

**Part of the Financial
Statements
translated from the
Hebrew original**

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

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Dear Sirs,

We have audited, in accordance with International Financial Reporting Standards, the condensed consolidated statements of financial position of **ADGAR INVESTMENTS AND DEVELOPMENT LIMITED** as at December 31, 2016 and 2015 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for each of the years ended as at December 31, 2016, 2015 and 2014, and in our report dated March 12, 2017 we expressed an unqualified opinion on those financial statements.

The accompanying financial statements are condensed consolidated financial statements and do not include the disclosures required by International Financial Reporting Standards. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the financial position, results of operations, and cash flows of the Company.

Tel-Aviv, Israel
March 19, 2017

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

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2016	2015
	NIS in thousands	
CURRENT ASSETS		
Cash and cash equivalents	234,073	281,778
Short-term investments	27,350	23,469
Customers	18,128	16,279
Deposits	19,127	11,965
Debtors and receivables	9,909	34,732
Loans	41,598	-
Current taxes receivable	4,965	5,693
Derivatives	3,065	6,478
	358,215	380,394
NON-CURRENT ASSETS		
Deposits	39,528	60,111
Debtors	2,763	2,839
Derivatives	7,781	-
Loans	-	21,967
Fixed assets, net	12,094	12,584
Investment property	3,402,773	3,331,623
Investment property under construction	86,300	47,066
Intangible assets	530	262
Deferred taxes	2,458	1,931
	3,554,227	3,478,383
	3,912,442	3,858,777

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2016	2015
	NIS in thousands	
CURRENT LIABILITIES		
Credit from banking institutions and current maturities of long-term loans	285,408	144,370
Current maturities of debentures	145,278	143,603
Liabilities to suppliers and service providers	24,787	21,225
Income taxes payable	1,249	3,054
Creditors and payables	87,354	62,762
Derivatives	18,189	18,408
	562,265	393,422
NON CURRENT LIABILITIES		
Loans from banking institutions and other financial institutions	1,279,640	1,464,193
Debentures	1,020,330	987,525
Derivatives	26,671	23,946
Employee benefit liabilities, net	210	148
Deferred taxes	183,217	158,690
	2,510,068	2,634,502
EQUITY		
Share capital	158,495	158,495
Share premium	275,450	275,450
Other reserves	(14,353)	(11,096)
Foreign currency translation adjustments of foreign activities	(277,959)	(267,200)
Retained earnings	654,301	629,525
	795,934	785,174
Total equity attributable to the Company's shareholders	795,934	785,174
Non-controlling interest	44,175	45,679
	840,109	830,853
Total equity	3,912,442	3,858,777

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands (Except for basic and diluted earnings per share)		
INCOME			
Revenues from rental of properties	221,497	202,054	182,096
Increase in value of investment property and investment property under construction, net	23,179	44,397	80,673
	<u>244,676</u>	<u>246,451</u>	<u>262,769</u>
EXPENSES			
Maintenance of properties, net	21,825	16,173	14,850
General and administrative	35,768	34,791	33,661
	<u>57,593</u>	<u>50,964</u>	<u>48,511</u>
Income before finance	<u>187,083</u>	<u>195,487</u>	<u>214,258</u>
Finance income	1,779	28,354	6,535
Finance expenses	(113,589)	(129,765)	(118,972)
Finance expenses, net	<u>(111,810)</u>	<u>(101,411)</u>	<u>(112,437)</u>
Income before capital gain (loss)	75,273	94,076	101,821
Capital gain (loss)	<u>(59)</u>	<u>(52)</u>	<u>2</u>
Income before taxes on income	75,214	94,024	101,823
Taxes on income	<u>32,812</u>	<u>33,632</u>	<u>26,439</u>
Net income	<u><u>42,402</u></u>	<u><u>60,392</u></u>	<u><u>75,384</u></u>
Attributable to:			
Company's shareholders	39,776	57,553	68,216
Non-controlling interests	2,626	2,839	7,168
	<u>42,402</u>	<u>60,392</u>	<u>75,384</u>
Earnings per share:			
Net earnings per share attributable to Company's shareholders (in NIS):			
Basic net earnings	<u>0.35</u>	<u>0.50</u>	<u>0.61</u>
Diluted net earnings	<u>0.35</u>	<u>0.50</u>	<u>0.60</u>

