

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

ADGAR INVESTMENTS AND DEVELOPMENT LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2018

UNAUDITED

ADGAR INVESTMENTS AND DEVELOPMENT LTD.

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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 March 31, 2018 and the related consolidated statements of profit or loss, condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three months then ended 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
May 17, 2018

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

ADGAR INVESTMENTS AND DEVELOPMENT LTD.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31		December 31
	2018	2017	2017
	Unaudited		Audited
	NIS in thousands		
CURRENT ASSETS			
Cash and cash equivalents	357,624	246,845	249,602
Short-term investments	10,913	27,071	13,047
Customers	21,005	17,478	20,239
Deposits	19,440	18,733	17,896
Debtors and receivables	30,431	14,006	17,495
Loans	5,192	41,807	5,466
Current taxes receivable	1,457	5,608	1,563
Derivatives	4,590	15,314	2,198
	<u>450,652</u>	<u>386,862</u>	<u>327,506</u>
NON CURRENT ASSETS			
Deposit	83,054	45,542	85,903
Debtors	2,846	2,944	2,854
Derivatives	640	18,889	6,485
Fixed assets, net	12,933	13,421	12,976
Investment property	3,664,132	3,326,159	3,606,815
Investment property under construction	157,018	96,625	140,100
Intangible assets	591	504	605
Deferred taxes	1,076	1,013	1,218
	<u>3,922,290</u>	<u>3,505,097</u>	<u>3,856,956</u>
	<u>4,372,942</u>	<u>3,891,959</u>	<u>4,184,462</u>

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31		December 31
	2018	2017	2017
	Unaudited		Audited
	NIS in thousands		
CURRENT LIABILITIES			
Credit from banking institutions and current maturities of long-term loans	146,307	112,954	123,107
Current maturities of debentures	168,044	140,129	100,185
Liabilities to suppliers and service providers	17,333	17,033	22,244
Taxes payable	8,422	956	609
Creditors and payables	87,707	84,268	82,969
Derivatives	15,080	12,425	13,210
	<u>442,893</u>	<u>367,765</u>	<u>342,324</u>
NON-CURRENT LIABILITIES			
Loans from banking institutions and other financial entities	1,399,558	1,193,481	1,344,131
Debentures	1,320,703	1,293,788	1,291,296
Derivatives	17,567	24,529	20,206
Employee benefit liabilities, net	210	210	210
Deferred taxes	141,828	135,088	143,163
	<u>2,879,866</u>	<u>2,647,096</u>	<u>2,799,006</u>
EQUITY			
Share capital	175,411	158,495	175,411
Share premium	366,706	275,450	366,706
Other reserves	(3,251)	(11,410)	(5,951)
Adjustments due to the translation of financial statements of activities abroad	(275,556)	(297,145)	(282,576)
Retained earnings	739,342	707,372	745,177
Total capital attributed to the Company's shareholders	<u>1,002,652</u>	<u>832,762</u>	<u>998,767</u>
Non-controlling interests	47,531	44,336	44,365
Total equity	<u>1,050,183</u>	<u>877,098</u>	<u>1,043,132</u>
	<u>4,372,942</u>	<u>3,891,959</u>	<u>4,184,462</u>

May 17, 2018

Date of approval of the
financial statementsDoron Schneidman
Chairman of the BoardRoy Gadish
CEOLiat Manor
Finance Manager

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	For the three months ended March 31		For the year ended December 31
	2018	2017	2017
	Unaudited		Audited
	NIS in thousands (except for basic and diluted earnings per share)		
INCOME			
Income from rental of properties	59,451	53,411	225,051
Increase in value of investment property and investment property under construction, net	848	-	17,286
	<u>60,299</u>	<u>53,411</u>	<u>242,337</u>
EXPENSES			
Maintenance of assets, net	5,468	5,412	22,395
Administrative and general	10,026	9,926	38,862
	<u>15,494</u>	<u>15,338</u>	<u>61,257</u>
Income before financing	<u>44,805</u>	<u>38,073</u>	<u>181,080</u>
Finance income	(4,256)	7,241	2,080
Finance expenses	(24,733)	(29,617)	(110,452)
Finance expenses, net	<u>(28,989)</u>	<u>(22,376)</u>	<u>(108,372)</u>
Income before capital loss	15,816	15,697	72,708
Capital loss	-	-	(76)
Income before taxes on income	15,816	15,697	72,632
Taxes on income (tax benefit)	4,889	(38,474)	(30,400)
Net income	<u>10,927</u>	<u>54,171</u>	<u>103,032</u>
Attributed to:			
Equity holders of the Company	9,865	53,071	105,876
Non-controlling interests	1,062	1,100	(2,844)
	<u>10,927</u>	<u>54,171</u>	<u>103,032</u>
Net earning (loss) per share attributed to equity holders of the Company (in NIS)			
Basic and diluted net earnings	<u>0.07</u>	<u>0.46</u>	<u>0.92</u>

