

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

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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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, 2013 and 2012 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, 2013, 2012 and 2011, and in our report dated March 20, 2014, we expressed an unqualified opinion on those financial statements.

The accompanying financial statements are condensed 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
April 24, 2013

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2013	2012
	NIS in thousands	
CURRENT ASSETS		
Cash and cash equivalents	309,485	181,598
Short-term investments	5	17
Customers	12,745	11,156
Deposits	29,586	32,593
Debtors and receivables	10,397	8,020
Current taxes receivable	6,257	10,938
Derivatives	8,885	1,291
	<u>377,360</u>	<u>245,613</u>
Non-current assets designated for sale	<u>381,414</u>	<u>-</u>
	<u>758,774</u>	<u>245,613</u>
NON-CURRENT ASSETS		
Deposit	20,662	-
Derivatives	-	400
Loans	13,778	8,835
Fixed assets	15,519	17,230
Investment property	2,649,017	2,903,661
Investment property under construction	151,518	97,370
Intangible assets	23	71
Deferred taxes	5,554	17,205
	<u>2,856,071</u>	<u>3,044,772</u>
	<u><u>3,614,845</u></u>	<u><u>3,290,385</u></u>

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2013	2012
	NIS in thousands	
CURRENT LIABILITIES		
Credit from banking institutions and current maturities of long-term loans	155,381	179,273
Current maturities of debentures	145,507	125,297
Liabilities to suppliers and service providers	8,707	7,621
Income taxes payable	193	15
Creditors and payables	69,312	103,548
Derivatives	11,831	10,743
	<u>390,931</u>	<u>426,497</u>
Liabilities attributable to assets designated for sale	165,050	-
	<u>555,981</u>	<u>426,497</u>
NON CURRENT LIABILITIES		
Loans from banking institutions and other financial institutions	1,183,085	1,273,287
Debentures	833,584	562,752
Derivatives	22,519	34,621
Employee benefit liabilities, net	87	87
Deferred taxes	143,029	126,494
	<u>2,182,304</u>	<u>1,997,241</u>
EQUITY		
Share capital	155,890	155,768
Share premium	257,523	256,643
Other reserves	(10,364)	(23,789)
Foreign currency translation adjustments of foreign activities	(141,452)	(52,401)
Retained earnings	575,968	530,426
	<u>837,565</u>	<u>866,647</u>
Total equity attributable the Company's shareholders	837,565	866,647
Non-controlling interest	38,995	-
	<u>876,560</u>	<u>866,647</u>
Total equity	<u>3,614,845</u>	<u>3,290,385</u>

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Year ended December 31,		
	2013	2012	2011
	NIS in thousands		
INCOME			
Revenues from rental of properties			
Increase in value of investment property and investment property under construction, net	199,566 122,417	197,170 75,318	191,468 139,328
	<u>321,983</u>	<u>272,488</u>	<u>330,796</u>
EXPENSES			
Maintenance of properties, net	14,155	13,799	23,586
General and administrative	33,284	33,749	36,700
Issue expenses	8,817	-	-
	<u>56,256</u>	<u>47,548</u>	<u>60,286</u>
Income before financing	<u>265,727</u>	<u>224,940</u>	<u>270,510</u>
Finance income	3,965	5,315	4,010
Finance expenses	(131,692)	(131,130)	(162,911)
Finance expenses, net	<u>(127,727)</u>	<u>(125,815)</u>	<u>(158,901)</u>
Income before capital gain (loss)	138,000	99,125	111,609
Capital gain (loss)	35	33	(19)
Income before taxes on income	<u>138,035</u>	<u>99,158</u>	<u>111,590</u>
Taxes on income	47,586	28,564	35,949
Net income	<u>90,449</u>	<u>70,594</u>	<u>75,641</u>
Attributable to:			
Company's shareholders	74,236	70,594	75,641
Non-controlling interests	16,213	-	-
	<u>90,449</u>	<u>70,594</u>	<u>75,641</u>
Earnings per share:			
Net earnings per share attributable to Company's shareholders (in NIS):			
Basic net earnings	0.66	0.63	0.67
Diluted net earnings	<u>0.66</u>	<u>0.63</u>	<u>0.67</u>

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2013	2012	2011
	NIS in thousands		
Net income	90,449	70,594	75,641
Other comprehensive income (loss) (after the tax effect):			
Amounts that will not be reclassified subsequently to profit or loss:			
Revaluation in respect of change in classification of fixed assets and investment property	-	-	593
Amounts that will be classified or reclassified to profit or loss under specific conditions:			
Profit (loss) in respect of cash flow hedges, net	9,831	(9,213)	(7,084)
Adjustments resulting from translation of financial statements of foreign activities	(92,672)	1,699	43,741
Total other comprehensive income (loss)	(82,841)	(7,514)	37,250
Total comprehensive income	7,608	63,080	112,891
Total comprehensive income attributable to:			
Company shareholders	(9,653)	63,080	112,891
Non-controlling interests	17,261	-	-
	7,608	63,080	112,891

