



Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 6100601, Israel
+ 972 3 684 8000

May 26, 2019

Alrov Properties and Lodgings Ltd.
Tel Aviv

Dear Sirs,

At your request and as the auditors of your Company, we hereby confirm that consolidated statement of financial position, consolidated statement of income, comprehensive income, changes in shareholders' equity and statements of cash flows, attached hereto and marked with our stamp for purposes of identification, were extracted from the Company's consolidated financial statements as of March 31, 2019. The aforesaid unaudited financial statements also include accompanying notes which are not presented herein.

With respect to the aforementioned consolidated financial statements as at March 31, 2019, we enclosed a review report, which was dated May 26, 2019. A translation of such review report is also attached hereto and marked with our stamp for purposes of identification.

Sincerely,

Somekh Chaikin
Somekh Chaikin
Certified Public Accountants (Isr.)

Alrov Properties and Lodgings Ltd.

**Consolidated Financial Statements
As of March 31, 2019
(Unaudited)**



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FOR IDENTIFICATION
PURPOSES ONLY

DATE: May 26, 2019



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Review Report to the Shareholders of Alrov Properties and Lodging Ltd.

Introduction

We have reviewed the accompanying financial information of Alrov Properties and Lodgings Ltd, and its subsidiaries (hereinafter – “the Group”) comprising of the condensed consolidated interim statement of financial position as of March 31, 2019 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “*Interim Financial Reporting*”, and are also responsible for the preparation of financial information for this interim period in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries whose assets constitute 42% of the total consolidated assets as of March 31, 2019 and whose revenues constitute 43% of the total consolidated revenues for the three month period then ended. Furthermore, we did not review the condensed interim financial information of equity accounted investees the investment in which amounted to NIS 471 thousand as of March 31, 2019, and the Group’s share in their profits amounted to NIS 82 thousand for the three month period then ended. The condensed interim financial information of those companies was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” of the Institute of Certified Public Accountants in Israel. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34.

In addition to that mentioned in the previous paragraph, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Sincerely,

Somekh Chaikin
Certified Public Accountants (Isr.)

May 26, 2019

Somekh Chaikin, an Israeli partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

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Alrov Properties and Lodgings Ltd.
and its subsidiaries

Condensed Consolidated Interim Statement of Financial Position

	March 31 2019 (Unaudited) NIS thousands	March 31 2018 (Unaudited) NIS thousands	December 31 2018 (Audited) NIS thousands
Assets			
Cash and cash equivalents	79,556	84,908	81,392
Security at fair value through profit or loss	514,414	720,406	504,352
Trade receivables	35,694	38,421	49,433
Other receivables and debits	50,975	68,710	45,280
Current tax assets	3,646	8,122	4,394
Hotelier inventory	25,147	20,916	25,924
Apartments inventory	61,415	65,258	61,388
Total current assets	770,847	1,006,741	772,163
Investments in investee companies accounted for by equity method	471	294	410
Other investments at fair value through profit or loss	4,658	9,866	5,045
Receivables for long-term	7,779	9,246	8,838
Investment property	7,810,550	6,850,892	8,010,969
Fixed assets cost model	174,616	183,004	170,478
Fixed assets – revaluation model	4,833,246	3,320,850	5,003,246
Fixed assets under construction	-	1,314,659	-
Intangible assets	185,986	197,415	195,718
Deferred tax	27,765	35,617	27,062
Total non-current assets	13,045,071	11,921,843	13,421,766
Total assets	13,815,418	12,928,584	14,193,929



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Alrov Properties and Lodgings Ltd.
and its subsidiaries

Condensed Consolidated Interim Statement of Financial Position (cont'd)

	March 31 2019 (Unaudited) NIS thousands	March 31 2018 (Unaudited) NIS thousands	December 31 2018 (Audited) NIS thousands
Credit from banks	569,956	1,978,228	581,271
Current maturities of loans from banks	234,331	320,095	65,434
Current maturities of debentures	200,082	199,660	201,031
Short term employee benefits	16,034	12,427	16,302
Trade payable	142,811	59,333	165,108
Other payable, including derivatives	236,712	268,125	261,733
Current tax liabilities	40,530	35,768	42,151
Total current liabilities	1,440,456	2,873,636	1,333,030
Loans from banks	5,523,711	3,532,375	5,871,856
Debentures	785,332	925,497	788,489
Loans from others	57,600	5,766	55,218
Employee benefits	13,786	14,403	13,616
Deposits	15,456	17,381	17,318
Deferred tax liabilities	1,126,312	1,071,240	1,159,263
Total non-current liabilities	7,522,197	5,566,662	7,905,760
Total liabilities	8,962,653	8,440,298	9,238,790
Equity			
Share capital	37,801	37,868	37,868
Share premium	371,895	376,677	376,677
Capital reserve from merging	279,426	279,426	279,426
Revaluation reserve for fixed assets, net of tax	679,347	572,307	679,941
Translation reserve from foreign operations	(117,025)	(86,999)	(48,484)
Reserve from transactions with non-controlling interests	4,567	4,567	4,567
Retained earnings	3,160,121	2,910,555	3,161,910
Total equity attributable to equity holders of the Company	4,416,132	4,094,401	4,491,905
Non-controlling interests	437,133	393,885	463,234
Total equity	4,853,265	4,488,286	4,955,139
Total equity and liabilities	13,815,918	12,928,584	14,193,929

