

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

**ADGAR INVESTMENTS AND DEVELOPMENT LIMITED**

**CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2014**

**ADGAR INVESTMENTS AND DEVELOPMENT LIMITED**

**CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2014**

**INDEX**

	<u>Page</u>
<b>Accompanying letter to the financial statements</b>	<b>2</b>
<b>Condensed Consolidated Statements of Financial position</b>	<b>3-4</b>
<b>Condensed Consolidated Statements of Profit or Loss</b>	<b>5</b>
<b>Condensed Consolidated Statements of Comprehensive Income</b>	<b>6</b>
<b>Condensed Consolidated Statements of Changes in Equity</b>	<b>7</b>
<b>Condensed Consolidated Statements of Cash Flows</b>	<b>8-10</b>
<b>Notes 1 - Segments of Activity</b>	<b>11-14</b>

-----



**Kost Forer Gabbay & Kasierer**  
3 Aminadav St.  
Tel-Aviv 6706703, Israel

Tel: +972-3-6232525  
Fax: +972-3-5622555  
ey.com

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, 2014 and 2013 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, 2014, 2013 and 2012, and in our report dated March 18, 2015 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  
March 26, 2015

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

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>NIS in thousands</b>	
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	394,810	309,485
Short-term investments	50,035	5
Customers	12,618	12,745
Deposits	13,022	29,586
Debtors and receivables	39,417	10,398
Current taxes receivable	7,766	6,257
Derivatives	4,812	8,885
	<u>522,480</u>	<u>377,361</u>
Non-current assets designated for sale	-	381,414
	<u>522,480</u>	<u>758,775</u>
<b>NON-CURRENT ASSETS</b>		
Deposit	30,632	20,662
Debtors	11,221	-
Loans	11,826	13,778
Fixed assets, net	14,605	15,519
Investment property	3,029,862	2,649,017
Investment property under construction	239,881	151,518
Intangible assets	12	23
Deferred taxes	1,450	2,723 *)
	<u>3,339,489</u>	<u>2,853,240 *)</u>
	<u><u>3,861,969</u></u>	<u><u>3,612,015 *)</u></u>

\*) Change in accounting policy.

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>NIS in thousands</b>	
<b>CURRENT LIABILITIES</b>		
Credit from banking institutions and current maturities of long-term loans	253,486	155,381
Current maturities of debentures	216,655	145,507
Liabilities to suppliers and service providers	16,676	8,707
Income taxes payable	19,237	193
Creditors and payables	79,396	69,313
Derivatives	15,801	11,831
	<u>601,251</u>	<u>390,932</u>
Liabilities attributable to assets designated for sale	-	165,050
	<u>601,251</u>	<u>555,982</u>
<b>NON CURRENT LIABILITIES</b>		
Loans from banking institutions and other financial institutions	1,300,837	1,183,085
Debentures	861,772	833,584
Derivatives	30,338	22,519
Employee benefit liabilities, net	148	87
Deferred taxes	146,096	149,352 *)
	<u>2,339,191</u>	<u>2,188,627 *)</u>
<b>EQUITY</b>		
Share capital	157,414	155,890
Share premium	266,511	257,523
Other reserves	(13,707)	(10,364)
Foreign currency translation adjustments of foreign activities	(137,516)	(139,394) *)
Retained earnings	602,972	564,756 *)
Total equity attributable to the Company's shareholders	<u>875,674</u>	<u>828,411 *)</u>
Non-controlling interest	45,853	38,995
Total equity	<u>921,527</u>	<u>867,406 *)</u>
	<u><u>3,861,969</u></u>	<u><u>3,612,015 *)</u></u>

\*) Change in accounting policy.

**ADGAR INVESTMENTS AND DEVELOPMENT LIMITED**

**CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>NIS in thousands</b>		
	<b>(Except for basic and diluted earnings per share)</b>		
<b>INCOME</b>			
Revenues from rental of properties	182,096	199,566	197,170
Increase in value of investment property and investment property under construction, net	80,673	122,417	75,318
	<u>262,769</u>	<u>321,983</u>	<u>272,488</u>
<b>EXPENSES</b>			
Maintenance of properties, net	14,850	14,155	13,799
General and administrative	33,661	33,284	33,749
Issue expenses	-	8,817	-
	<u>48,511</u>	<u>56,256</u>	<u>47,548</u>
Income before financing	<u>214,258</u>	<u>265,727</u>	<u>224,940</u>
Finance income	6,535	3,965	5,315
Finance expenses	(118,972)	(131,692)	(131,130)
Finance expenses, net	<u>(112,437)</u>	<u>(127,727)</u>	<u>(125,815)</u>
Income before capital gain	101,821	138,000	99,125
Capital gain	2	35	33
Income before taxes on income	<u>101,823</u>	<u>138,035</u>	<u>99,158</u>
Taxes on income	26,439	40,150 *)	28,406 *)
Net income	<u>75,384</u>	<u>97,885 *)</u>	<u>70,752 *)</u>
Attributable to:			
Company's shareholders	68,216	81,672 *)	70,752 *)
Non-controlling interests	7,168	16,213	-
	<u>75,384</u>	<u>97,885 *)</u>	<u>70,752 *)</u>
Earnings per share:			
Net earnings per share attributable to Company's shareholders (in NIS):			
Basic net earnings	0.61	0.73 *)	0.63
Diluted net earnings	<u>0.60</u>	<u>0.73 *)</u>	<u>0.63</u>

\*) Change in accounting policy.

