

**Translated
from the
Hebrew original**

ADGAR INVESTMENTS & DEVELOPMENT LTD.

INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

AS OF March 31, 2012

UNAUDITED

ADGAR INVESTMENTS & DEVELOPMENT LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF March 31, 2012

UNAUDITED

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To:
Adgar Investments And Development Limited
Efal 35
Petach – Tikva
Israel

Dear Sirs,

We have reviewed, in accordance with International Financial Reporting Standards, the consolidated balance sheets of Adgar Investments And Development Limited as at March 31, 2012 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the period ended as at March 31, 2012.

Based on our review, in our review report dated May 28, 2012, we stated that nothing came to our attention that caused us to believe that the abovementioned interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard No. 34 (IAS 34).

The accompanying financial statements, which are derived from the abovementioned financial statements, are condensed financial statements and do not include disclosures required by IAS 34. 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
August 12, 2012

Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONDESED CONSOLIDATED BALANCE SHEETS

	March 30,		December 31,
	2012	2011	2011
	Unaudited		Audited
	NIS in thousands		
CURRENT ASSETS:			
Cash and cash equivalents	74,544	185,182	112,672
Short-term investments	3,554	121,046	41,317
Trade receivables	13,432	16,667	10,059
Deposit	32,873	44,838	41,186
Debtors and receivables	10,343	10,223	7,794
Current taxes receivable	8,925	8,596	11,224
Financial derivatives	-	-	821
	<u>143,671</u>	<u>386,552</u>	<u>225,073</u>
NON-CURRENT ASSETS:			
Financial derivatives	1,685	3,214	80
Loans	8,565	7,490	8,530
Investment property	3,172,415	2,970,020	3,174,375
Investment property under construction	91,953	78,477	91,860
Fixed assets, net	17,575	14,502	15,519
Intangible assets, net	153	276	168
Deferred taxes	6,565	9,145	7,108
	<u>3,298,911</u>	<u>3,083,124</u>	<u>3,297,640</u>
	<u><u>3,442,582</u></u>	<u><u>3,469,676</u></u>	<u><u>3,522,713</u></u>

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

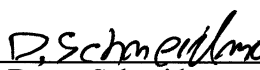
CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>March 30,</u>		<u>December 31,</u>
	<u>2012</u>	<u>2011</u>	<u>2011</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>NIS in thousands</u>		
CURRENT LIABILITIES:			
Credit from financial institutions and current maturities of long-term loans	284,343	323,270	365,822
Current maturities of debentures	123,293	124,605	131,764
Liabilities to suppliers and service providers	13,003	16,370	11,346
Taxes payable	13	126	6,177
Creditors and payables	58,352	41,718	57,801
Financial derivatives	8,405	7,884	9,965
	<u>487,409</u>	<u>513,973</u>	<u>582,875</u>
NON-CURRENT LIABILITIES:			
Loans from financial institutions and other credit providers	1,388,143	1,387,052	1,312,973
Debentures	596,797	700,758	666,738
Financial derivatives	26,849	8,442	23,744
Employee benefit liabilities, net	23	10	23
Deferred taxes	102,502	75,419	100,633
	<u>2,114,314</u>	<u>2,171,681</u>	<u>2,104,111</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital	155,768	155,768	155,768
Share premium	256,643	256,643	256,643
Other capital reserves	(18,217)	(8,605)	(17,416)
Foreign currency translation adjustments of foreign operations	(55,267)	(78,128)	(54,100)
Retained earnings	501,932	458,344	494,832
	<u>840,859</u>	<u>784,022</u>	<u>835,727</u>
TOTAL EQUITY	<u>3,442,582</u>	<u>3,469,676</u>	<u>3,522,713</u>

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

May 28, 2012

Date of approval of the
financial statements


Doron Schneidman
Chairman of the Board


Roy Gadish
CEO


Daniel Sztern
CFO

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	For the three months ended		For the year ended
	March 31		December 31
	2012	2011	2011
	Unaudited		Audited
	NIS in thousands [except for net earnings (loss) per share data]		
Revenues:			
Revenues from rental of properties	52,207	45,640	191,468
Appreciation of investment property and investment property under construction, net	-	22,002	139,328
	<u>52,207</u>	<u>67,642</u>	<u>330,796</u>
Expenses:			
Maintenance of properties, net	5,109	6,452	23,586
General and administrative	7,189	7,532	36,700
	<u>12,298</u>	<u>13,984</u>	<u>60,286</u>
Income before financing	<u>39,909</u>	<u>53,658</u>	<u>270,510</u>
Financial income	2,150	705	4,010
Financial expenses	(30,541)	(41,102)	(162,911)
Financial expenses, net	<u>(28,391)</u>	<u>(40,397)</u>	<u>(158,901)</u>
Income before capital gain	11,518	13,261	111,609
Capital gain (loss)	<u>36</u>	<u>(19)</u>	<u>(19)</u>
Income before taxes on income	11,554	13,242	111,590
Taxes on income (tax benefit)	4,454	4,089	35,949
Net income	<u>7,100</u>	<u>9,153</u>	<u>75,641</u>
Net earnings per share attributable to equity holders of the Company (NIS):			
Basic and diluted net earnings	<u>0.06</u>	<u>0.08</u>	<u>0.67</u>
Diluted net earnings (loss)	<u>0.06</u>	<u>0.08</u>	<u>0.67</u>

