Translated from the Hebrew original

ADGAR INVESTMENTS & DEVELOPMENT LTD

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2011

UNAUDITED

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ERNST & YOUNG

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Auditors' review report to the shareholders of Adgar Investments & Development Ltd

Introduction

We have reviewed the accompanying financial information of Adgar Investments & Development Ltd and its subsidiaries ("the Group"), which comprises the condensed consolidated balance sheet as of March 31, 2011 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for this period in accordance with IAS 34, "Interim Financial Reporting" and are responsible for the preparation of this interim financial information in accordance with Chapter 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 a certain subsidiary, whose assets constitute approximately 62% of total consolidated assets as of March 31, 2011, and whose revenues constitute approximately 72% of total consolidated revenues for the three months then ended. The condensed interim financial information of that company was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of that company, is based on the review reports of the other auditors.

Scope of review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." 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 interim financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, 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 Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
May 19, 2011

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

CONSOLIDATED BALANCE SHEETS

	March 31, 2011	March 31, 2010	December 31, 2010
	Unaudited	Unaudited	Audited
	NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	185,182	30,960	114,304
Short-term investments	121,046	-	47,314
Trade receivables	16,667	23,191	15,172
Deposit	44,838	30,031	40,463
Other accounts receivable	10,223	84,019	76,091
Current taxes receivable	8,596	1,012	7,504
Financial derivatives	-	1,903	-
Loans	-	166	-
	386,552	171,282	300,848
ASSETS HELD FOR SALE	-	59,160	-
	386,552	230,442	300,848
NON-CURRENT ASSETS:			
Loans	7,490	10,196	7,292
Financial derivatives	3,214	-	985
Fixed assets, net	14,502	12,908	14,524
Investment property	2,970,020	2,718,040	2,853,099
Investment property under construction	78,477	152,908	78,471
Intangible assets, net	276	562	403
Deferred taxes	9,145	24,936	10,547
	3,083,124	2,919,550	2,965,321
	3,469,676	3,149,992	3,266,169

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

CONSOLIDATED BALANCE SHEETS

	March 31, 2011	March 31, 2010	December 31, 2010
	Unaudited	Unaudited	Audited
	NIS in thousands		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans	323,270	682,856	331,588
Trade payables	16,370	22,443	11,942
Taxes payable	126	69	7,761
Other accounts payable	41,718	43,440	41,209
Current maturities of debentures	124,605	116,238	130,248
Financial derivatives	7,884	27,764	9,827
	513,973	892,810	532,575
NON-CURRENT LIABILITIES:			
Loans from banks and others	1,387,052	1,128,231	1,336,437
Debentures	700,758	395,058	568,140
Financial derivatives	8,442	-	13,826
Employee benefit liabilities, net	10	89	10
Deferred taxes	75,419	63,700	69,758
	2,171,681	1,587,078	1,988,171
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital	155,768	152,268	155,768
Share premium	256,643	239,557	256,643
Other capital reserves	(8,605)	(23,074)	(18,338)
Receipts on account of options	-	3,955	-
Foreign currency translation adjustments of foreign operations	(78,128)	(69,475)	(97,841)
Retained earnings	458,344	365,211	449,191
	784,022	668,442	745,423
Non-controlling interests	-	1,662	-
Total equity	784,022	670,104	745,423
	3,469,676	3,149,992	3,266,169

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

May 19, 2011			
Date of approval of the financial statements	Doron Schneidman Chairman of the Board	Roy Gadish CEO	Daniel Stern CFO

CONSOLIDATED STATEMENTS OF INCOME

	Three months ended March 31,		Year ended December 31,
	2011	2010	2010
	Unaudited		Audited
	NIS in thousands (except per share data)		
Revenues:			
Revenues from rental of properties	45,640	46,634	186,290
Appreciation of investment property and investment property under construction, net	22,002	-	138,794
	67,642	46,634	325,084
Expenses:			
Maintenance of properties, net	6,452	2,792	15,611
General and administrative	7,532	6,487	33,665
	13,984	9,279	49,276
Income before financial expenses	53,658	37,355	275,808
Financial income	705	310	4,349
Financial expenses	(41,102)	(25,691)	(160,886)
Financial expenses, net	(40,397)	(25,381)	(156,537)
Income before capital gain (loss)	13,261	11,974	119,271
Capital gain (loss)	(19)	-	41
Income before taxes on income	13,242	11,974	119,312
Taxes on income	4,089	3,628	26,747
Net income	9,153	8,346	92,565
Attributable to:			
Equity holders of the Company	9,153	8,296	92,276
Non-controlling interests	-	50	289
	9,153	8,346	92,565
Net earnings per share attributable to equity holders of the Company (NIS):			
Basic and diluted net earnings	0.08	0.08	0.84

