Translated
from the
Hebrew original

ADGAR INVESTMENTS AND DEVELOPMENT LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2013

UNAUDITED

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Auditors' review report to the shareholders of Adgar Investments and Development Limited

Introduction

We have reviewed the accompanying financial information of Adgar Investments and Development Limited and its subsidiaries (hereunder - the Group), which comprises the condensed consolidated balance sheet as of June 30, 2013 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the period of six and three months then ended. The Company's Board of Directors and management are responsible for the preparation and presentation of interim financial information for these periods 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 certain subsidiaries, whose assets constitute approximately 63% of total consolidated assets as of June 30, 2013, and whose revenues constitute approximately 69% of the total consolidated revenues for the six and three months then ended. The condensed interim financial information of those companies 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 those companies, 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, 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
August 26, 2013

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30		December 31
	2013	2012	2012
	Unaudited		Audited
	NIS in thousands		
CURRENT ASSETS			
Cash and cash equivalents	261,099	217,163	181,598
Short-term investments	11	29	17
Customers	11,324	12,309	11,156
Deposits	57,707	34,439	32,593
Debtors and receivables	17,333	7,656	8,020
Current taxes receivable	10,956	7,799	10,938
Derivatives	6,665	-	1,291
	365,095	279,395	245,613
NON-CURRENT ASSETS			
Derivatives	76	1,630	400
Loans	8,258	8,862	8,835
Fixed assets	16,174	17,315	17,230
Investment property	2,999,595	2,903,876	2,903,661
Investment property under construction	104,321	92,061	97,370
Intangible assets	40	126	71
Deferred taxes	12,968	14,068	17,205
	3,141,432	3,037,938	3,044,772
	3,506,527	3,317,333	3,290,385

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June		December 31
	2013	2012	2012
	Unaudited		Audited
	NIS in thousands		
CURRENT LIABILITIES			
Credit from banking institutions and current maturities of long-term loans	262,310	250,251	179,273
Current maturities of bonds	181,262	124,961	125,297
Liabilities to suppliers and service providers	10,013	10,948	7,621
Taxes payable	16	7,367	15
Creditors and payables	61,744	51,660	103,548
Derivatives	11,914	12,151	10,743
	527,259	457,338	426,497
NON-CURRENT LIABILITIES			
Loans from banking institutions and other financial entities	1,302,416	1,241,025	1,273,287
Bonds	630,941	601,254	562,752
Derivatives	22,812	27,457	34,621
Employee benefit liabilities, net	87	23	87
Deferred taxes	133,999	120,640	126,494
	2,090,255	1,990,399	1,997,241
EQUITY			
Share capital	155,768	155,768	155,768
Share premium	256,643	256,643	256,643
Other reserves	(11,095)	(19,997)	(23,789)
Adjustments due to the translation of financial statements of activities abroad	(111,284)	(40,164)	(52,401)
Retained earnings	565,889	517,346	530,426
Total equity attributed to the Company’s shareholders	855,921	869,596	866,647
Non-controlling interests	33,092	-	-
Total equity	889,013	869,596	866,647
	3,506,527	3,317,333	3,290,385

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

August 26, 2013			
Date of approval of the financial statements	Doron Schneidman Chairman of the Board	Roy Gadish CEO	Liat Manor Finance Manager

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	Unaudited				Audited
	NIS in thousands [except for net earnings per share data]				
INCOME					
Income from rental of properties	99,111	100,305	49,977	48,098	197,170
Increase in value of investment property and investment property under construction, net	59,889	63,872	59,889	63,872	75,318
	159,000	164,177	109,866	111,970	272,488
EXPENSES					
Maintenance of assets, net	6,566	8,848	3,269	3,739	13,799
Administrative and general expenses	16,021	17,446	8,050	10,257	33,749
	22,587	26,294	11,319	13,996	47,548
Income before finance	136,413	137,883	98,547	97,974	224,940
Finance income	951	2,807	98	657	5,315
Finance expenses	(60,655)	(73,244)	(38,064)	(42,703)	(131,130)
Finance expenses, net	(59,704)	(70,437)	(37,966)	(42,046)	(125,815)
Income before capital gain	76,709	67,446	60,581	55,928	99,125
Capital gain	-	36	-	-	33
Income before taxes on income	76,709	67,482	60,581	55,928	99,158
Taxes on income	21,464	19,968	15,838	15,514	28,564
Net income	55,245	47,514	44,743	40,414	70,594
Attributed to					
Company shareholders	44,157	47,514	33,655	40,414	70,594
Non-controlling interests	11,088	-	11,088	-	-
	55,245	47,514	44,743	40,414	70,594
Earnings per share:					
Net earnings per share attributed to equity holders of the Company (in NIS)					
Basic and diluted net earnings	0.39	0.42	0.30	0.36	0.63