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the three months ended		For the year ended
	March 31		December 31
	2012	2011	2011
	Unaudited		Audited
NIS in thousands			
Net income	7,100	9,153	75,641
Other comprehensive income (loss):			
Gain (loss) from cash flow hedges, net	(1,871)	7,816	(7,084)
Revaluation due to reclassification from fixed assets to investment property	-	-	593
Foreign currency translation adjustments of foreign operations	(1,167)	19,713	43,741
Other comprehensive income (loss), net	(3,038)	27,529	37,250
Total comprehensive income	4,062	36,682	112,891

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					Total
	Share capital	Share premium	Other capital reserves	Foreign currency translation adjustments of foreign operations	Retained earnings	
	NIS in thousands					
Balance as of January 1, 2012 (audited)	155,768	256,643	(17,416)	(54,100)	494,832	835,727
Net income	-	-	-	-	7,100	7,100
Other comprehensive loss	-	-	(1,871)	(1,167)	-	(3,038)
Total comprehensive income (loss)	-	-	(1,871)	(1,167)	7,100	4062
Share-based payment	-	-	1,070	-	-	1,070
Balance as of March 31, 2012 (unaudited)	155,768	256,643	(18,217)	(55,267)	501,932	840,859

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Share capital	Share premium	Other capital reserves NIS in thousands	Receipts on account of options operations	Foreign currency translation adjustments of foreign operations	Retained earnings
Balance as of January 1, 2011 (audited)	155,768	256,643	(18,338)	(97,841)	449,191	745,423
Net income	-	-	-	-	9,153	9,153
Other comprehensive income	-	-	7,816	19,713	-	27,529
Total comprehensive income	-	-	7,816	19,713	9,153	36,682
Share-based payment	-	-	1,917	-	-	1,917
Balance as of March 31, 2011 (unaudited)	155,768	256,643	(8,605)	(78,128)	458,344	784,022

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

CONDENSED 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
	NIS in thousands					
Balance as of January 1, 2011 (audited)	155,768	256,643	(18,338)	(97,841)	449,191	745,423
Net income	-	-	-	-	75,641	75,641
Other comprehensive income (loss)	-	-	(6,491)	43,741	-	37,250
Total comprehensive income (loss)	-	-	(6,491)	43,741	75,641	112,891
Share-based payment	-	-	7,413	-	-	7,413
Dividend paid to equity holders of the Company	-	-	-	-	(30,000)	(30,000)
Balance as of December 31, 2011 (unaudited)	155,768	256,643	(17,416)	(54,100)	494,832	835,727

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended		For the year ended
	March 31		December 31
	2012	2011	2011
	Unaudited		Audited
NIS in thousands			
<u>Cash flows from operating activities:</u>			
Net income (loss)	7,100	9,153	75,641
Adjustments needed to present cash flows from operating activities:			
Adjustments to the profit or loss items:			
Impairment (appreciation) of investment property and investment property under construction, net	-	(22,002)	(139,328)
Financial expenses, net	28,391	40,397	158,901
Capital loss (gain)	(36)	19	19
Depreciation and amortization	2,002	1,511	7,346
Taxes on income	4,454	4,089	35,949
Change in employee benefit liabilities, net	-	-	13
Share-based payment	1,070	1,917	7,413
	35,881	25,931	70,313
Changes in asset and liability items:			
Decrease (increase) in customers	(3,373)	(1,346)	5,415
Decrease (increase) in other accounts receivable	(2,741)	(1,421)	1,080
Increase (decrease) in liabilities to suppliers and service providers	2,163	2,935	(3,565)
Increase in other accounts payable	3,893	2,789	8,592
	(58)	2,957	11,522
Cash paid and received during the period for:			
Interest paid	(41,848)	(35,257)	(132,655)
Interest received	1,462	2,042	6,357
Dividend received from short term investments	-	-	458
Taxes paid	(6,128)	(9,734)	(11,299)
Taxes received	1,205	-	150
	(45,309)	(42,949)	(136,989)
Net cash provided by (used in) operating activities	(2,386)	(4,908)	20,487

