

**Translated
from the
Hebrew original**

ADGAR INVESTMENTS AND DEVELOPMENT LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2017

UNAUDITED

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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, 2017 and the related consolidated statements of profit or loss, condensed consolidated statements of comprehensive income (loss) , 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 16, 2017

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
	NIS in thousands		
CURRENT ASSETS			
Cash and cash equivalents	246,845	219,448	234,073
Short-term investments	27,071	28,646	27,350
Customers	17,478	18,621	18,128
Deposits	18,733	18,541	19,127
Debtors and receivables	14,006	12,439	9,909
Loans	41,807	-	41,598
Current taxes receivable	5,608	5,345	4,965
Derivatives	15,314	1,234	3,065
	<u>386,862</u>	<u>304,274</u>	<u>358,215</u>
NON CURRENT ASSETS			
Deposit	45,542	37,392	39,528
Debtors	2,944	2,881	2,763
Derivatives	18,889	-	7,781
Loans	-	28,053	-
Fixed assets	13,421	12,882	12,094
Investment property	3,326,159	3,398,346	3,402,773
Investment property under construction	96,625	52,320	86,300
Intangible assets	504	309	530
Deferred taxes	1,013	2,168	2,458
	<u>3,505,097</u>	<u>3,534,351</u>	<u>3,554,227</u>
	<u><u>3,891,959</u></u>	<u><u>3,838,625</u></u>	<u><u>3,912,442</u></u>

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
NIS in thousands			
CURRENT LIABILITIES			
Credit from banking institutions and current maturities of long-term loans	112,954	114,391	285,408
Current maturities of bonds	140,129	131,824	145,278
Liabilities to suppliers and service providers	17,033	19,468	24,787
Taxes payable	956	1,516	1,249
Creditors and payables	84,268	68,179	87,354
Derivatives	12,425	24,721	18,189
	<u>367,765</u>	<u>360,099</u>	<u>562,265</u>
NON-CURRENT LIABILITIES			
Loans from banking institutions and other financial entities	1,193,481	1,515,239	1,279,640
Debentures	1,293,788	918,939	1,020,330
Derivatives	24,529	46,218	26,671
Employee benefit liabilities, net	210	148	210
Deferred taxes	135,088	172,112	183,217
	<u>2,647,096</u>	<u>2,652,656</u>	<u>2,510,068</u>
EQUITY			
Share capital	158,495	158,495	158,495
Share premium	275,450	275,450	275,450
Other reserves	(11,410)	(21,792)	(14,353)
Adjustments due to the translation of financial statements of activities abroad	(297,145)	(253,947)	(277,959)
Retained earnings	707,372	623,194	654,301
Total capital attributed to the Company's shareholders	<u>832,762</u>	<u>781,400</u>	<u>795,934</u>
Non-controlling interests	44,336	44,470	44,175
Total equity	<u>877,098</u>	<u>825,870</u>	<u>840,109</u>
	<u><u>3,891,959</u></u>	<u><u>3,838,625</u></u>	<u><u>3,912,442</u></u>

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

May 16, 2017			
Date of approval of the financial statements	Doron Schneidman Chairman of the Board	Roy Gadish CEO	Liat Manor Finance Manager

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	For the three months ended		For the year ended
	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
NIS in thousands (except for basic and diluted earnings (loss) per share)			
INCOME			
Income from rental of properties	53,411	54,520	221,497
Increase in value of investment property and investment property under construction, net	-	126	23,179
	<u>53,411</u>	<u>54,646</u>	<u>244,676</u>
EXPENSES			
Maintenance of assets, net	5,412	5,375	21,825
Administrative and general	9,926	9,021	35,768
	<u>15,338</u>	<u>14,396</u>	<u>57,593</u>
Income before financing	<u>38,073</u>	<u>40,250</u>	<u>187,083</u>
Finance income	7,241	(6,973)	1,779
Finance expenses	(29,617)	(23,939)	(113,589)
Finance expenses, net	<u>(22,376)</u>	<u>(30,912)</u>	<u>(111,810)</u>
Income before capital loss	15,697	9,338	75,273
Capital loss	-	(54)	(59)
Income before taxes on income	15,697	9,284	75,214
Taxes on income (tax benefit)	(38,474)	14,395	32,812
Net income (loss)	<u>54,171</u>	<u>(5,111)</u>	<u>42,402</u>
Attributed to:			
Equity holders of the Company	53,071	(6,331)	39,776
Non-controlling interests	1,100	1,220	2,626
	<u>54,171</u>	<u>(5,111)</u>	<u>42,402</u>
Net earning (loss) per share attributed to equity holders of the Company (in NIS)			
Basic and diluted net earnings (losses)	<u>0.46</u>	<u>(0.06)</u>	<u>0.35</u>