Alfred Akirov
Chairman of the Board

Meir Elhakham
CEO temporary stand in and Financial
Manager

Date of approval of the financial statements: Tel Aviv, May 26, 2019

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Alrov Properties and Lodgings Ltd.
and its subsidiaries

Condensed Consolidated Interim Income Statements

	For the three months ended March 31		For the year ended December 31
	2019	2018	
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Revenues			
Hotel operations	134,568	105,472	594,669
Rent and housing for the elderly	86,352	81,328	348,943
Sale of apartments	-	12,906	19,128
Maintenance of housing for the elderly	1,535	1,487	6,056
Income from property management	10,757	11,710	46,677
Gain from securities at fair value through profit or loss and other income	38,210	15,536	100,377
Increase in fair value of investment property	-	-	274,307
The company share in equity profits of affiliated companies, net of tax	82	35	1,224
	<u>271,504</u>	<u>228,474</u>	<u>1,391,386</u>
Expenses			
Hotel operations	140,413	99,423	491,037
Hotel pre-opening expenses	-	5,560	20,099
Hotel depreciation	35,501	25,451	114,813
Total expenses from hotel operation	175,914	130,434	625,949
Operation of other assets	16,969	8,444	52,148
Cost of apartments sold	-	10,674	14,684
Maintenance of housing for the elderly	1,807	1,638	6,976
Property management expenses	9,993	10,871	43,593
Depreciation general and administrative	3,547	3,288	13,213
Administrative and general	16,295	16,288	79,527
Loss from securities at fair value through profit or loss and other expenses	820	538	5,690
The company share in equity losses of affiliated companies, net of tax	-	5,611	-
	<u>225,345</u>	<u>187,786</u>	<u>841,780</u>
Income from operations	<u>46,159</u>	<u>40,688</u>	<u>549,606</u>
Financing expenses			
Financing income	-	-	836
Financing expenses	(37,366)	(7,631)	(106,240)
Financing expenses, net	<u>(37,366)</u>	<u>(7,631)</u>	<u>(105,404)</u>
Profit before taxes on income	8,793	33,057	444,202
Income (expenses) taxes on income	1,907	(11,589)	(79,137)
Net income for the period	<u>10,700</u>	<u>21,468</u>	<u>365,065</u>
Attributable to:			
The equity holders of the company	13,296	21,906	321,867
Non-controlling interests	(2,596)	(438)	43,198
Net income for the period	<u>10,700</u>	<u>21,468</u>	<u>365,065</u>
Net income per share – in NIS			
Basic and fully diluted	0.55	0.91	13.31



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Condensed Consolidated Interim Statement of Comprehensive Income

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Net earnings for the period	10,700	21,468	365,065
Other comprehensive income (loss) item that after initial recognition in comprehensive income will be transferred to profit or loss			
Foreign currency translation differences for foreign operations	(87,077)	66,699	116,664
Total other comprehensive income (loss) for the period that after initial recognition in comprehensive income will be transferred to profit or loss	(87,077)	66,699	116,664
Other comprehensive income (loss) items that will not be transferred to profit or loss			
Remeasurement of defined benefit plan, net of tax	-	-	895
Revaluation of fixed assets, net of tax	(703)	(6,131)	120,233
Total other comprehensive income (loss) for the period that will not be transferred to profit or loss	(703)	(6,131)	121,128
Total comprehensive income (loss) for the period	(77,080)	82,036	602,857
Total comprehensive income (loss) attributable to:			
Equity holders of the company	(55,839)	69,484	516,409
Non-controlling interests	(21,241)	12,552	86,448
Total comprehensive income (loss) for the period	(77,080)	82,036	602,857

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Alrov Properties and Lodgings Ltd.
and its subsidiaries