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended March 31,		Year ended December 31,
	2011	2010	2010
	Unaudited		Audited
	NIS in thousands		
Net income	9,153	8,346	92,565
Other comprehensive income (loss):			
Gain (loss) from cash flow hedges, net	7,816	(3,167)	(172)
Revaluation due to reclassification from fixed assets to investment property	-	-	910
Foreign currency translation adjustments of foreign operations	19,713	(19,624)	(47,970)
Other comprehensive income (loss), net	27,529	(22,791)	(47,232)
Total comprehensive income (loss)	36,682	(14,445)	45,333
Total comprehensive income (loss) attributable to:			
Equity holders of the Company	36,682	(14,517)	45,002
Non-controlling interests	-	72	331
	36,682	(14,445)	45,333

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Share capital	Share premium	Other capital reserves	Foreign currency translation adjustments of foreign operations	Retained earnings	Total
	Unaudited					
	NIS in thousands					
Balance as of January 1, 2011 (audited)	155,768	256,643	(18,338)	(97,841)	449,191	745,423
Total comprehensive income	-	-	7,816	19,713	9,153	36,682
Share-based payment	-	-	1,917	-	-	1,917
Balance as of March 31, 2011	155,768	256,643	(8,605)	(78,128)	458,344	784,022

	Attributable to equity holders of the Company								
	Share capital	Share premium	Other capital reserves	Receipts on account of options	Foreign currency translation adjustments of foreign operations	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited								
	NIS in thousands								
Balance as of January 1, 2010 (audited)	152,268	239,557	(19,907)	3,955	(49,829)	356,915	682,959	2,726	685,685
Total comprehensive income (loss)	-	-	(3,167)	-	(19,646)	8,296	(14,517)	72	(14,445)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(1,136)	(1,136)
Balance as of March 31, 2010	152,268	239,557	(23,074)	3,955	(69,475)	365,211	668,442	1,662	670,104

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium	Other capital reserves	Receipts on account of options	Foreign currency translation adjustments of foreign operations	Retained earnings	Total	Non-controlling interests	Total equity
	Audited								
	NIS in thousands								
Balance as of January 1, 2010	152,268	239,557	(19,907)	3,955	(49,829)	356,915	682,959	2,726	685,685
Total comprehensive income	-	-	738	-	(48,012)	92,276	45,002	331	45,333
Share-based payment	-	-	831	-			831	-	831
Exercise of options	3,500	17,086	-	(3,955)	-	-	16,631	-	16,631
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(3,057)	(3,057)
Balance as of December 31, 2010	155,768	256,643	(18,338)	-	(97,841)	449,191	745,423	-	745,423

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2011	Three months ended March 31, 2010	Year ended December 31, 2010
	Unaudited	Unaudited	Audited
	NIS in thousands		
Cash flows from operating activities:			
Net income	9,153	8,346	92,565
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Adjustments to the profit or loss items:			
Impairment (appreciation) of investment property and investment property under construction, net	(22,002)	-	(138,794)
Financial expenses, net	40,397	25,381	156,537
Capital loss (gain)	19	-	(41)
Depreciation and amortization	1,511	493	2,211
Taxes on income	4,089	3,628	26,747
Change in employee benefit liabilities, net	-	75	(4)
Cost of share-based payment	1,917	-	831
	25,931	29,577	47,487
Changes in operating asset and liability items:			
Decrease (increase) in trade receivables	(1,346)	(3,101)	4,554
Increase in other accounts receivable	(1,421)	(6,284)	(8,792)
Increase in trade payable	2,935	8,283	3,133
Increase in other accounts payable	2,789	9,567	473
	2,957	8,465	(632)
Cash paid and received during the period for:			
Interest paid	(35,257)	(37,962)	(116,162)
Interest received	2,042	310	3,498
Taxes paid	(9,734)	(6,095)	(6,706)
Taxes received	-	134	162
	(42,949)	(43,613)	(119,208)
Net cash provided by (used in) operating activities	(4,908)	2,775	20,212