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	Unaudited				Audited
	NIS in thousands				
Net income	55,245	47,514	44,743	40,414	70,594
Amounts to be classified or reclassified to profit or loss under specific conditions:					
Other comprehensive income (loss) (after the tax effect):					
Profit (loss) in respect of cash flow hedging transactions, net	8,126	(4,554)	5,432	(2,683)	(9,213)
Adjustment resulting from the translation of financial statements of activities abroad	(62,997)	13,936	(18,460)	15,103	1,699
Total other comprehensive income (loss), net	(54,871)	9,382	(13,028)	12,420	(7,514)
Total comprehensive income	374	56,896	31,715	52,834	63,080
Total comprehensive income (loss) attributed to:					
Company shareholders	(10,984)	56,896	20,357	52,834	63,080
Non-controlling interests	11,358	-	11,358	-	-
	374	56,896	31,715	52,834	63,080

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to the Company's shareholders							
	Share capital	Share premium	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total	Non controlling interests	Total equity
	Unaudited							
	NIS in thousands							
Balance as at January 1, 2013 (Audited)	155,768	256,643	(23,789)	(52,401)	530,426	866,647	-	866,647
Net income	-	-	-	-	44,157	44,157	11,088	55,245
Total other comprehensive income (loss)	-	-	7,262	(62,403)	-	(55,141)	270	(54,871)
Total comprehensive income (loss)	-	-	7,262	(62,403)	44,157	(10,984)	11,358	374
Issue of shares in subsidiary to holders of non-controlling interest (see Note 7a below)	-	-	4,900	3,520	(8,694)	(274)	21,734	21,460
Cost of share-based payment	-	-	532	-	-	532	-	532
Balance as at June 30, 2013	155,768	256,643	(11,095)	(111,284)	565,889	855,921	33,092	889,013

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total
	Unaudited					
	NIS in thousands					
Balance as at January 1, 2012 (Audited)	155,768	256,643	(17,416)	(54,100)	494,832	835,727
Net income	-	-	-	-	47,514	47,514
Other comprehensive loss	-	-	(4,554)	13,936	-	9,382
Total comprehensive income (loss)	-	-	(4,554)	13,936	47,514	56,896
Dividend paid to Company's shareholders	-	-	-	-	(25,000)	(25,000)
Share-based payment	-	-	1,973	-	-	1,973
Balance as at June 30, 2012	155,768	256,643	(19,997)	(40,164)	517,346	869,596

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributed to the Company's shareholders							
	Share capital	Share premium	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total	Non controlling interests	Total equity
	Unaudited							
	NIS in thousands							
Balance as at April 1, 2013 (Audited)	155,768	256,643	(20,742)	(96,938)	540,928	835,659	-	835,659
Net income	-	-	-	-	33,655	33,655	11,088	44,743
Total other comprehensive income (loss)	-	-	4,568	(17,866)	-	(13,298)	270	(13,028)
Total comprehensive income (loss)	-	-	4,568	(17,866)	33,655	20,357	11,358	31,715
Issue of shares in subsidiary to holders of non-controlling interests (see Note 7a below)	-	-	4,900	3,520	(8,694)	(274)	21,734	21,460
Cost of share-based payment	-	-	179	-	-	179	-	179
Balance as at June 30, 2013	155,768	256,643	(11,095)	(111,284)	565,889	855,921	33,092	889,013

