendment to the 1999 Israel Share Option Plan (incorporated by reference to Exhibit 4.(c).9 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2003).
- 4.5 2006 Israeli Incentive Compensation Plan (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (File no. 333-137644)).
- 4.6 Agreement between Optibase RE 1 SARL and Basler Kantonalbank dated October 28, 2009 (incorporated by reference to Exhibit 4.5 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2009).
- 4.7 Framework Agreement between Eldista GmbH and CREDIT SUISSE AG dated October 6, 2011 (incorporated by reference to Exhibit 4.7 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2011).
- 4.8 Security Agreement between Eldista GmbH and CREDIT SUISSE AG dated October 6, 2011 (incorporated by reference to Exhibit 4.8 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2011).
- 4.9 Framework Agreement between OPCTN S.A. and CREDIT SUISSE AG dated October 6, 2011 (incorporated by reference to Exhibit 4.9 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2011).
- 4.10 Deed of Pledge Agreement between OPCTN S.A. and CREDIT SUISSE AG dated October 6, 2011 (incorporated by reference to Exhibit 4.10 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2011).
- 4.11 Shareholders Agreement between The Phoenix Pension and Provident Fund Ltd., The Phoenix Insurance Company Ltd., and Optibase Ltd. Dated February 28, 2011 (incorporated by reference to Exhibit 4.13 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2015).
- 4.12 Purchase and Transfer Agreement between Optibase Bavaria GmbH & Co. KG, Lincoln Dreizehnte Deutsche Grundstucksgellschaft mbH and Lincoln Land Passau GmbH, dated December 18, 2014 (unofficial English translation) (incorporated by reference to Exhibit 4.14 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2014).
- 4.13 Purchase and Sale Agreement between Optibase FMC, LLC and Flamingo South Acquisitions, LLC, dated September 16, 2014 (incorporated by reference to Exhibit 4.15 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2014).
- 4.14 Loan Agreement between Optibase Bavaria GmbH & Co KG, and Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft, dated May 4, 2015 (unofficial English translation) (incorporated by reference to Exhibit 4.14 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2015).
- 4.15 First Amendment to the Loan Agreement between Optibase Bavaria GmbH & Co KG, and Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft (dated May 4, 2015), dated November 10, 2015 (unofficial English translation) (incorporated by reference to Exhibit 4.15 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2015).



Exhibit Number Description of Document

- Contribution Agreement between Optibase Chicago 300 LLC, 300 River Holdings LLC, 300 River Plaza One LLC and WKEM Riverside Member LLC, dated December 28, 2015 (incorporated by reference to Exhibit 4.16 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2015).
- 4.16 Amended and Restated Limited Liability Company Agreement of 300 River Holdings LLC between Optibase Chicago, LLC and 300 River Plaza One LLC, dated December 28, 2015 (incorporated by reference to Exhibit 4.17 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2015).
- 4.17 Loan Agreement between Optibase Real Estate Miami, LLC and City National Bank of Florida, dated July 1, 2015 as amended on November 17, 2017 (incorporated by reference to Exhibit 4.18 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2017).
- 4.18 Deed of Trust for Series A Bonds between Optibase Ltd. and Hermetic Trust (1975) Ltd., dated August 2, 2015 (unofficial English translation) (incorporated by reference to Exhibit 4.19 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2015).
- 4.19 Registration Rights Agreement between Optibase Ltd., The Capri Family Foundation and Mr. Shlomo (Tom) Wyler, dated September 4, 2014 (incorporated by reference to Exhibit 4.13 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2014).
- 4.22 Compensation Policy of Optibase Ltd.
- 4.23\* Form of Letter of Indemnification between Optibase, Ltd. and its directors and officers, as Amended on December 21, 2017 (incorporated by reference to Exhibit 6.1 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2017).
- 6.1 List of the subsidiaries of Optibase Ltd.
- 8.1\* Code of Business Conduct and Ethics, as last adopted by Optibase Ltd. Board of directors on September 5, 2016 (incorporated by reference to Exhibit 11.1 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2016)
- 11.1 Certification by Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.1\* Certification by Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2\* Certification by Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.1\* Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2\* Consent of Kost, Forer Gabbay & Kasierer, a member of Ernst & Young Global.
- 15.1\* Consent of EisnerAmper LLP Accountants and Advisors.
- 15.2\* The following financial information from Optibase Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2018 and 2017; (ii) Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016; (iv) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2018, 2017 and 2016; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016; and (vi) Notes to Consolidated Financial Statements.
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\* Filed herewith