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,		Year ended December 31,
	2011	2010	2010
	Unaudited		Audited
	NIS in thousands		
Cash flows from investing activities:			
Investment in deposit, net	(1,787)	-	-
Proceeds from sale of investment property	3,424	741	94,260
VAT refund for investment property	70,925	-	-
Purchase of available-for-sale financial assets	(76,700)	-	(35,903)
Sale of available-for-sale financial assets	1,713	-	-
Purchase of investment property	(9,156)	(7,511)	(62,500)
Acquisition of subsidiary (see Note 5b)	(16,719)	-	-
Purchase of investment property under construction	(6)	(9,072)	(2,631)
Purchase of fixed assets	(194)	-	(1,981)
Purchase of intangible assets	-	(12)	(214)
Proceeds from sale of fixed assets	-	21	192
Deposit (grant of loan) to non-controlling interests, net	-	(208)	3,071
Net cash used in investing activities	(28,500)	(16,041)	(5,706)
Cash flows from financing activities:			
Receipt of short-term credit from banks, net	(45,943)	(32,764)	(43,938)
Receipt of long-term loans	51,425	51,730	117,968
Repayment of long-term loans	(20,213)	(13,681)	(176,460)
Grant of deposit on interest	(5,800)	-	(6,180)
Proceeds from sale of financial derivatives	-	-	3,180
Dividend paid to non-controlling interests	-	(1,136)	(3,057)
Exercise of options into shares	-	-	16,631
Repayment of debentures	(69,027)	-	(44,505)
Early repayment of debentures	(4,200)	-	(119)
Issuance of debentures net of issuance expenses	196,603	-	197,855
Net cash provided by financing activities	102,845	4,149	61,375
Increase (decrease) in cash and cash equivalents	69,437	(9,117)	75,881
Translation differences for cash balances in foreign investees	1,441	437	(1,217)
Cash and cash equivalents at beginning of period	114,304	39,640	39,640
Cash and cash equivalents at end of period	185,182	30,960	114,304

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31, 2011	Three months ended March 31, 2010	Year ended December 31, 2010
	Unaudited	Unaudited	Audited
	NIS in thousands		
(a) Significant activities not involving cash flows:			
Purchase of fixed assets and investment property against trade payables	1,842	9,116	7,319
Proceeds from sale of investment property against other accounts receivable	70,925	396	8,846
Proceeds from sale of investment property against available-for-sale financial assets	-	-	10,715

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

NOTE 1:- GENERAL

a. These financial statements have been prepared in a condensed format as of March 31, 2011 and for the three months then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements as of December 31, 2010 and for the year then ended and accompanying notes ("annual financial statements").

b. The Company has a working capital deficiency of approximately NIS 108 million as of March 31, 2011. As an income-producing real estate company which finances most of its investments using credit from financial institutions, including for the short term, now and then the Company incurs a working capital deficiency. This deficiency is not expected to impair the Company's business operations since the banks usually refinance the credit granted by them for the short term.

c. As for the issuance of debentures (series G) after the balance sheet date, see Note 5.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the interim consolidated financial statements:

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies and methods of computation adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements, except as noted below:

IFRS 3 (Revised) - Business Combinations

The amendments to IFRS 3 (Revised) address the following issues:

Measurement of non-controlling interests

The amendment limits the circumstances in which it is possible to choose the measurement of non-controlling interests based on their fair value on the date of acquisition or at their proportionate share in the recognized amounts of the acquiree's identifiable net assets. According to the amendment, this possibility is only available for components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share (pro rata) of the acquiree's net assets in the event of liquidation (usually shares). In contrast, for other components of non-controlling interests (such as options that represent equity instruments of the acquiree) no such choice is available, and they are measured at fair value on the acquisition date, unless another measurement basis is required by IFRS such as IFRS 2. The amendment is applied retrospectively from the date of original adoption of IFRS 3 (Revised).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IAS 1 - Presentation of Financial Statements

According to the amendment to IAS 1, the changes between the opening and the closing balances of each component of other comprehensive income may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. Accordingly, the Company has elected to present said disclosure in the notes.

The amendment is applied retrospectively from January 1, 2011.

IAS 34 - Interim Financial Reporting

According to the amendment to IAS 34, new disclosure requirements were introduced to interim financial reporting regarding the circumstances that are likely to affect the fair value of financial instruments and their classification, the transfers of financial instruments between different fair value levels and changes in the classification of financial assets.