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital NIS thousands	Share premium NIS thousands	Capital reserve from merging NIS thousands	Revaluation reserve for fixed assets NIS thousands	Reserve from transactions with non-controlling interests NIS thousands	Translation reserve from foreign operations NIS thousands	Retained earnings NIS thousands	Total NIS thousands	Non-controlling interests NIS thousands	Total equity NIS thousands
Balance at January 1, 2019	37,868	376,677	279,426	679,941	4,567	(48,484)	3,161,910	4,491,905	463,234	4,955,139
Balance at January 1, 2019	-	-	-	-	-	-	13,296	13,296	(2,596)	10,700
Net income for the period	-	-	-	-	-	-	-	-	(109)	(703)
Other comprehensive income (loss)	-	-	-	(594)	-	-	-	(594)	(18,536)	(87,077)
Revaluation of fixed assets, net of tax	-	-	-	(594)	-	-	-	(594)	(21,241)	(77,080)
Foreign currency translation differences for foreign operations	-	-	-	-	-	(68,541)	-	(68,541)	-	-
Total other comprehensive income (loss)	-	-	-	(594)	-	(68,541)	13,296	(55,839)	-	-
Transaction with owners that were recognized directly in equity:	(67)	(4,782)	-	-	-	-	-	(4,849)	-	(4,849)
Acquisition of treasury shares	-	-	-	-	-	-	(15,085)	(15,085)	-	(15,085)
Proposed dividend	-	-	-	-	-	-	-	-	(4,860)	(4,860)
Dividend payable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2019	37,801	371,895	279,426	679,347	4,567	(117,025)	3,160,121	4,416,132	437,113	4,853,265



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Condensed Consolidated Interim Statements of Changes in Equity (cont'd)

	Share capital NIS thousands	Share premium NIS thousands	Capital reserve from merging NIS thousands	Revaluation reserve for fixed assets NIS thousands	Reserve from transactions with non- controlling interests NIS thousands	Translation reserve from foreign operations NIS thousands	Retained earnings NIS thousands	Total NIS thousands	Non- controlling interests NIS thousands	Total equity NIS thousands
Balance at January 1, 2018	37,868	376,677	279,426	577,345	4,567	(139,615)	2,923,402	4,059,670	393,414	4,453,084
First time adoption of IFRS 15	-	-	-	-	-	-	717	717	-	717
Balance at January 1, 2018, after the first time adoption	37,868	376,677	279,426	577,345	4,567	(139,615)	2,924,119	4,060,387	393,414	4,453,801
Net income for the period	-	-	-	-	-	-	21,906	21,906	(438)	21,468
Other comprehensive income (loss)										
Revaluation of fixed assets, net of tax	-	-	-	(5,038)	-	-	-	(5,038)	(1,093)	(6,131)
Foreign currency translation differences for foreign operations	-	-	-	-	-	52,616	-	52,616	14,083	66,699
Total other comprehensive income (loss)	-	-	-	(5,038)	-	52,616	21,906	69,484	12,552	82,036
Transaction with owners that were recognized directly in equity:										
Proposed dividend	-	-	-	-	-	-	(35,470)	(35,470)	-	(35,470)
Dividend payable to non-controlling interests	-	-	-	-	-	-	-	-	(12,081)	(12,081)
Balance at March 31, 2018	37,868	376,677	279,426	572,307	4,567	(86,999)	2,910,555	4,094,401	393,885	4,488,286



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Condensed Consolidated Interim Statements of Changes in Equity (cont'd)

	Share capital NIS thousands	Share premium NIS thousands	Capital reserve from merging NIS thousands	Revaluation reserve for fixed assets NIS thousands	Reserve from transactions with non-controlling interests NIS thousands	Translation reserve from foreign operations NIS thousands	Retained earnings NIS thousands	Total NIS thousands	Non-controlling interests NIS thousands	Total equity NIS thousands
Balance at January 1, 2018	37,868	376,677	279,426	577,345	4,567	(139,615)	2,923,402	4,059,670	393,414	4,453,084
First time adoption of IFRS 15	-	-	-	-	-	-	717	717	-	717
Balance at January 1, 2018 after the first time adoption	37,868	376,677	279,426	577,345	4,567	(139,615)	2,924,119	4,060,387	393,414	4,453,801
Comprehensive income (loss) for the year:										
Net income for the year	-	-	-	-	-	-	321,867	321,867	43,198	365,065
Other comprehensive income (loss)										
Revaluation of fixed assets, net of tax	-	-	-	102,596	-	-	-	102,596	17,637	120,233
Foreign currency translation differences for foreign operations	-	-	-	-	-	91,131	-	91,131	25,533	116,664
Remeasurement of defined benefit plan, net of tax	-	-	-	-	-	-	815	815	80	895
Total other comprehensive income (loss)	-	-	-	102,596	-	91,131	322,682	516,409	86,448	602,857
Transaction with owners that were recognized directly in equity:										
Dividend paid	-	-	-	-	-	-	(84,891)	(84,891)	-	(84,891)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(16,628)	(16,628)
Balance at December 31, 2018	37,868	376,677	279,426	679,941	4,567	(48,484)	3,161,910	4,491,905	463,234	4,955,139