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended		For the year ended
	March 31		December 31
	2012	2011	2011
	Unaudited		Audited
NIS in thousands			
<u>Cash flows from investing activities:</u>			
Investment in deposit, net	-	(1,787)	-
Proceeds from sale of investment property	8,469	3,424	15,642
VAT refund for investment property	-	70,925	70,925
Purchase of short term investments	-	(76,700)	(93,068)
Sale of short term investments	38,349	1,713	95,127
Purchase of investment property	(7,279)	(9,156)	(47,856)
Purchase of investment property under construction	(93)	(6)	(11,563)
Acquisition of subsidiary	-	(16,719)	(16,719)
Purchase of fixed assets	(93)	(194)	(384)
Purchase of intangible assets	(18)	-	(53)
Proceeds from sale of fixed assets	87	-	136
Repayment (grant of loan) to non-controlling interests, net	47	-	(556)
Net cash provided by (used in) investing activities	39,469	(28,500)	11,631
<u>Cash flows from financing activities:</u>			
Receipt (repayment) of short-term credit from banks, net	16,915	(45,943)	(69,271)
Receipt of long-term loans	-	51,425	75,320
Repayment of long-term loans	(21,665)	(20,213)	(82,051)
Grant of deposit on interest	-	(5,800)	(7,056)
Dividend paid	-	-	(30,000)
repayment of debentures	(70,379)	(69,027)	(113,701)
Early repayment of debentures	-	(4,200)	(7,920)
Issuance of debentures net of issuance expenses	-	196,603	196,603
Net cash provided by (used in) financing activities	(75,129)	102,845	(38,076)
Increase (decrease) in cash and cash equivalents	(38,046)	69,437	(5,958)
Translation differences for cash balances in foreign investees	(82)	1,441	4,326
Balance of cash and cash equivalents at beginning of period	112,672	114,304	114,304
Balance of cash and cash equivalents at end of period	74,544	185,182	112,672

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended		For the year ended
	March 31		December 31
	2012	2011	2011
	Unaudited		Audited
NIS in thousands			
(a) <u>Significant activities not involving cash flows:</u>			
Purchase of fixed assets and investment property against suppliers and service providers and trade payables	-	1,842	8,643
Repayments from institutions related to Investment property against other accounts receivable	-	70,925	-

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

APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- 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 the segments of activity since management examines its activities based on these segments.

b. Operating segment information

	Three months ended March 31, 2012				
	<u>Israel</u>	<u>Belgium</u>	<u>Poland</u>	<u>Canada</u>	<u>Total</u>
	<u>Unaudited</u>				
	<u>NIS in thousands</u>				
Revenues from rental of properties	11,128	2,992	11,427	28,298	53,845
Amortization of inducements to tenants	(8)	-	(55)	(1,575)	(1,638)
Total revenues	<u>11,120</u>	<u>2,992</u>	<u>11,372</u>	<u>26,723</u>	<u>52,207</u>
Segment results	<u>6,210</u>	<u>1,617</u>	<u>9,929</u>	<u>22,153</u>	<u>39,909</u>
Financial income					2,150
Financial expenses					<u>(30,541)</u>
Financial expenses, net					<u>(28,391)</u>
Income before capital loss					11,518
Capital loss					<u>36</u>
Income before taxes on income					<u>11,554</u>

APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- OPERATING SEGMENTS (Cont.)

	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	24,572	46,677
Amortization of inducements to tenants	-	-	-	(1,037)	(1,037)
Appreciation (impairment) of investment property and investment property under construction, net	(5,000)	-	27,002	-	22,002
Total revenues	<u>5,676</u>	<u>2,331</u>	<u>36,100</u>	<u>23,535</u>	<u>67,642</u>
Segment results	<u>774</u>	<u>947</u>	<u>33,394</u>	<u>18,543</u>	<u>53,658</u>
Finance expenses					705
Finance income					(41,102)
Finance expenses, net					(40,397)
Income before capital loss					<u>13,261</u>
Capital gain					<u>(19)</u>
Income before taxes on income					<u><u>13,242</u></u>

APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- OPERATING SEGMENTS (Cont.)

b. Operating segment information: (Cont.)

	Year ended December 31, 2011				
	Israel	Belgium	Poland	Canada	Total
	Audited				
NIS in thousands					
Revenues from lease of properties	41,651	10,015	42,062	103,432	197,160
Amortization of inducements to tenants	(12)	-	(225)	(5,455)	(5,692)
Appreciation (impairment) of investment property and investment property under construction, net	10,953	5,925	26,000	96,450	139,328
Total revenues	52,592	15,940	67,837	194,427	330,796
Segment results	29,711	10,312	58,095	172,392	270,510
Financial income					4,010
Financial expenses					(162,911)
Financial expenses, net					(158,901)
Income before capital gain					111,609
Capital gain					(19)
Income before taxes on income					111,590