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
Net income	75,384	97,885 *)	70,752 *)
Other comprehensive income (loss) (after the tax effect):			
Amounts that will not be reclassified subsequently to profit or loss when specific conditions are met:			
Profit (loss) in respect of cash flow hedge transactions, net	22	9,831	(9,213)
Adjustments resulting from translation of financial statements of foreign activities	1,327	(91,295) *)	1,883 *)
Total other comprehensive income (loss)	1,349	(81,464) *)	(7,330) *)
Total comprehensive income	<u>76,733</u>	<u>16,421 *)</u>	<u>63,422 *)</u>
Total comprehensive income attributable to:			
Company shareholders	69,875	(840) *)	63,422 *)
Non-controlling interests	6,858	17,261	-
	<u>76,733</u>	<u>16,421 *)</u>	<u>63,422 *)</u>

\*) Change in accounting policy.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company							Total equity *)
	Share capital	Share premium	Other reserves	Foreign currency translation adjustments of foreign activities *)	Retained earnings*)	Total *)	Non-controlling interests	
				NIS In thousands				
<b>Balance as of January 1, 2012</b>	155,768	256,643	(17,416)	(53,603)	476,026	817,418	-	817,418
Net income	-	-	-	-	70,752	70,752	-	70,752
Other comprehensive income (loss)	-	-	(9,213)	1,883	-	(7,330)	-	(7,330)
Total comprehensive income (loss)	-	-	(9,213)	1,883	70,752	63,422	-	63,422
Share-based payment	-	-	2,840	-	-	2,840	-	2,840
Dividend to Company shareholders	-	-	-	-	(35,000)	(35,000)	-	(35,000)
<b>Balance as of December 31, 2012</b>	155,768	256,643	(23,789)	(51,720)	511,778	848,680	-	848,680
Net income	-	-	-	-	81,672	81,672	16,213	97,885
Total other comprehensive income (loss)	-	-	8,682	(91,194)	-	(82,512)	1,048	(81,464)
Total comprehensive income (loss)	-	-	8,682	(91,194)	81,672	(840)	17,261	16,421
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)
<b>Balance as of December 31, 2013</b>	155,890	257,523	(10,364)	(139,394)	564,756	828,411	38,995	867,406
Net income	-	-	-	-	68,216	68,216	7,168	75,384
Total other comprehensive income (loss)	-	-	(219)	1,878	-	1,659	(310)	1,349
Total comprehensive income (loss)	-	-	(219)	1,878	68,216	69,875	6,858	76,733
Realization of options into Company shares	1,524	8,988	(3,124)	-	-	7,388	-	7,388
Dividend to Company shareholders	-	-	-	-	(30,000)	(30,000)	-	(30,000)
<b>Balance as of December 31, 2014</b>	157,414	266,511	(13,707)	(137,516)	602,972	875,674	45,853	921,527

\*) Change in accounting policy.



## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
<b>CASH FLOWS FROM CURRENT ACTIVITIES</b>			
Net income	75,384	97,885 *)	70,752 *)
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	(80,673)	(122,417)	(75,318)
Finance expenses, net	112,437	127,727	125,815
Capital gain	(2)	(35)	(33)
Depreciation and amortization	6,048	7,790	7,824
Taxes on income	26,439	40,150 *)	28,406 *)
Change in employee benefit liabilities, net	61	-	64
Share-based payment cost	-	723	2,840
	64,310	53,938 *)	89,598 *)
Changes in asset and liability items:			
Decrease (increase) in customers	119	(2,150)	(1,687)
Decrease (increase) in debtors and receivables	(18,494)	(6,263)	3,103
Increase (decrease) in liabilities to suppliers and service providers	(4,835)	(173)	1,027
Increase (decrease) in creditors and payables	(1,371)	(25,025)	29,395
	(24,581)	(33,611)	31,838
Cash paid and received during the year for:			
Interest paid	(101,988)	(107,943)	(124,316)
Interest received	5,665	5,836	3,514
Dividend received	163	-	-
Taxes paid	(17,969)	(1,544)	(18,186)
Taxes received	1,205	1,082	1,681
	(112,924)	(102,569)	(137,307)
Net cash provided by current activities	2,189	15,643	54,881

