

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

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018

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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, 2018 and 2017 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, 2018, 2017 and 2016, and in our report dated March 11, 2019 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 11, 2019

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

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2018	2017
	NIS in thousands	
CURRENT ASSETS		
Cash and cash equivalents	322,950	249,602
Short-term investments	-	13,047
Customers	16,881	20,239
Deposits	31,350	17,896
Debtors and receivables	26,876	17,495
Loans	6,810	5,466
Taxes receivable	4,520	1,563
Derivatives	5,567	2,198
	414,954	327,506
NON-CURRENT ASSETS		
Deposits	74,664	85,903
Debtors	3,075	2,854
Derivatives	1,283	6,485
Fixed assets, net	13,050	12,976
Investment property	3,826,790	3,606,815
Investment property under construction	234,442	140,100
Intangible assets	679	605
Deferred taxes	865	1,218
	4,154,848	3,856,956
	4,569,802	4,184,462

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2018	2017
	NIS in thousands	
CURRENT LIABILITIES		
Credit from banking institutions and current maturities of long-term loans	168,337	123,107
Current maturities of debentures	185,252	100,185
Liabilities to suppliers and service providers	26,641	22,244
Taxes payable	557	609
Creditors and payables	97,475	82,969
Derivatives	11,907	13,210
	<u>490,169</u>	<u>342,324</u>
NON CURRENT LIABILITIES		
Loans from banking institutions and other financial institutions	1,471,148	1,344,131
Debentures	1,363,679	1,291,296
Derivatives	21,082	20,206
Employee benefit liabilities, net	250	210
Deferred taxes	150,856	143,163
	<u>3,007,015</u>	<u>2,799,006</u>
EQUITY		
Share capital	175,511	175,411
Share premium	367,331	366,706
Other reserves	(4,848)	(5,951)
Foreign currency translation adjustments of foreign activities	(280,105)	(282,576)
Retained earnings	775,910	745,177
	<u>1,033,799</u>	<u>998,767</u>
Total equity attributable to the Company's shareholders	<u>1,033,799</u>	<u>998,767</u>
Non-controlling interest	<u>38,819</u>	<u>44,365</u>
Total equity	<u>1,072,618</u>	<u>1,043,132</u>
	<u>4,569,802</u>	<u>4,184,462</u>

March 11, 2019

Date of approval of the
financial statementsDoron Schneidman
Chairman of the BoardRoy Gadish
CEOLiat Manor
Deputy CFO

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Year ended December 31,		
	2018	2017	2016
	NIS in thousands		
	(Except for basic and diluted earnings per share)		
INCOME			
Revenues from rental of properties	243,282	225,051	221,497
Increase in value of investment property and investment property under construction, net	24,594	17,286	23,179
	<u>267,876</u>	<u>242,337</u>	<u>244,676</u>
EXPENSES			
Maintenance of properties, net	23,645	22,395	21,825
General and administrative	42,479	38,862	35,768
	<u>66,124</u>	<u>61,257</u>	<u>57,593</u>
Income before finance	<u>201,752</u>	<u>181,080</u>	<u>187,083</u>
Finance income	(3,672)	2,080	1,779
Finance expenses	(116,225)	(110,452)	(113,589)
Finance expenses, net	<u>(119,897)</u>	<u>(108,372)</u>	<u>(111,810)</u>
Income before capital loss	81,855	72,708	75,273
Capital loss, net	(61)	(76)	(59)
Income before taxes on income	81,794	72,632	75,214
Taxes on income (tax benefit)	16,716	(30,400)	32,812
Net income	<u><u>65,078</u></u>	<u><u>103,032</u></u>	<u><u>42,402</u></u>
Attributable to:			
Company's shareholders	71,358	105,876	39,776
Non-controlling interests	(6,280)	(2,844)	2,626
	<u><u>65,078</u></u>	<u><u>103,032</u></u>	<u><u>42,402</u></u>
Earnings per share:			
Net earnings per share attributable to Company's shareholders (in NIS):			
Basic and diluted net earnings	<u><u>0.54</u></u>	<u><u>0.92</u></u>	<u><u>0.35</u></u>