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company							
	Share capital	Share premium	Other reserves	Foreign currency translation adjustments	Retained earnings	Total	Non-controlling interests	Total equity
				of foreign activities				
NIS In thousands								
Balance as of January 1, 2011	155,768	256,643	(18,338)	(97,841)	449,191	745,423	-	745,423
Net income	-	-	-	-	75,641	75,641	-	75,641
Total other comprehensive income	-	-	(6,491)	43,741	-	37,250	-	37,250
Total comprehensive income (loss)	-	-	(6,491)	43,741	75,641	112,891	-	112,891
Share-based payment	-	-	7,413	-	-	7,413	-	7,413
Dividend to Company shareholders	-	-	-	-	(30,000)	(30,000)	-	(30,000)
Balance as of December 31, 2011	155,768	256,643	(17,416)	(54,100)	494,832	835,727	-	835,727
Net income	-	-	-	-	70,594	70,594	-	70,594
Total other comprehensive income (loss)	-	-	(9,213)	1,699	-	(7,514)	-	(7,514)
Total comprehensive income (loss)	-	-	(9,213)	1,699	70,594	63,080	-	63,080
Share-based payment	-	-	2,840	-	-	2,840	-	2,840
Dividend to Company shareholders	-	-	-	-	(35,000)	(35,000)	-	(35,000)
Balance as of December 31, 2012	155,768	256,643	(23,789)	(52,401)	530,426	866,647	-	866,647
Net income	-	-	-	-	74,236	74,236	16,213	90,449
Total other comprehensive income (loss)	-	-	8,682	(92,571)	-	(83,889)	1,048	(82,841)
Total comprehensive income (loss)	-	-	8,682	(92,571)	74,236	(9,653)	17,261	7,608
Issue of shares in subsidiary to non-controlling interest	-	-	4,900	3,520	(8,694)	(274)	21,734	21,460
Share-based payment cost	-	-	723	-	-	723	-	723
Realization of options into Company shares	122	880	(880)	-	-	122	-	122
Dividend to Company shareholders	-	-	-	-	(20,000)	(20,000)	-	(20,000)
Balance as of December 31, 2013	155,890	257,523	(10,364)	(141,452)	575,968	837,565	38,995	876,560

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2013	2012	2011
	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES			
Net income	90,449	70,594	75,641
Adjustments required to present cash flows from current activities:			
Adjustments to the profit or loss items:			
Increase in value of investment property and investment property under construction, net	(122,417)	(75,318)	(139,328)
Finance expenses, net	127,727	125,815	158,901
Capital loss (gain)	(35)	(33)	19
Depreciation and amortization	7,790	7,824	7,346
Taxes on income	47,586	28,564	35,949
Change in employee benefit liabilities, net	-	64	13
Share-based payment cost	723	2,840	7,413
	61,374	89,756	70,313
Changes in asset and liability items:			
Decrease (increase) in customers	(2,150)	(1,687)	5,415
Decrease (increase) in debtors and receivables	(6,263)	3,103	1,080
Increase (decrease) in liabilities to suppliers and service providers	(173)	1,027	(3,565)
Increase (decrease) in creditors and payables	(25,025)	29,395	8,592
	(33,611)	31,838	11,522
Cash paid and received during the year for:			
Interest paid	(107,943)	(124,316)	(132,655)
Interest received	5,836	3,514	6,357
Dividend received	-	-	458
Taxes paid	(1,544)	(18,186)	(11,299)
Taxes received	1,082	1,681	150
	(102,569)	(137,307)	(136,989)
Net cash provided by current activities	15,643	54,881	20,487

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2013	2012	2011
	NIS in thousands		
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Investment in deposits, net	(30,626)	-	(7,056)
Proceeds from sale of investment property	13,308	220,320	15,642
VAT refund for investment property	-	-	70,925
Purchase of short term investments	-	-	(93,068)
Sale of short term investments	-	41,892	95,127
Purchase of hedging transaction	(4,116)	-	-
Proceeds from sale of hedging transactions	377	-	-
Purchase of investment property	(208,531)	(30,098)	(47,856)
Purchase of investment property under construction	(39,591)	(5,510)	(11,563)
Acquisition of subsidiary	-	-	(16,719)
Purchase of fixed assets	(2,445)	(1,673)	(384)
Capitalization of interest paid to investment property under construction	(6,705)	-	-
Purchase of intangible assets	(6)	(18)	(53)
Proceeds from sale of fixed assets	192	1,682	136
Grant of loan to partners in assets in Canada, net	(5,771)	-	-
Settlement (grant) of loan to lessee, net	204	189	(556)
Net cash provided by (used in) investment activities	(283,710)	226,784	4,575
CASH FLOWS FROM FINANCE ACTIVITIES			
Settlement of short-term credit from banking institution	(4,742)	(33,390)	(69,271)
Receipt of long-term loans	250,932	44,022	75,320
Settlement of long-term loans	(110,973)	(79,651)	(82,051)
Dividend paid to shareholders of the Company	(30,000)	(25,000)	(30,000)
Issue of shares to non-controlling interests in subsidiary of the Company	21,460	-	-
Realization of options to shares	122	-	-
Settlement of bonds	(110,628)	(109,375)	(113,701)
Early settlement of bonds	-	(9,425)	(7,920)
Issue of bonds net of issue expenses	388,998	-	196,603
Net cash provided by (used in) finance activities	405,169	(212,819)	(31,020)
Translation differences for cash balances in foreign investees	(9,215)	80	4,326
Increase (decrease) in cash and cash equivalents	127,887	68,926	(1,632)
Balance of cash and cash equivalents at beginning of the year	181,598	112,672	114,304
Balance of cash and cash equivalents at end of the year	309,485	181,598	112,672

