

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

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

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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, 2017 and 2016 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, 2017, 2016 and 2015, and in our report dated March 7, 2018 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
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KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2017	2016
	NIS in thousands	
CURRENT ASSETS		
Cash and cash equivalents	249,602	234,073
Short-term investments	13,047	27,350
Customers	20,239	18,128
Deposits	17,896	19,127
Debtors and receivables	17,495	9,909
Loans	5,466	41,598
Current taxes receivable	1,563	4,965
Derivatives	2,198	3,065
	327,506	358,215
NON-CURRENT ASSETS		
Deposits	85,903	39,528
Debtors	2,854	2,763
Derivatives	6,485	7,781
Fixed assets, net	12,976	12,094
Investment property	3,606,815	3,402,773
Investment property under construction	140,100	86,300
Intangible assets	605	530
Deferred taxes	1,218	2,458
	3,856,956	3,554,227
	4,184,462	3,912,442

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2017	2016
	NIS in thousands	
CURRENT LIABILITIES		
Credit from banking institutions and current maturities of long-term loans	123,107	285,408
Current maturities of debentures	100,185	145,278
Liabilities to suppliers and service providers	22,244	24,787
Taxes payable	609	1,249
Creditors and payables	82,969	87,354
Derivatives	13,210	18,189
	<u>342,324</u>	<u>562,265</u>
NON CURRENT LIABILITIES		
Loans from banking institutions and other financial institutions	1,344,131	1,279,640
Debentures	1,291,296	1,020,330
Derivatives	20,206	26,671
Employee benefit liabilities, net	210	210
Deferred taxes	143,163	183,217
	<u>2,799,006</u>	<u>2,510,068</u>
EQUITY		
Share capital	175,411	158,495
Share premium	366,706	275,450
Other reserves	(5,951)	(14,353)
Foreign currency translation adjustments of foreign activities	(282,576)	(277,959)
Retained earnings	745,177	654,301
	<u>998,767</u>	<u>795,934</u>
Total equity attributable to the Company's shareholders	<u>998,767</u>	<u>795,934</u>
Non-controlling interest	<u>44,365</u>	<u>44,175</u>
Total equity	<u>1,043,132</u>	<u>840,109</u>
	<u>4,184,462</u>	<u>3,912,442</u>

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
	(Except for basic and diluted earnings per share)		
INCOME			
Revenues from rental of properties	225,051	221,497	202,054
Increase in value of investment property and investment property under construction, net	17,286	23,179	44,397
	<u>242,337</u>	<u>244,676</u>	<u>246,451</u>
EXPENSES			
Maintenance of properties, net	22,395	21,825	16,173
General and administrative	38,862	35,768	34,791
	<u>61,257</u>	<u>57,593</u>	<u>50,964</u>
Income before finance	<u>181,080</u>	<u>187,083</u>	<u>195,487</u>
Finance income	2,080	1,779	28,354
Finance expenses	(110,452)	(113,589)	(129,765)
Finance expenses, net	<u>(108,372)</u>	<u>(111,810)</u>	<u>(101,411)</u>
Income before capital loss	72,708	75,273	94,076
Capital loss	<u>(76)</u>	<u>(59)</u>	<u>(52)</u>
Income before taxes on income	72,632	75,214	94,024
Taxes on income (tax benefit)	<u>(30,400)</u>	<u>32,812</u>	<u>33,632</u>
Net income	<u>103,032</u>	<u>42,402</u>	<u>60,392</u>
Attributable to:			
Company's shareholders	105,876	39,776	57,553
Non-controlling interests	(2,844)	2,626	2,839
	<u>103,032</u>	<u>42,402</u>	<u>60,392</u>
Earnings per share:			
Net earnings per share attributable to Company's shareholders (in NIS):			
Basic and diluted net earnings	<u>0.92</u>	<u>0.35</u>	<u>0.50</u>

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
Net income	103,032	42,402	60,392
Other comprehensive income (loss) (after the tax effect):			
Amounts that will not be reclassified subsequently to profit or loss			
Reevaluation in respect of revaluation of fixed assets	1,381	-	-
Amounts that will be reclassified or are reclassified profit or loss when specific conditions are met:			
Income (loss) in respect of cash flow hedge transactions, net	7,288	(7,809)	476
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	(3,282)	(13,260)	(134,438)
Total amounts that will be reclassified or are reclassified to profit or loss	4,006	(21,069)	(125,062)
Total other comprehensive income (loss)	5,387	(21,069)	(125,062)
Total comprehensive income (loss)	108,419	21,333	(64,670)
Total comprehensive income (loss) attributable to:			
Company shareholders	108,258	22,902	(64,445)
Non-controlling interests	161	(1,569)	(225)
	108,419	21,333	(64,670)