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2018	2017	2016
	NIS in thousands		
Net income	65,078	103,032	42,402
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	(3,649)	7,288	(7,809)
Transfer to statement of profit or loss in respect of cash flows hedge transactions, net	1,951	-	-
Adjustments resulting from translation of financial statements of foreign activities	3,678	(3,282)	(13,260)
Total amounts that will be reclassified or are reclassified to profit or loss	1,980	4,006	(21,069)
Total other comprehensive income (loss)	1,980	5,387	(21,069)
Total comprehensive income	67,058	108,419	21,333
Total comprehensive income (loss) attributable to:			
Company shareholders	72,655	108,258	22,902
Non-controlling interests	(5,597)	161	(1,569)
	67,058	108,419	21,333

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, 2016	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	
Cost of 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 (loss)	-	-	-	-	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 share capital	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	
Net income (loss)	-	-	-	-	71,358	71,358	(6,280)	65,078	
Total other comprehensive income (loss)	-	-	(1,174)	2,471	-	1,297	683	1,980	
Total comprehensive income (loss)	-	-	(1,174)	2,471	71,358	72,655	(5,597)	67,058	
Share-based payment	-	-	2,403	-	-	2,403	51	2,454	
Realization of options to Company shares	100	625	(126)	-	-	599	-	599	
Dividend to Company shareholders	-	-	-	-	(40,625)	(40,625)	-	(40,625)	
Balance as of December 31, 2018	175,511	367,331	(4,848)	(280,105)	775,910	1,033,799	38,819	1,072,618	

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2018	2017	2016
	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES			
Net income	65,078	103,032	42,402
Adjustments required to present cash flows from current activities:			
Adjustments to the profit or loss items:			
Change in employee benefit liabilities, net	40	-	62
Increase in value of investment property and investment property under construction, net	(24,594)	(17,286)	(23,179)
Finance expenses, net	119,897	108,372	111,810
Capital loss, net	61	76	59
Depreciation and amortization	6,880	6,200	5,933
Taxes on income (tax benefit)	16,716	(30,400)	32,812
Share-based payment cost	2,454	1,432	2,923
	<u>121,454</u>	<u>68,394</u>	<u>130,420</u>
Changes in asset and liability items:			
Decrease (increase) in customers	3,753	(2,025)	(2,229)
Decrease (increase) in debtors and receivables	(7,012)	(7,722)	1,507
Increase (decrease) in liabilities to suppliers and service providers	1,043	(5,227)	6,442
Increase (decrease) in creditors and payables	(7,307)	10,289	(3,036)
	<u>(9,523)</u>	<u>(4,685)</u>	<u>2,684</u>
Cash paid and received during the year for:			
Interest paid	(106,015)	(104,264)	(105,634)
Interest received	3,030	2,372	3,553
Dividend received	34	198	85
Taxes paid	(5,677)	(5,585)	(4,058)
Taxes received	53	-	361
	<u>(108,575)</u>	<u>(107,279)</u>	<u>(105,693)</u>
Net cash provided by current activities	<u>68,434</u>	<u>59,462</u>	<u>69,813</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2018	2017	2016
	NIS in thousands		
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Investment in deposits, net	(3,296)	(42,592)	(8,537)
Proceeds from sale of investment property	-	-	27,510
Acquisition of short term investments	(14,086)	(9,100)	(13,161)
Realization of short term investments	26,632	23,649	9,008
Payment in respect of hedging transaction	(14,950)	(4,346)	(2,291)
Proceeds from hedging transactions	1,378	4,330	4,851
Acquisition and investment of investment property	(156,415)	(201,739)	(121,124)
Acquisition of investment property under construction	(82,897)	(40,963)	(18,159)
Acquisition of fixed assets	(1,750)	(1,084)	(1,297)
Proceeds from sale of fixed assets	599	260	518
Capitalization of interest paid to investment property under construction	(6,822)	(4,062)	(985)
Acquisition of intangible assets	(136)	(152)	(338)
Settlement (grant) of loan to partners in assets in Canada, net	(1,702)	37,385	(19,468)
Net cash used in investment activities	<u>(253,445)</u>	<u>(238,414)</u>	<u>(143,473)</u>
CASH FLOWS FROM FINANCE ACTIVITIES			
Receipt (settlement) of short-term credit from banking institution, net	-	(764)	764
Receipt of long-term loans	208,111	168,631	80,918
Settlement of long-term loans	(56,148)	(273,998)	(79,277)
Dividend paid to shareholders of the Company	(40,625)	(30,000)	-
Issue of share capital	-	108,172	-
Realization of options to shares	599	-	-
Settlement of CPI hedging transactions and fixing interest	(2,331)	(8,358)	(10,837)
Settlement of debentures	(66,447)	(120,280)	(119,990)
Issue of debentures net of issue expenses	216,943	346,874	156,158
Net cash provided by finance activities	<u>260,102</u>	<u>190,277</u>	<u>27,736</u>
Translation differences for cash and cash equivalents	<u>(1,743)</u>	<u>4,204</u>	<u>(1,781)</u>
Increase (decrease) in cash and cash equivalents	73,348	15,529	(47,705)
Balance of cash and cash equivalents as at the beginning of the year	<u>249,602</u>	<u>234,073</u>	<u>281,778</u>
Balance of cash and cash equivalents as at the end of the year	<u>322,950</u>	<u>249,602</u>	<u>234,073</u>
Significant transactions that do not involve cash flows			
Dividend to Company's shareholders	-	-	15,000
Acquisition of investment property and investment property under construction against creditors and suppliers and service providers	<u>36,055</u>	<u>38,118</u>	<u>40,337</u>