The amendment is applied retrospectively from January 1, 2011.

The required disclosures have been included in the Company's financial statements.

NOTE 3:- DATA OF THE ISRAELI CPI AND THE EXCHANGE RATES OF FOREIGN CURRENCIES

	Israeli CPI	Representative exchange rate		
		U.S. $	C$	€
As of	Points *)		NIS	
March 31, 2011	213.1	3.481	3.594	4.9495
March 31, 2010	204.4	3.713	3.651	4.9905
December 31, 2010	211.7	3.549	3.555	4.7379
Change during the period			%	
March 2011 (3 months)	0.6	(1.9)	1.1	4.5
March 2010 (3 months)	(0.9)	(1.6)	1.3	(8.3)
December 2010 (12 months)	2.6	(6.0)	(1.3)	(12.9)

*) The index on an average basis of 1993 = 100.

NOTE 4:- OPERATING SEGMENTS

a. General:

1. The Group operates in the income-producing real estate market. The Group's 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 operating segments since management examines its activities based on these segments.

b. Operating segment information:

1.

	Three months ended March 31, 2011				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Revenues from rental of properties	10,676	2,331	9,098	23,535	45,640
Appreciation (impairment) of investment property	(5,000)	-	27,002	-	22,002
	5,676	2,331	36,100	23,535	67,642
Segment results	774	947	33,394	18,543	53,658
Financial income					705
Financial expenses					(41,102)
Financial expenses, net					(40,397)
Income before capital loss					13,261
Capital loss					(19)
Income before taxes on income					13,242

2.

	Three months ended March 31, 2010				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Revenues from rental of properties	12,229	2,848	6,346	25,211	46,634
Segment results	11,994	1,667	1,699	21,995	37,355
Financial income					310
Financial expenses					(25,691)
Financial expenses, net					(25,381)
Income before taxes on income					11,974

NOTE 4:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2010				
	Israel	Belgium	Poland	Canada	Total
			Audited		
			NIS in thousands		
3.					
Revenues from rental of properties	47,564	10,024	28,208	100,494	186,290
Impairment of investment property and provisions for impairment of investment property under construction, net	(1,780)	(8,593)	27,156	122,011	138,794
Total revenues	45,784	1,431	55,364	222,505	325,084
Segment results	29,389	(3,931)	43,459	206,891	275,808
Financial income					4,349
Financial expenses					(160,886)
Financial expenses, net					(156,537)
Income before capital gain					119,271
Capital gain					41
Income before taxes on income					119,312

NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

a. On January 13, 2011, the Company issued NIS 200,000,000 par value of registered debentures (series G) of NIS 1 par value each that are linked, principal and interest, to the Israeli CPI and bear annual interest of 5.6%. The interest is payable from July 1, 2011 through January 1, 2020 in two installments in each calendar year and the principal is repayable in six annual installments on January 1 of each of the years 2015 through 2020 (inclusive).

In the context of the issuance, the following financial covenants were determined for the Company:

1. Its shareholders' equity will not be less than NIS 500 million.

2. The ratio between shareholders' equity and total balance sheet of the Company less cash and deposits will not be less than 20%.

If the Company exceeds any of the covenants stated above, the interest rate payable by the Company to the holders of debentures (series G) will increase by 0.5%, annually (1% if it exceeds both covenants).

NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

Further, if the rating for debentures (series G) is updated such that the rating determined for the debentures (series G) will be lower than the rating of Baa1 or a corresponding rating, the interest rate payable by the Company to the holders of debentures (series G) will increase by 0.25%, annually. Likewise, if the ratio between shareholders' equity and the Company's total balance sheet (less cash and deposits) will be less than 12%, the exceed will constitute reason for immediate repayment of the entire unsettled balance of the debentures.

As of the date of approval of the financial statements, the Company fulfills all the financial covenants listed above.

b. On March 30, 2011, a subsidiary acquired a company in Poland which holds real estate rights valued at approximately 32 million Zloty and received a loan from a bank amounting to approximately 19.2 million Zloty as of the date of acquisition.

The overall acquisition cost includes an amount of 14.6 million Zloty for consent payment, part of which has been delivered to the Company through a shareholders' loan.

The acquired property is leased to an individual tenant for a period of 14 years with annual income of approximately 2.5 million Zloty.

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