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total
	Unaudited					
	NIS in thousands					
Balance as at April 1, 2012 (Audited)	155,768	256,643	(18,217)	(55,267)	501,932	840,859
Net income	-	-	-	-	40,414	40,414
Other comprehensive income (loss)	-	-	(2,683)	15,103	-	12,420
Total comprehensive income (loss)	-	-	(2,683)	15,103	40,414	52,834
Dividend paid to Company's shareholders	-	-	-	-	(25,000)	(25,000)
Share-based payment	-	-	903	-	-	903
Balance as at June 30, 2012	155,768	256,643	(19,997)	(40,164)	517,346	869,596

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total equity
	Audited					
	NIS in thousands					
Balance as at January 1, 2012	155,768	256,643	(17,416)	(54,100)	494,832	835,727
Net income	-	-	-	-	70,594	70,594
Other comprehensive income (loss)	-	-	(9,213)	1,699	-	(7,514)
Total comprehensive income (loss)	-	-	(9,213)	1,699	70,594	63,080
Share-based payment	-	-	2,840	-	-	2,840
Dividend to Company's shareholders	-	-	-	-	(35,000)	(35,000)
Balance as at December 31, 2012	155,768	256,643	(23,789)	(52,401)	530,426	866,647

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	Unaudited				Audited
	NIS in thousands				
CASH FLOWS FROM CURRENT ACTIVITIES					
Net income	55,245	47,514	44,743	40,414	70,594
Adjustments needed 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	(59,889)	(63,872)	(59,889)	(63,872)	(75,318)
Finance expenses, net	59,704	70,437	37,966	42,046	125,815
Capital gain	-	(36)	-	-	(33)
Depreciation and amortization	3,175	3,990	1,514	1,988	7,824
Taxes on income	21,464	19,968	15,838	15,514	28,564
Change in employee benefit liabilities, net	-	-	-	-	64
Share-based payment cost	532	1,973	179	903	2,840
	24,986	32,460	(4,392)	(3,421)	89,756
Changes in asset and liability items:					
Decrease (increase) in customers	(624)	(2,185)	468	1,188	(1,687)
Decrease (increase) in debtors and receivables	(10,947)	210	(9,957)	2,951	3,103
Increase (decrease) in liabilities to suppliers and service providers	3,515	41	(75)	(2,122)	1,027
Increase (decrease) in creditors and payables	(23,045)	(3,859)	(8,063)	(7,752)	29,395
	(31,101)	(5,793)	(17,627)	(5,735)	31,838
Cash paid and received during the year for:					
Interest paid	(55,595)	(67,470)	(23,339)	(25,622)	(124,316)
Interest received	1,272	1,486	830	24	3,514
Taxes paid	(72)	(6,128)	(60)	-	(18,186)
Taxes received	3	1,205	3	-	1,681
	(54,392)	(70,907)	(22,566)	(25,598)	(137,307)
Net cash provided by (used in) current activities	(5,262)	3,274	158	5,660	54,881