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

	Year ended December 31, 2018				Total
	Israel	Belgium	Poland	Canada	
	NIS in thousands				
Income					
Income from rental of properties before depreciation	73,678	14,715	73,335	87,198	248,926
Amortization of tenant incentives					
Increase (decrease) in value of investment property and investment property under construction, net	(122)	-	(594)	(4,928)	(5,644)
Total income	89,907	14,575	17,430	145,964	267,876
Segment results	67,678	13,188	(3,649)	124,535	201,752
Finance income					(3,672)
Finance expenses					(116,225)
Finance expenses, net					(119,897)
Income before capital loss					81,855
Capital loss, net					(61)
Income before taxes on income					81,794
Depreciation and amortization	906	-	1,023	4,951	6,880
Capital investments	69,720	3,060	91,818	99,348	263,946

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- SEGMENTS OF ACTIVITY (Cont.)

b. Segment of activity information (Cont.)Operating results (Cont.)

	Year ended December 31, 2017				
	<u>Israel</u>	<u>Belgium</u>	<u>Poland</u>	<u>Canada</u>	<u>Total</u>
	NIS in thousands				
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					(110,452)
Finance expenses, net					(108,372)
Income before capital loss					72,708
Capital loss, net					(76)
Income before taxes on income					72,632
Depreciation and amortization	<u>858</u>	<u>-</u>	<u>1,077</u>	<u>4,265</u>	<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.)Operating results (Cont.)

	Year ended December 31, 2016				
	Israel	Belgium	Poland	Canada	Total
	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	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
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.)Assets used by the segments

	December 31,	
	2018	2017
	NIS in thousands	
Israel	1,635,085	1,480,461
Belgium	212,331	228,500
Poland	1,185,395	1,096,308
Canada	1,531,606	1,376,412
Unallocated assets	5,385	2,781
	<u>4,569,802</u>	<u>4,184,462</u>

Liabilities used by the segments

	December 31,	
	2018	2017
	NIS in thousands	
Israel	1,821,581	1,581,339
Belgium	123,016	100,461
Poland	653,219	637,091
Canada	747,955	678,667
Unallocated liabilities	151,413	143,772
	<u>3,497,184</u>	<u>3,141,330</u>