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Condensed Consolidated Interim Statements of Cash Flows

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities:			
Profit for the period	10,700	21,468	365,065
Adjustments:			
Depreciation	39,048	28,739	128,026
Building expenses	12,609	5,747	34,175
Amortization of costs of raising loans and debentures	(171)	(672)	(1,936)
(Gain) loss from securities and other expenses	(28,953)	(14,499)	(82,623)
The Company's share in equity losses (profits) of investee companies accounted for by the equity method	(82)	(35)	(1,224)
Erosion of deposits, net	(282)	(252)	(519)
Gain from sale of apartments	-	(2,232)	(4,444)
Financing costs, net	33,231	6,800	116,444
Interest paid	(29,017)	(17,491)	(114,803)
Income tax paid, net	(4,893)	(599)	(960)
Increase in fair value of investment property, net	-	5,611	(274,307)
Loss (gain) from early debentures redemption	-	-	-
Income taxes on income	(1,907)	11,589	79,137
Receipt of housing for the elderly deposits	776	1,516	2,868
Repayment of housing for the elderly deposits	(983)	(1,597)	(2,973)
Investment in apartment inventory	(26)	(238)	(378)
Advance on account of apartment inventory (net of tax paid), net	-	7,152	23,196
Capital loss on sale of investment property	-	-	36
Gain on sale of consolidated company	-	-	(11,608)
Loss on sale of investment in investee company	-	-	146
Gain from sale of fixed assets	-	(390)	(115)
	30,050	50,617	253,203
Changes in hotelier inventory	27	(886)	(5,947)
Changes in trade receivables and other receivable	589	605	(11,681)
Changes in long-term receivables	495	(501)	(570)
Changes in current liabilities	9,598	6,840	29,605
Changes in employee benefits	631	1,757	6,241
	11,340	7,815	17,648
Net cash flow provided by current operations	41,390	58,432	270,851
Cash flows from investment activities			
Changes in marketable securities, net of tax	19,278	127,505	399,682
Change in restricted cash	779	792	(17,335)
Dividends received from other investments	-	7,692	25,225
Purchase of investment property	(27,635)	(92,180)	(912,297)
Receipts from selling fixed assets	(4,079)	(31,826)	(247,919)
Taxes paid on sale of investment property	-	-	-
Proceeds from sale of investment properties, less selling expenses	-	26,839	50,975
Receipt of VAT on investment property and fixed assets, net	3,914	1,655	2,385
Long-term receivables, net	216	78	-
Receipt of derivatives, net	24,724	(24,643)	(20,248)
Income tax paid on marketable securities	-	-	(706)
Consideration from sale of investment in investee company	-	-	1,216
Receipts from selling fixed	-	-	115
Consideration from sale of consolidated company less cash disposal	-	-	47,305
Change in long-term receivables, net	-	-	(168)
Investment grant received	-	-	2,500
Net cash provided by (used in) investment activities	17,197	15,912	(669,270)



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Condensed Consolidated Interim Statements of Cash Flows (cont'd)

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Cash flows from financing activities			
Credit from banks, net	14,149	(249,210)	20,002
Receipt of long-term loans from banks, less raising expenses	20,388	79,650	604,652
Repayment of long-term loans from banks	(14,584)	(29,405)	(110,157)
Repayment of credit from real estate sellers	(41,051)	(76,757)	(109,505)
Change of rent deposit, net	(1,364)	2,080	1,859
Repayment of debentures	(1,645)	(2,424)	(191,167)
Dividends paid	(25,686)	-	(59,890)
Dividends paid non-controlling interests	(1,620)	(5,064)	(9,171)
Proceeds from issuance of debentures, less issuance expenses	-	183,831	223,750
Pasment for lease	(461)	-	-
Repurchase of own shares	(4,849)	-	-
Net cash flows provided by (used in) financing activities	(56,723)	(97,299)	370,373
Increase in cash and cash equivalents	1,864	(22,955)	(28,046)
Cash and cash equivalents at beginning of year	81,392	104,095	104,095
Effect of change in exchange rate on balance of cash and cash equivalents	(3,700)	3,768	5,343
Cash and cash equivalents at end of period	79,556	84,908	81,392



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