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OR LOSS

	For the three months ended March 31		For the year ended December 31
	2017	2016	2016
	Unaudited		Audited
	NIS in thousands		
Net income (loss)	54,171	(5,111)	42,402
Other comprehensive loss (after the tax effect):			
Amounts that will be classified or reclassified to profit or loss under specific conditions:			
Other comprehensive income (loss) (after the tax effect):			
Income (loss) in respect of cash flow hedge transactions, net	2,825	(14,403)	(7,809)
Adjustment resulting from the translation of financial statements of activities abroad	(20,735)	13,654	(13,260)
Total other comprehensive loss	(17,910)	(749)	(21,069)
Total comprehensive income (loss)	36,261	(5,860)	21,333
Total comprehensive loss attributable to:			
Company shareholders	36,116	(4,635)	22,902
Non-controlling interests	145	(1,225)	(1,569)
	36,261	(5,860)	21,333

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

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>

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

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, 2016 (Audited)	158,495	275,450	(11,096)	(267,200)	629,525	785,174	45,679	830,853
Net income (loss)	-	-	-	-	(6,331)	(6,331)	1,220	(5,111)
Other comprehensive income (loss)	-	-	(11,557)	13,253	-	1,696	(2,445)	(749)
Total comprehensive income (loss)	-	-	(11,557)	13,253	(6,331)	(4,635)	(1,225)	(5,860)
Share-based payment	-	-	861	-	-	861	16	877
Balance as at March 31, 2016	<u>158,495</u>	<u>275,450</u>	<u>(21,792)</u>	<u>(253,947)</u>	<u>623,194</u>	<u>781,400</u>	<u>44,470</u>	<u>825,870</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to the Company's shareholders							Non-controlling interests	Total equity
	Share capital	Share premiums	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total			
	Unaudited								
	NIS in thousands								
Balance as at January 1, 2016 (Audited)	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 at December 31, 2016 (Audited)	158,495	275,450	(14,353)	(277,959)	654,301	795,934	44,175	840,109	

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended March 31		For the year ended December 31
	2017	2016	2016
	Unaudited		Audited
	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES			
Net income (loss)	54,171	(5,111)	42,402
Adjustments needed to present cash flows from operating activities:			
Adjustments to the profit and loss items:			
Increase in value of investment property and investment property under construction, net	-	(126)	(23,179)
Finance expenses, net	22,376	30,912	111,810
Capital loss	-	54	59
Depreciation and amortization	1,597	1,336	5,933
Taxes on income (tax benefit)	(38,474)	14,395	32,812
Change in liabilities for employee benefits, net	-	-	62
Share-based payment cost	728	877	2,923
	(13,773)	47,448	130,420
Changes in asset and liability items:			
Decrease (increase) in customers	192	(2,198)	(2,229)
Decrease (increase) in debtors and receivables	(3,140)	2,050	1,507
Increase (decrease) in liabilities to suppliers and service providers	(7,873)	(2,627)	6,442
Increase (decrease) in creditors and payables	9,719	5,584	(3,036)
	(1,102)	2,809	2,684
Cash paid and received during the year for:			
Interest paid	(40,050)	(37,622)	(105,634)
Interest received	698	395	3,553
Dividend received	29	25	85
Taxes paid	(1,576)	(1,252)	(4,058)
Taxes received	-	361	361
	(40,899)	(38,093)	(105,693)
Net cash provided by (used in) current activities	(1,603)	7,053	69,813