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Foreign currency translation adjustments of foreign activities	Retained earnings	Total			
	NIS In thousands								
Balance as of January 1, 2015	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	
Total 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)	
Cost of share-based payment	-	-	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	
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	-	-	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	
Net income	-	-	-	-	105,876	105,876	(2,844)	103,032	
Total other comprehensive income (loss)	-	-	6,999	(4,617)	-	2,382	3,005	5,387	
Total comprehensive income (loss)	-	-	6,999	(4,617)	105,876	108,258	161	108,419	
Issue of capital shares	16,916	91,256	-	-	-	108,172	-	108,172	
Share-based payment	-	-	1,403	-	-	1,403	29	1,432	
Dividend to Company shareholders	-	-	-	-	(15,000)	(15,000)	-	(15,000)	
Balance as of December 31, 2017	175,411	366,706	(5,951)	(282,576)	745,177	998,767	44,365	1,043,132	

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ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES			
Net income	103,032	42,402	60,392
Adjustments required to present cash flows from current activities:			
Adjustments to the profit or loss items:			
Change in employee benefit liabilities, net	-	62	-
Increase in value of investment property and investment property under construction, net	(17,286)	(23,179)	(44,397)
Finance expenses, net	108,372	111,810	101,411
Capital loss	76	59	52
Depreciation and amortization	6,200	5,933	5,775
Taxes on income (tax benefit)	(30,400)	32,812	33,632
Share-based payment cost	1,432	2,923	2,777
	<u>68,394</u>	<u>130,420</u>	<u>99,250</u>
Changes in asset and liability items:			
Increase in customers	(2,025)	(2,229)	(4,658)
Decrease (increase) in debtors and receivables	(7,722)	1,507	9,111
Increase (decrease) in liabilities to suppliers and service providers	(5,227)	6,442	8,177
Increase (decrease) in creditors and payables	10,289	(3,036)	(5,753)
	<u>(4,685)</u>	<u>2,684</u>	<u>6,877</u>
Cash paid and received during the year for:			
Interest paid	(104,264)	(105,634)	(105,192)
Interest received	2,372	3,553	2,024
Dividend received	198	85	184
Taxes paid	(5,585)	(4,058)	(15,697)
Taxes received	-	361	123
	<u>(107,279)</u>	<u>(105,693)</u>	<u>(118,558)</u>
Net cash provided by current activities	<u>59,462</u>	<u>69,813</u>	<u>47,961</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2017	2016	2015
	NIS in thousands		
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Investment in deposits, net	(42,592)	(8,537)	(29,646)
Proceeds from sale of investment property	-	27,510	-
Acquisition of short term investments	(9,100)	(13,161)	(13,365)
Sale of short term investments	23,649	9,008	40,209
Payment in respect of hedging transaction	(4,346)	(2,291)	(16,110)
Proceeds from hedging transactions	4,330	4,851	47,634
Acquisition and investment of investment property	(201,739)	(121,124)	(309,114)
Acquisition of investment property under construction	(40,963)	(18,159)	(71,488)
Acquisition of fixed assets	(1,084)	(1,297)	(1,102)
Proceeds from sale of fixed assets	260	518	259
Capitalization of interest paid to investment property under construction	(4,062)	(985)	(1,525)
Acquisition of intangible assets	(152)	(338)	(270)
Settlement (grant) of loan to partners in assets in Canada, net	37,385	(19,468)	(12,042)
Net cash used in investment activities	(238,414)	(143,473)	(366,560)
CASH FLOWS FROM FINANCE ACTIVITIES			
Receipt (settlement) of short-term credit from banking institution, net	(764)	764	-
Receipt of long-term loans	168,631	80,918	276,237
Settlement of long-term loans	(273,998)	(79,277)	(69,708)
Dividend paid to shareholders of the Company	(30,000)	-	(31,000)
Issue of share capital	108,172	-	-
Realization of options to shares	-	-	2,219
Settlement of CPI hedging transactions	(8,358)	(10,837)	(15,280)
Settlement of debentures	(120,280)	(119,990)	(193,170)
Issue of debentures net of issue expenses	346,874	156,158	251,977
Net cash provided by finance activities	190,277	27,736	221,275
Translation differences for cash and cash equivalents	4,204	(1,781)	(15,708)
Increase (decrease) in cash and cash equivalents	15,529	(47,705)	(113,032)
Balance of cash and cash equivalents as at the beginning of the year	234,073	281,778	394,810
Balance of cash and cash equivalents as at the end of the year	249,602	234,073	281,778
Dividend to Company's shareholders	-	15,000	-
Acquisition of investment property and investment property under construction against creditors and suppliers and service providers	38,118	40,337	29,934