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OR LOSS

	For the three months ended March 31		For the year ended December 31
	2018	2017	2017
	Unaudited		Audited
	NIS in thousands		
Net income (loss)	10,927	54,171	103,032
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:			
Other comprehensive income (loss) (after the tax effect):			
Income in respect of cash flow hedge transactions, net	740	2,825	7,288
Transfer to statement of profit or loss in respect of cash flows hedge transactions, net	1,951	-	-
Adjustment resulting from the translation of financial statements of activities abroad	8,879	(20,735)	(3,282)
Total amounts that will be reclassified or are reclassified to profit or loss	11,570	(17,910)	4,006
Total other comprehensive income (loss)	11,570	(17,910)	5,387
Total comprehensive income	22,497	36,261	108,419
Total comprehensive income (loss) attributable to:			
Company shareholders	19,336	36,116	108,258
Non-controlling interests	3,161	145	161
	22,497	36,261	108,419

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to the Company's shareholders							
	Share capital	Share premiums	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited							
	NIS in thousands							
Balance as at January 1, 2018 (Audited)	175,411	366,706	(5,951)	(282,576)	745,177	998,767	44,365	1,043,132
Net income	-	-	-	-	9,865	9,865	1,062	10,927
Other comprehensive income	-	-	2,451	7,020	-	9,471	2,099	11,570
Total comprehensive income			2,451	7,020	9,865	19,336	3,161	22,497
Share-based payment	-	-	249	-	-	249	5	254
Dividend to Company's shareholders	-	-	-	-	(15,700)	(15,700)	-	(15,700)
Balance as at March 31, 2018	<u>175,411</u>	<u>366,706</u>	<u>(3,251)</u>	<u>(275,556)</u>	<u>739,342</u>	<u>1,002,652</u>	<u>47,531</u>	<u>1,050,183</u>

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to the Company's shareholders							
	Share capital	Share premiums	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited							
	NIS in thousands							
Balance as at January 1, 2017 (Audited)	158,495	275,450	(14,353)	(277,959)	654,301	795,934	44,175	840,109
Net income	-	-	-	-	53,071	53,071	1,100	54,171
Other comprehensive income (loss)	-	-	2,231	(19,186)	-	(16,955)	(955)	(17,910)
Total comprehensive income (loss)	-	-	2,231	(19,186)	53,071	36,116	145	36,261
Share-based payment	-	-	712	-	-	712	16	728
Balance as at March 31, 2017	<u>158,495</u>	<u>275,450</u>	<u>(11,410)</u>	<u>(297,145)</u>	<u>707,372</u>	<u>832,762</u>	<u>44,336</u>	<u>877,098</u>

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to the Company's shareholders							
	Share capital	Share premiums	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited							
	NIS in thousands							
Balance as at January 1, 2017 (Audited)	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
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 cost	-	-	1,403	-	-	1,403	29	1,432
Dividend to Company shareholders	-	-	-	-	(15,000)	(15,000)	-	(15,000)
Balance as at December 31, 2017 (Audited)	<u>175,411</u>	<u>366,706</u>	<u>(5,951)</u>	<u>(282,576)</u>	<u>745,177</u>	<u>998,767</u>	<u>44,365</u>	<u>1,043,132</u>

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended March 31		For the year ended December 31
	2018	2017	2017
	Unaudited		Audited
	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES			
Net income	10,927	54,171	103,032
Adjustments needed to present cash flows from current activities:			
Adjustments to the profit and loss items:			
Increase in value of investment property and investment property under construction, net	(848)	-	(17,286)
Finance expenses, net	28,989	22,376	108,372
Capital loss	-	-	76
Depreciation and amortization	1,688	1,597	6,200
Taxes on income (tax benefit)	4,889	(38,474)	(30,400)
Share-based payment cost	254	728	1,432
	<u>34,972</u>	<u>(13,773)</u>	<u>68,394</u>
Changes in asset and liability items:			
Decrease (increase) in customers	(293)	192	(2,025)
Increase in debtors and receivables	(6,015)	(3,140)	(7,722)
Decrease in liabilities to suppliers and service providers	(2,632)	(7,873)	(5,227)
Increase (decrease) in creditors and payables	(3,165)	9,719	10,289
	<u>(12,105)</u>	<u>(1,102)</u>	<u>(4,685)</u>
Cash paid and received during the year for:			
Interest paid	(40,604)	(40,050)	(104,264)
Interest received	618	698	2,372
Dividend received	5	29	198
Taxes received	(486)	(1,576)	(5,585)
	<u>(40,467)</u>	<u>(40,899)</u>	<u>(107,279)</u>
Net cash provided by (used in) current activities	<u>(6,673)</u>	<u>(1,603)</u>	<u>59,462</u>