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
Net income	42,402	60,392	75,384
Other comprehensive income (loss) (after the tax effect):			
Amounts that will be classified or reclassified to profit or loss when specific conditions are met:			
Profit (loss) in respect of cash flow hedge transactions, net	(7,809)	476	22
Transfer to statement of profit or loss in respect of cash flows hedge transactions, net	-	8,900	-
Adjustments resulting from translation of financial statements of foreign activities	(13,260)	(134,438)	1,327
Total other comprehensive income (loss)	(21,069)	(125,062)	1,349
Total comprehensive income (loss)	21,333	(64,670)	76,733
Total comprehensive income (loss) attributable to:			
Company shareholders	22,902	(64,445)	69,875
Non-controlling interests	(1,569)	(225)	6,858
	21,333	(64,670)	76,733

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company							Total equity
	Share capital	Share premium	Other reserves	Foreign currency translation adjustments of foreign activities	Retained earnings	Total	Non-controlling interests	
Balance as of January 1, 2014	155,890	257,523	(10,364)	(139,394)	564,756	828,411	38,995	867,406
Net income	-	-	-	-	68,216	68,216	7,168	75,384
Other comprehensive income (loss)	-	-	(219)	1,878	-	1,659	(310)	1,349
Total comprehensive income (loss)	-	-	(219)	1,878	68,216	69,875	6,858	76,733
Realization of options to Company shares	1,524	8,988	(3,124)	-	-	7,388	-	7,388
Dividend to Company shareholders	-	-	-	-	(30,000)	(30,000)	-	(30,000)
Balance as of December 31, 2014	157,414	266,511	(13,707)	(137,516)	602,972	875,674	45,853	921,527
Net income	-	-	-	-	57,553	57,553	2,839	60,392
Other comprehensive income (loss)	-	-	7,686	(129,684)	-	(121,998)	(3,064)	(125,062)
Total comprehensive income (loss)	-	-	7,686	(129,684)	57,553	(64,445)	(225)	(64,670)
Share-based payment cost	-	-	2,726	-	-	2,726	51	2,777
Realization of options to Company shares	1,081	8,939	(7,801)	-	-	2,219	-	2,219
Dividend to Company shareholders	-	-	-	-	(31,000)	(31,000)	-	(31,000)
Balance as of December 31, 2015	158,495	275,450	(11,096)	(267,200)	629,525	785,174	45,679	830,853
Net income	-	-	-	-	39,776	39,776	2,626	42,402
Total other comprehensive loss	-	-	(6,115)	(10,759)	-	(16,874)	(4,195)	(21,069)
Total comprehensive income (loss)	-	-	(6,115)	(10,759)	39,776	22,902	(1,569)	21,333
Share-based payment cost	-	-	2,858	-	-	2,858	65	2,923
Dividend to Company shareholders	-	-	-	-	(15,000)	(15,000)	-	(15,000)
Balance as of December 31, 2016	158,495	275,450	(14,353)	(277,959)	654,301	795,934	44,175	840,109