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended March 31		For the year ended December 31
	2017	2016	2016
	Unaudited		Audited
	NIS in thousands		
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Investment in deposits, net	(6,730)	(1,746)	(8,537)
Proceeds from sale of investment property	-	18,347	27,510
Acquisition of short term investments	(1,156)	(7,071)	(13,161)
Sale of short term investments	1,312	1,597	9,008
Acquisition of hedge transaction	-	(1,200)	(2,291)
Proceeds from transactions of hedge transactions	1,567	-	4,851
Acquisition and investment of investment property	(20,035)	(22,017)	(121,124)
Investment in investment property under construction	(7,901)	(3,603)	(18,159)
Acquisition of fixed assets	(349)	(570)	(1,297)
Proceeds from sale of fixed assets	-	49	518
Capitalization of interest paid for investment property under construction	(825)	-	(985)
Acquisition of intangible assets	(11)	(53)	(338)
Grant of loan to partners in assets in Canada, net	(1,702)	(5,084)	(19,468)
Net cash used in investment activities	(35,830)	(21,351)	(143,473)
CASH FLOWS FROM FINANCE ACTIVITIES			
Receipt (settlement) of short-term loans from banking institutions, net	(764)	-	764
Receipt of long-term loan	24,227	40,500	80,918
Settlement of long-term loans	(235,115)	(23,773)	(79,277)
Dividend paid to Company shareholders	(15,000)	-	-
Settlement of CPI hedging transactions and interest determination	(2,260)	-	(10,837)
Settlement of debentures	(66,248)	(66,449)	(119,990)
Issue of bonds net of issue expenses	346,874	-	156,158
Net cash provided by (used in) finance activities	51,714	(49,722)	27,736
Translation differences in respect of cash balances in foreign entities	(1,509)	1,690	(1,781)
Increase (decrease) in cash and cash equivalents	12,772	(62,330)	(47,705)
Balance of cash and cash equivalents as at the beginning of the period	234,073	281,778	281,778
Balance of cash and cash equivalents as at the end of the period	246,845	219,448	234,073

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended March 31		For the year ended December 31
	2017	2016	2016
	Unaudited		Audited
	NIS in thousands		
SIGNIFICANT ACTIVITIES NOT INVOLVING CASH FLOWS			
Dividend to shareholders	-	-	15,000
Acquisition of investment property and investment property under construction against creditors, suppliers and service providers	47,413	29,332	40,337

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE 4:- SEGMENTS OF ACTIVITY**a. 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, 2017				
	<u>Israel</u>	<u>Belgium</u>	<u>Poland</u>	<u>Canada</u>	<u>Total</u>
	Unaudited				
	NIS in thousands				
Income from leasing of properties	16,757	3,144	16,288	18,541	54,730
Deduction of deferred incentives to lessees	(44)	-	(170)	(1,105)	(1,319)
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.)

	For the period of three months ended as at March 31, 2016				
	<u>Israel</u>	<u>Belgium</u>	<u>Poland</u>	<u>Canada</u>	<u>Total</u>
	Unaudited				
	NIS in thousands				
Income from leasing of properties	15,499	3,520	18,982	17,582	55,583
Deduction of deferred incentives to lessees	(47)	-	(167)	(849)	(1,063)
Increase in value of investment property, net	-	-	126	-	126
Total income	<u>15,452</u>	<u>3,520</u>	<u>18,941</u>	<u>16,733</u>	<u>54,646</u>
Segment results	<u>9,089</u>	<u>3,080</u>	<u>15,171</u>	<u>12,910</u>	<u>40,250</u>
Finance income					(6,973)
Finance expenses					<u>(23,939)</u>
Net finance expenses					<u>(30,912)</u>
Income before capital loss					9,338
Capital loss					<u>(54)</u>
Income before taxes on income					<u>9,284</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, 2016				
	Israel	Belgium	Poland	Canada	Total
	Audited				
NIS in thousands					
Income:					
Income from leasing of properties before amortization	64,929	13,866	73,430	74,090	226,315
Deduction of deferred incentives to lessees	(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)
Net finance expenses					(111,810)
Income before capital gain					75,273
Capital loss					(59)
Income before taxes on income					75,214