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended March 31		For the year ended December 31
	2018	2017	2017
	Unaudited		Audited
	NIS in thousands		
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Settlement (investment) in deposits, net	2,372	(6,730)	(42,592)
Acquisition of short term investments	(3,538)	(1,156)	(9,100)
Sale of short term investments	5,294	1,312	23,649
Payment in respect of hedge transactions	(1,468)	-	(4,346)
Proceeds from transactions of hedge transactions	467	1,567	4,330
Acquisition and investment of investment property	(28,560)	(20,035)	(201,739)
Investment in investment property under construction	(14,486)	(7,901)	(40,963)
Acquisition of fixed assets	(70)	(349)	(1,084)
Proceeds from sale of fixed assets	-	-	260
Capitalization of interest paid for investment property under construction	(1,206)	(825)	(4,062)
Acquisition of intangible assets	-	(11)	(152)
Surrenders (grant) of loan to partners in assets in Canada, net	272	(1,702)	37,385
Net cash used in investment activities	<u>(40,923)</u>	<u>(35,830)</u>	<u>(238,414)</u>
CASH FLOWS FROM FINANCE ACTIVITIES			
Settlement of short-term loans from banking institutions, net	-	(764)	(764)
Receipt of long-term loan	71,334	24,227	168,631
Settlement of long-term loans	(12,454)	(235,115)	(273,998)
Dividend paid to Company shareholders	(15,700)	(15,000)	(30,000)
Issue of share capital	-	-	108,172
Settlement of CPI hedging transactions and interest determination	(2,601)	(2,260)	(8,358)
Settlement of debentures	(66,447)	(66,248)	(120,280)
Issue of bonds net of issue expenses	180,813	346,874	346,874
Net cash provided by finance activities	<u>154,945</u>	<u>51,714</u>	<u>190,277</u>
Translation differences in respect of cash balances in foreign entities	673	(1,509)	4,204
Increase in cash and cash equivalents	<u>108,022</u>	<u>12,772</u>	<u>15,529</u>
Balance of cash and cash equivalents as at the beginning of the period	<u>249,602</u>	<u>234,073</u>	<u>234,073</u>
Balance of cash and cash equivalents as at the end of the period	<u><u>357,624</u></u>	<u><u>246,845</u></u>	<u><u>249,602</u></u>
SIGNIFICANT ACTIVITIES NOT INVOLVING CASH FLOWS			
Acquisition of investment property and investment property under construction against creditors, suppliers and service providers	41,280	47,413	38,118

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- SEGMENTS OF ACTIVITYa. General

1. The Group operates in the income generating real estate market. Its main activity is holding income-producing properties, mainly for use as office premises. 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 are attributed directly to segments of activity since the Company's management examines its activities based on these segments.

b. Report regarding segments of activity

**For the period of three months ended as at
March 31, 2018**

Israel	Belgium	Poland	Canada	Total
Unaudited				
NIS in thousands				

Income:

Income from rental of properties					
before depreciation	18,308	3,676	18,081	20,705	60,770
Deduction of deferred incentives to lessees	(34)	-	(149)	(1,136)	(1,319)
Increase in value of investment property, net	-	-	848	-	848
Total income	18,274	3,676	18,780	19,569	60,299
Segment results	12,276	3,274	13,978	15,277	44,805
Finance income					(4,256)
Finance expenses					(24,733)
Net finance expenses					(28,989)
Income before taxes on income					15,816

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- SEGMENTS OF ACTIVITY (Cont.)

b. Report regarding segments of activity (Cont.)

	For the period of three months ended as at March 31, 2017				
	<u>Israel</u>	<u>Belgium</u>	<u>Poland</u>	<u>Canada</u>	<u>Total</u>
	<u>Unaudited</u>				
	<u>NIS in thousands</u>				
<u>Income:</u>					
Income from rental of properties before depreciation	16,757	3,144	16,288	18,541	54,730
Deduction of deferred incentives to lessees	<u>(44)</u>	<u>-</u>	<u>(170)</u>	<u>(1,105)</u>	<u>(1,319)</u>
Total income	<u>16,713</u>	<u>3,144</u>	<u>16,118</u>	<u>17,436</u>	<u>53,411</u>
Segment results	<u>10,795</u>	<u>2,611</u>	<u>11,946</u>	<u>12,721</u>	<u>38,073</u>
Finance income					7,241
Finance expenses					<u>(29,617)</u>
Net finance expenses					<u>(22,376)</u>
Income before taxes on income					<u>15,697</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- SEGMENTS OF ACTIVITY (Cont.)

b. Report regarding segments of activity (Cont.)

	Year ended as at December 31, 2017				Total
	Israel	Belgium	Poland	Canada	
	Audited				
NIS in thousands					
<u>Income:</u>					
Income from rental of properties before depreciation	69,923	13,315	68,277	78,591	230,106
Deduction of deferred incentives to lessees	(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>
Net finance expenses					<u>(108,372)</u>
Income before capital loss					72,708
Capital loss					<u>(76)</u>
Income before taxes on income					<u>72,632</u>