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	Unaudited				Audited
	NIS in thousands				
CASH FLOWS FROM INVESTMENT ACTIVITIES:					
Investment in deposit, net	(38,234)	(1,912)	(38,234)	(1,912)	-
Proceeds from sale of investment property	13,308	220,504	-	212,035	220,320
Sale of short term investments	-	41,892	-	3,543	41,892
Acquisition of investment property	(185,931)	(16,189)	(170,499)	(8,910)	(30,098)
Acquisition of investment property under construction	(4,258)	(201)	(3,208)	(108)	(5,510)
Capitalization of interest paid for investment property under construction	(2,904)	-	(1,726)	-	-
Acquisition of fixed assets	(87)	(622)	(47)	(529)	(1,673)
Acquisition of intangible assets	-	(18)	-	-	(18)
Proceeds from sale of fixed assets	-	87	-	-	1,682
Settlement of lessee's loan, net	101	94	52	47	189
Net cash (used in) provided by investment activities	(218,005)	243,635	(213,662)	204,166	226,784
CASH FLOWS FROM FINANCE ACTIVITIES					
Settlement of short-term credit from banking institutions	(2,447)	(2,188)	(2,407)	(19,103)	(33,390)
Receipt of long-term loans	211,876	-	211,876	-	44,022
Settlement of long-term loans	(34,068)	(39,166)	(19,423)	(17,501)	(79,651)
Dividend paid to Company shareholders	(10,000)	(25,000)	-	(25,000)	(25,000)
Issue of shares to non-controlling interests in subsidiary	21,460	-	21,460	-	-
Issue of bonds net issue expenses	193,947	-	193,947	-	-
Settlement of bonds	(71,406)	(70,379)	-	-	(109,375)
Early settlement of bonds	-	(6,514)	-	(6,514)	(9,425)
Net cash provided by (used in) finance activities	309,362	(143,247)	405,453	(68,118)	(212,819)
Translation differences in respect of cash balances in units held abroad	(6,594)	829	(1,858)	911	80
Increase in cash and cash equivalents	79,501	104,491	190,091	142,619	68,926
Balance of cash and cash equivalents as at the beginning of the period	181,598	112,672	71,008	74,544	112,672
Balance of cash and cash equivalents as at the end of the period	261,099	217,163	261,099	217,163	181,598

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2013	2012	2013	2012	2012
	Unaudited				Audited
	NIS in thousands				
(a) Significant activities not involving cash flows					
Acquisition of fixed assets and investment property against suppliers and service providers	4,503	-	4,503	-	9,134
Dividend declard but not yet paid	-	-	-	-	10,000
Sale of investment property against debtors	-	1,049	-	1,049	-

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 June 30, 2013 for the six and three months then ended (hereunder - interim consolidated financial statements). These financial statements should be read in conjunction with the Company's audited annual financial statements as of December 31, 2012 and for the year then ended and their accompanying notes (hereunder - annual financial statements).

b. As of June 30, 2013, the Company has a working capital deficiency of about NIS 162 million. As an income-generating real estate company which finances most of its investments using credit from financial institutions, including short term credit, the Company often incurs a working capital deficiency. In management’s opinion, this deficit is not expected to impair the Company's business operations since the banks usually refinance the short term credit which they grant.

c. The rating of bonds

On May 9, 2013, Midroog approved the Baa1 rating for each series of outstanding bonds (Series D - G) and approved the Baa1 rating for the issue of additional bonds of up to NIS 180 million par value with a stable rating outlook.

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.

b. New Standards, interpretations and amendments initially adopted by the Company

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:

1. IAS 19 (Revised) - Employee Benefits

In June 2011, the IASB published IAS 19 (Revised) which is to be implemented beginning from January 1, 2013, and it is to be applied retrospectively apart from a number of exceptions. The initial adoption of IAS 19 (Revised) had no significant effect on the Company’s financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. New Standards, interpretations and amendments initially adopted by the Company (Cont.)

2. IFRS 10, IFRS 11, IAS 27R – Consolidated Financial Statements, Separate Financial Statements, Joint Ventures

IFRS 10 - Consolidated Financial Statements

IFRS 10 - Consolidated Financial Statements

IFRS 10 (hereunder – IFRS 10) supersedes IAS 27 regarding the accounting treatment of consolidated financial statements and includes the accounting treatment for the consolidation of structured entities previously accounted for under SIC 12, "Consolidation of Special Purpose Entities.

IAS 27R – Separate Financial Statements

IAS 27R (hereunder – IAS 27R) supersedes IAS 27 and deals only with separate financial statements. The existing directives regarding the separate financial statements remain without change in the framework of IAS 27R.

IFRS 11 – Joint Arrangements

IFRS 11 (hereunder – IFRS 11) supersedes IAS 31 regarding the accounting treatment of interests in joint ventures and SIC 13 regarding the interpretation of the accounting treatment of non-monetary investments by jointly controlled entities.

The initial adoption of IFRS 10, IFRS 11 and IAS 27R had no significant effect on the Company’s financial statements.