\*) Change in accounting policy.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>			
Investment in deposits, net	6,511	(30,626)	-
Proceeds from sale of investment property	358,733	13,308	220,320
Purchase of short term investments	(59,564)	-	-
Sale of short term investments	9,890	-	41,892
Purchase of hedging transaction	(3,750)	(4,116)	-
Proceeds from sale of hedging transactions	13,585	377	-
Purchase of investment property	(277,610)	(208,531)	(30,098)
Purchase of investment property under construction	(66,423)	(39,591)	(5,510)
Purchase of fixed assets	(1,050)	(2,445)	(1,673)
Proceeds from sale of fixed assets	1,228	192	1,682
Capitalization of interest paid to investment property under construction	(7,474)	(6,705)	-
Purchase of intangible assets	(12)	(6)	(18)
Settlement (grant) of loan to partners in assets in Canada, net	2,550	(5,771)	-
Settlement of loan to lessee, net	165	204	189
Net cash provided by (used in) investment activities	<u>(23,221)</u>	<u>(283,710)</u>	<u>226,784</u>
<b>CASH FLOWS FROM FINANCE ACTIVITIES</b>			
Settlement of short-term credit from banking institution	(11,167)	(4,742)	(33,390)
Receipt of long-term loans	273,132	250,932	44,022
Settlement of long-term loans	(219,916)	(110,973)	(79,651)
Dividend paid to shareholders of the Company	(30,000)	(30,000)	(25,000)
Issue of shares to non-controlling interests in subsidiary of the Company	-	21,460	-
Realization of options to shares	7,388	122	-
Settlement of CPI hedging transactions	(1,397)	-	-
Settlement of bonds	(126,872)	(110,628)	(109,375)
Early settlement of bonds	-	-	(9,425)
Issue of bonds net of issue expenses	222,961	388,998	-
Net cash provided by (used in) finance activities	<u>114,129</u>	<u>405,169</u>	<u>(212,819)</u>
Translation differences for cash balances in foreign investees	<u>(7,772)</u>	<u>(9,215)</u>	<u>80</u>
<b>Increase in cash and cash equivalents</b>	<b>85,325</b>	<b>127,887</b>	<b>68,926</b>
<b>Balance of cash and cash equivalents as at the beginning of the year</b>	<b><u>309,485</u></b>	<b><u>181,598</u></b>	<b><u>112,672</u></b>
<b>Balance of cash and cash equivalents as at the end of the year</b>	<b><u><u>394,810</u></u></b>	<b><u><u>309,485</u></u></b>	<b><u><u>181,598</u></u></b>

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2014	2013	2012
	NIS in thousands		
<b>Significant non-cash transactions</b>			
Dividend declared but not yet paid	-	-	10,000
Purchase of fixed assets and investment property against suppliers and service providers	25,238	6,005	9,134
Sale of investment property against debtors	22,259	-	-
Purchase of investment property under construction against creditors and payables	15,500	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

	<b>Year ended December 31, 2014</b>				<b>Total</b>
	<b>Israel</b>	<b>Belgium</b>	<b>Poland</b>	<b>Canada</b>	
	<b>NIS in thousands</b>				
<b>Income</b>					
Income from rental of properties					
before amortization	45,390	16,327	66,223	58,868	186,808
Amortization of tenant inducements	(152)	-	(763)	(3,797)	(4,712)
Increase in value of investment property					
and investment property under construction, net	36,001	3,383	27,741	13,548	80,673
Total income	<u>81,239</u>	<u>19,710</u>	<u>93,201</u>	<u>68,619</u>	<u>262,769</u>
Segment results	<u>62,425</u>	<u>16,675</u>	<u>78,419</u>	<u>56,739</u>	<u>214,258</u>
Finance income					6,535
Finance expenses					(118,972)
Finance expenses, net					(112,437)
Income before capital gain					101,821
Capital gain					2
Income before taxes on income					101,823
Taxes on income					26,439
Net income					<u>75,384</u>
Depreciation and amortization	854	33	1,183	3,978	6,048
Capital investments	<u>141,720</u>	<u>641</u>	<u>232,809</u>	<u>54,549</u>	<u>429,719</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1:- SEGMENTS OF ACTIVITY (Cont.)

b. Segment of activity information (Cont.)

	Year ended December 31, 2013				Total
	Israel	Belgium	Poland	Canada	
	NIS in thousands				
<b>Income</b>					
Income from rental of properties before depreciation	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					40,150
Net income					97,885
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				
	Israel	Belgium	Poland	Canada	Total
	NIS in thousands				
<b>Income</b>					
Income from rental of properties before depreciation	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					28,406
Net income					70,752
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.)Assets used by the segments

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>NIS in thousands</b>	
Israel	1,370,109	1,154,063
Belgium	251,536	251,489
Poland	1,191,874	938,855
Canada	1,039,234	1,246,621
Unallocated assets	9,216	20,987
	<u>3,861,969</u>	<u>3,612,015</u>

Liabilities used by the segments

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>NIS in thousands</b>	
Israel	1,526,549	1,419,977
Belgium	178,095	162,552
Poland	589,448	460,564
Canada	481,017	550,218
Unallocated liabilities	165,333	151,298
	<u>2,940,442</u>	<u>2,744,609</u>

-----