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES			
Net income	42,402	60,392	75,384
Adjustments required to present cash flows from current activities:			
Adjustments to the profit or loss items:			
Increase in value of investment property and investment property under construction, net	(23,179)	(44,397)	(80,673)
Finance expenses, net	111,810	101,411	112,437
Capital loss (gain)	59	52	(2)
Depreciation and amortization	5,933	5,775	6,048
Taxes on income	32,812	33,632	26,439
Change in employee benefit liabilities, net	62	-	61
Share-based payment cost	2,923	2,777	-
	130,420	99,250	64,310
Changes in asset and liability items:			
Decrease (increase) in customers	(2,229)	(4,658)	119
Decrease (increase) in debtors and receivables	1,507	9,111	(18,494)
Increase (decrease) in liabilities to suppliers and service providers	6,442	8,177	(4,835)
Decrease in creditors and payables	(3,036)	(5,753)	(1,371)
	2,684	6,877	(24,581)
Cash paid and received during the year for:			
Interest paid	(105,634)	(105,192)	(101,988)
Interest received	3,553	2,024	5,665
Dividend received	85	184	163
Taxes paid	(4,058)	(15,697)	(17,969)
Taxes received	361	123	1,205
	(105,693)	(118,558)	(112,924)
Net cash provided by current activities	69,813	47,961	2,189

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Investment in deposits, net	(8,537)	(29,646)	6,511
Proceeds from sale of investment property	27,510	-	358,733
Purchase of short term investments	(13,161)	(13,365)	(59,564)
Sale of short term investments	9,008	40,209	9,890
Payment in respect of hedging transaction	(2,291)	(16,110)	(3,750)
Proceeds from hedging transactions	4,851	47,634	13,585
Purchase and investment of investment property	(121,124)	(309,114)	(277,610)
Purchase of investment property under construction	(18,159)	(71,488)	(66,423)
Purchase of fixed assets	(1,297)	(1,102)	(1,050)
Proceeds from sale of fixed assets	518	259	1,228
Capitalization of interest paid to investment property under construction	(985)	(1,525)	(7,474)
Purchase of intangible assets	(338)	(270)	(12)
Settlement (grant) of loan to partners in assets in Canada, net	(19,468)	(12,042)	2,550
Settlement of loan to lessee, net	-	-	165
Net cash used in investment activities	<u>(143,473)</u>	<u>(366,560)</u>	<u>(23,221)</u>
CASH FLOWS FROM FINANCE ACTIVITIES			
Receipt (settlement) of short-term credit from banking institution	764	-	(11,167)
Receipt of long-term loans	80,918	276,237	273,132
Settlement of long-term loans	(79,277)	(69,708)	(219,916)
Dividend paid to shareholders of the Company	-	(31,000)	(30,000)
Issue of shares to non-controlling interests in subsidiary of the Company	-	-	-
Realization of options to shares	-	2,219	7,388
Settlement of CPI hedging transactions	(10,837)	(15,280)	(1,397)
Settlement of bonds	(119,990)	(193,170)	(126,872)
Issue of bonds net of issue expenses	156,158	251,977	222,961
Net cash provided by finance activities	<u>27,736</u>	<u>221,275</u>	<u>114,129</u>
Translation differences for cash balances in foreign investees	<u>(1,781)</u>	<u>(15,708)</u>	<u>(7,772)</u>
Increase (decrease) in cash and cash equivalents	(47,705)	(113,032)	85,325
Balance of cash and cash equivalents as at the beginning of the year	<u>281,778</u>	<u>394,810</u>	<u>309,485</u>
Balance of cash and cash equivalents as at the end of the year	<u><u>234,073</u></u>	<u><u>281,778</u></u>	<u><u>394,810</u></u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2016	2015	2014
	NIS in thousands		
SIGNIFICANT NON-CASH TRANSACTIONS			
Dividend to shareholders	15,000	-	-
Sale of investment property against debtors	-	-	22,259
Purchase of investment property under construction against creditors and suppliers and service providers	40,337	29,934	40,738

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- SEGMENTS OF ACTIVITY

a. General

1. The Group operates in the field of real estate. Its main activity is holding income-producing properties, mainly for use as office premises in Israel and abroad. The Group has income-producing properties abroad (Belgium, Canada and Poland) that are held through companies registered abroad, as well as income-producing properties in Israel.
2. All the income and expenses, including administration and general, are allocated directly to operational segments of activity since the Company's management examines its activities based on these segments.
3. The segment assets include all the operational assets which are used by the segment and are mainly composed of investment property and investment property under construction, cash and cash equivalents, customers and debtors and receivables. The liabilities of the segment include all the operational liabilities that result from operational transactions of the segment and are mainly composed of liabilities to banking institutions and others and creditors and payables. The assets and liabilities of the segment do not include income tax assets and liabilities.