3. Amendment to IAS 1

The said amendment changed the manner of presentation of other comprehensive income items, so that after the initial recognition of the other comprehensive income items, they will be transferred to profit and loss and will be reported separately from the other comprehensive income which will never be transferred to profit and loss. The said amendment had no significant effect on the manner of presentation in the Company’s financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. New Standards, interpretations and amendments initially adopted by the Company (Cont.)

4. IFRS 13 - Fair Value Measurement

IFRS 13 establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value reflects the participant’s ability to generate economic benefits by highest and best use of the asset. IFRS 13 also specifies the characteristics of market participants on which the assumptions were based for calculating the fair value. According to IFRS 13, fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market. The provisions of IFRS 13 are to be applied retrospectively beginning from January 1, 2013 and they do not apply to comparative figures.

Disclosure requirements were added accordingly. The initial adoption of IFRS 13 had no significant effect on the Company’s financial statements.

NOTE 3:- DATA OF THE CPI AND REPRESENTATIVE EXCHANGE RATE OF FOREIGN CURRENCY

	Israeli CPI	Representative exchange rate of the Zloty (Polish currency)	Representative exchange rate of the Canadian dollar	Representative exchange rate of the Euro
	Points *)	NIS	NIS	NIS
As at				
June 30, 2013	222.7	1.090	3.452	4.719
June 30, 2012	218.3	1.461	3.825	4.931
December 31, 2012	219.8	1.214	3.750	4.921
Change in rates during the period	%	%	%	%
June 2013 (six months)	1.3	(10.2)	(7.9)	(4.1)
June 2013 (three months)	1.4	(2.3)	(3.8)	1.2
June 2012 (six months)	1.0	3.5	2.3	(0.1)
June 2012 (three months)	0.6	(2.8)	2.7	(0.4)
December 2012 (twelve months)	1.6	6.8	0.3	(0.3)

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

NOTE 4:- SEGMENTS OF ACTIVITY

a. General

1. The Group operates in the income generating real estate market. Its 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 segments of activity since the Company's management examines its activities based on these segments.

NOTE 4:- SEGMENTS OF ACTIVITY (Cont.)

b. Report regarding segments of activity

1.

	For the period of six months ended as at June 30, 2013				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	22,983	8,063	29,122	41,538	101,706
Deduction of deferred incentives to lessees	(104)	-	(333)	(2,158)	(2,595)
Increase (decrease) in investment property value	(279)	806	61,640	(2,278)	59,889
Total income	22,600	8,869	90,429	37,102	159,000
Segment results	13,769	6,431	87,207	29,006	136,413
Finance income					951
Finance expenses					(60,655)
Net finance expenses					(59,704)
Income before taxes on income					76,709

2.

	For the period of six months ended as at June 30, 2012				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	21,993	6,700	22,470	52,391	103,554
Deduction of deferred incentives to lessees	(21)	-	(291)	(2,937)	(3,249)
Increase (decrease) in investment property value	533	(99)	7,441	55,997	63,872
Total income	22,505	6,601	29,620	105,451	164,177
Segment results	11,000	3,888	26,589	96,406	137,883
Finance income					2,807
Finance expenses					(73,244)
Net finance expenses					(70,437)
Income before capital gain					67,446
Capital gain					36
Income before taxes on income					67,482

NOTE 4:- SEGMENTS OF ACTIVITY (Cont.)

b. Report regarding segments of activity (Cont.)

3.

	For the period of three months ended as at June 30, 2013				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	11,328	4,150	16,197	19,575	51,250
Deduction of deferred incentives to lessees	(51)	-	(164)	(1,058)	(1,273)
Increase (decrease) in investment property value	(279)	806	61,640	(2,278)	59,889
Total income	10,998	4,956	77,673	16,239	109,866
Segment results	6,732	3,524	75,837	12,454	98,547
Finance income					98
Finance expenses					(38,064)
Net finance expenses					(37,966)
Income before taxes on income					60,581

4.