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 assets and liabilities attributed to income on taxes.

b. Segment of activity informationOperating results

	<u>Year ended December 31, 2017</u>				
	<u>Israel</u>	<u>Belgium</u>	<u>Poland</u>	<u>Canada</u>	<u>Total</u>
	<u>NIS in thousands</u>				
Income					
Income from rental of properties before depreciation	69,923	13,315	68,277	78,591	230,106
Amortization of tenant incentives	(161)	-	(650)	(4,244)	(5,055)
Increase (decrease) in value of investment property and investment property under construction, net	12,138	(3,561)	(36,779)	45,488	17,286
Total income	<u>81,900</u>	<u>9,754</u>	<u>30,848</u>	<u>119,835</u>	<u>242,337</u>
Segment results	<u>60,466</u>	<u>7,379</u>	<u>12,758</u>	<u>100,477</u>	<u>181,080</u>
Finance income					2,080
Finance expenses					<u>(110,452)</u>
Finance expenses, net					<u>(108,372)</u>
Income before capital loss					72,708
Capital loss					<u>(76)</u>
Income before taxes on income					<u>72,632</u>
Depreciation and amortization	858	-	1,077	4,265	<u>6,200</u>
Capital investments	<u>69,418</u>	<u>6,520</u>	<u>28,439</u>	<u>146,311</u>	<u>250,688</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- SEGMENTS OF ACTIVITY (Cont.)

b. Segment of activity information (Cont.)

	Year ended December 31, 2016				Total
	Israel	Belgium	Poland	Canada	
	NIS in thousands				
Income					
Income from rental of properties before depreciation	64,929	13,866	73,430	74,090	226,315
Amortization of tenant incentives	(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	<u>74,086</u>	<u>9,042</u>	<u>61,053</u>	<u>100,495</u>	<u>244,676</u>
Segment results	<u>51,350</u>	<u>6,459</u>	<u>45,582</u>	<u>83,692</u>	<u>187,083</u>
Finance income					1,779
Finance expenses					<u>(113,589)</u>
Finance expenses, net					<u>(111,810)</u>
Income before capital loss					<u>75,273</u>
Capital loss					<u>(59)</u>
Income before taxes on income					<u>75,214</u>
Depreciation and amortization	<u>907</u>	<u>-</u>	<u>1,058</u>	<u>3,968</u>	<u>5,933</u>
Capital investments	<u>40,809</u>	<u>8,681</u>	<u>30,600</u>	<u>72,211</u>	<u>152,301</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- SEGMENTS OF ACTIVITY (Cont.)

b. Segment of activity information (Cont.)

	Year ended December 31, 2015				Total
	Israel	Belgium	Poland	Canada	
	NIS in thousands				
Income					
Income from rental of properties before depreciation	52,616	13,947	75,405	64,771	206,739
Amortization of tenant incentives	(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
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.)Assets used by the segments

	December 31,	
	2017	2016
	NIS in thousands	
Israel	1,480,849	1,389,551
Belgium	228,500	208,306
Poland	1,095,920	1,076,104
Canada	1,376,412	1,231,058
Unallocated assets	2,781	7,423
	<u>4,184,462</u>	<u>3,912,442</u>

Liabilities used by the segments

	December 31,	
	2017	2016
	NIS in thousands	
Israel	1,585,555	1,615,022
Belgium	141,973	122,341
Poland	591,363	595,214
Canada	678,667	555,290
Unallocated liabilities	143,772	184,466
	<u>3,141,330</u>	<u>3,072,333</u>