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2013	2012	2011
	NIS in thousands		
Significant non-cash transactions			
Dividend declared but not yet paid	-	10,000	-
Purchase of fixed assets and investment property against suppliers and service providers	6,005	9,134	8,643
Purchase of investment property under construction against creditors and payables	7,500	-	-

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 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 income tax assets and liabilities.

b. Segment of activity informationOperating results

	Year ended December 31, 2013				Total
	Israel	Belgium	Poland	Canada	
	NIS in thousands				
Income					
Income from rental of properties before amortization	46,223	16,398	59,794	83,108	205,523
Amortization of tenant inducements	(203)	-	(787)	(4,967)	(5,957)
Increase in value of investment property and investment property under construction, net	5,070	2,330	79,303	35,714	122,417
Total income	51,090	18,728	138,310	113,855	321,983
Segment results	31,037	15,786	127,199	91,705	265,727
Finance income					3,965
Finance expenses					(131,692)
Finance expenses, net					(127,727)
Income before capital gain					138,000
Capital gain					35
Income before taxes on income					138,035
Taxes on income					47,586
Net income					90,449
Depreciation and amortization	947	33	1,656	5,154	7,790
Capital investments	31,055	1,420	183,431	41,372	257,278

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- SEGMENTS OF ACTIVITY (Cont.)

b. Segment of activity information (Cont.)

	Year ended December 31, 2012				Total
	Israel	Belgium	Poland	Canada	
	NIS in thousands				
Income					
Income from rental of properties before deprecation	44,895	14,209	46,867	97,566	203,537
Amortization of tenant inducements	(65)	-	(704)	(5,598)	(6,367)
Increase (decrease) in value of investment property and investment property under construction, net	(366)	1,761	3,652	70,271	75,318
Total income	44,464	15,970	49,815	162,239	272,488
Segment results	21,889	10,774	44,016	148,261	224,940
Finance income					5,315
Finance expenses					(131,130)
Finance expenses, net					(125,815)
Income before capital gain					99,125
Capital gain					33
Income before taxes on income					99,158
Taxes on income					28,564
Net income					70,594
Depreciation and amortization	959	45	937	5,883	7,824
Capital investments	14,640	4,502	4,055	14,102	37,299

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- SEGMENTS OF ACTIVITY (Cont.)

b. Segment of activity information (Cont.)

	Year ended December 31, 2011				Total
	Israel	Belgium	Poland	Canada	
	NIS in thousands				
Income					
Income from rental of properties before deprecation	41,651	10,015	42,062	103,432	197,160
Amortization of tenant inducements	(12)	-	(225)	(5,455)	(5,692)
Increase in value of investment property and investment property under construction, net	10,953	5,925	26,000	96,450	139,328
Total income	52,592	15,940	67,837	194,427	330,796
Segment results	29,711	10,312	58,095	172,392	270,510
Finance income					4,010
Finance expenses					(162,911)
Finance expenses, net					(158,901)
Income before capital gain					111,609
Capital gain					(19)
Income before taxes on income					111,590
Taxes on income					35,949
Net income					75,641
Depreciation and amortization	1,116	51	455	5,724	7,346
Capital investments	10,452	1,690	38,465	25,968	76,575

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- SEGMENTS OF ACTIVITY (Cont.)

b. Segment of activity information (Cont.)Assets used by the segments

	December 31,	
	2013	2012
	NIS in thousands	
Israel	1,154,063	943,394
Belgium	251,489	253,302
Poland	938,855	675,262
Canada	1,246,621	1,390,284
Unallocated assets	23,817	28,143
	<u>3,614,845</u>	<u>3,290,385</u>

Liabilities used by the segments

	December 31,	
	2013	2012
	NIS in thousands	
Israel	1,419,977	1,159,980
Belgium	162,552	134,889
Poland	460,564	418,986
Canada	550,218	583,374
Unallocated liabilities	144,974	126,509
	<u>2,738,285</u>	<u>2,423,738</u>