b. Segment of activity informationOperating results

	Year ended December 31, 2016				Total
	Israel	Belgium	Poland	Canada	
	NIS in thousands				
Income					
Income from rental of properties before amortization	64,929	13,866	73,430	74,090	226,315
Amortization of tenant inducements	(193)	-	(677)	(3,948)	(4,818)
Increase (decrease) in value of investment property and investment property under construction, net	9,350	(4,824)	(11,700)	30,353	23,179
Total income	74,086	9,042	61,053	100,495	244,676
Segment results	51,350	6,459	45,582	83,692	187,083
Finance income					1,779
Finance expenses					(113,589)
Finance expenses, net					(111,810)
Income before capital loss					75,273
Capital loss					(59)
Income before taxes on income					75,214
Taxes on income					32,812
Net income					42,402
Depreciation and amortization	907	-	1,058	3,968	5,933
Capital investments	40,809	8,681	30,600	72,211	152,301

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- SEGMENTS OF ACTIVITY (Cont.)

b. Segment of activity information (Cont.)

	Year ended December 31, 2015				
	Israel	Belgium	Poland	Canada	Total
	NIS in thousands				
Income					
Income from rental of properties before depreciation	52,616	13,947	75,405	64,771	206,739
Amortization of tenant inducements	(185)	-	(740)	(3,760)	(4,685)
Increase (decrease)in value of investment property and investment property under construction, net	14,407	(4,012)	40	33,962	44,397
Total income	66,838	9,935	74,705	94,973	246,451
Segment results	47,937	6,949	59,825	80,776	195,487
Finance income					28,354
Finance expenses					(129,765)
Finance expenses, net					(101,411)
Income before capital loss					94,076
Capital loss					(52)
Income before taxes on income					94,024
Taxes on income					33,632
Net income					60,392
Depreciation and amortization	791	-	1,136	3,848	5,775
Capital investments	96,685	4,121	34,115	234,542	369,463

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- SEGMENTS OF ACTIVITY (Cont.)

b. Segment of activity information (Cont.)

	Year ended December 31, 2014				
	Israel	Belgium	Poland	Canada	Total
	NIS in thousands				
Income					
Income from rental of properties before depreciation	45,390	16,327	66,223	58,868	186,808
Amortization of tenant inducements	(152)	-	(763)	(3,797)	(4,712)
Increase in value of investment property and investment property under construction, net	36,001	3,383	27,741	13,548	80,673
Total income	81,239	19,710	93,201	68,619	262,769
Segment results	62,425	16,675	78,419	56,739	214,258
Finance income					6,535
Finance expenses					(118,972)
Finance expenses, net					(112,437)
Income before capital gain					101,821
Capital gain					2
Income before taxes on income					101,823
Taxes on income					26,439
Net income					75,384
Depreciation and amortization	854	33	1,183	3,978	6,048
Capital investments	141,720	641	232,809	54,549	429,719

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- SEGMENTS OF ACTIVITY (Cont.)

b. Segment of activity information (Cont.)Assets used by the segments

	December 31,	
	2016	2015
	NIS in thousands	
Israel	1,389,551	1,368,423
Belgium	208,306	226,382
Poland	1,076,104	1,162,572
Canada	1,231,058	1,093,776
Unallocated assets	7,423	7,624
	<u>3,912,442</u>	<u>3,858,777</u>

Liabilities used by the segments

	December 31,	
	2016	2015
	NIS in thousands	
Israel	1,615,022	1,557,399
Belgium	122,341	151,559
Poland	595,214	630,412
Canada	555,290	526,810
Unallocated liabilities	184,466	161,744
	<u>3,072,333</u>	<u>3,027,924</u>