	For the period of three months ended as at June 30, 2012				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	10,865	3,708	11,043	24,093	49,709
Deduction of deferred incentives to lessees	(13)	-	(236)	(1,362)	(1,611)
Increase (decrease) in investment property value	533	(99)	7,441	55,997	63,872
Total income	11,385	3,609	18,248	78,728	111,970
Segment results	4,809	2,271	16,660	74,234	97,974
Finance income					657
Finance expenses					(42,703)
Net finance expenses					(42,046)
Income before taxes on income					55,928

NOTE 4:- SEGMENTS OF ACTIVITY (Cont.)

b. Report regarding segments of activity (Cont.)

5.

	Year ended as at December 31, 2012				
	Israel	**Belgium**	**Poland**	**Canada**	**Total**
			Audited		
			NIS in thousands		
Income:					
Income from leasing of properties before amortization	44,895	14,209	46,867	97,566	203,537
Deduction of deferred incentives to lessees	(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)
Net finance expenses					(125,815)
Income before capital gain					99,125
Capital gain					33
Income before taxes on income					99,158

NOTE 5:- FINANCIAL INSTRUMENTS

a. Fair value

Hereunder are the book balances of the financial liabilities that are not reported according to their fair value, and their fair value as at June 30, 2013:

	Balance	Fair value
	NIS in thousand	
Financial liabilities:		
Long term loans with fixed interest (1)	754,982	795,378
Bonds (including payable interest) (2)	812,203	853,908
	1,567,185	1,649,286

(1) The fair value of long term loans received which bear permanent interest, is based on the calculation of the present value of the cash flows according to the standard interest rate for similar loans with similar characteristics.

(2) The fair value is based on quoted prices in an active market as at the reporting date of the financial position.

b. Classification of financial instruments by fair value hierarchy

The financial instruments presented in the statement of financial position according to fair value or for which disclosure is given to their fair value, are classified in groups that share similar characteristics to the fair value hierarchy in accordance with the data used to determine the fair value:

Level 1 - Fair value measured by the use of quoted prices (unadjusted) in active markets for identical instruments.

Level 2 - Fair value measured by use of expected data, direct or indirect, which are not included in Level 1 above.

For financial instruments which are recognized at fair value periodically, the Company estimates, at the end of each reporting period, whether there were transfers between the various levels of the fair value hierarchy.

NOTE 5:- FINANCIAL INSTRUMENTS

b. Classification of financial instruments by fair value hierarchy (Cont.)

As at June 30, 2013 the Company holds the financial instruments measured at fair value as classified below:

Financial assets measured at fair value

	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Short term investments	11	-	-	11
Financial derivatives	-	6,741	-	6,741
Total	11	6,741	-	6,752

Financial liabilities measured at fair value

	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Financial derivatives	-	34,726	-	34,726

The balance in the financial statements of cash, debtors and receivables, current tax assets are compatible or close to their fair value.

NOTE 6:- TAXES ON INCOME

On July 30, 2013, at the first and second reading the Knesset (Israeli Parliament) approved the economic plan for the years 2013 - 2014 (the Budget Law), which includes, among others, fiscal changes whose main objective is to expand the collection of taxes for those years.

These changes include, among others, raising the corporate tax rate from 25% to 26.5%, taxation of revaluation gains and raising the tax rate on dividends regarding the Encouragement of Capital Investment Law to the rate of 20% from January 1, 2014.

The deferred tax balances included in the financial statements as of June 30, 2013 are calculated according to the tax rates in force as at the balance sheet date and do not take into account the potential effects resulting from the change in the law. These effects will be included in the financial statements that will be published from the date the legislation is virtually completed, i.e. in the third quarter of 2013.

The Company estimates that the effect of the changes in tax rates will lead to an increase of about NIS 2 million in the reserve for deferred taxes as at June 30, 2013.

NOTE 7:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

a. Completion of an agreement with companies from the Migdal Group for investment of 19.9% of the issued and paid up share capital of a subsidiary in Belgium

On June 2, 2013 the Company completed the engagement agreement with companies controlled and managed by Migdal Insurance Company (hereunder – Migdal), whereby Migdal will receive an allocation of shares constituting about 19.9% of the issued and paid up share capital of Adgar Investment and Development Poland N.V. a Belgium company wholly owned by the Company (hereunder – subsidiary), which holds the Company's real estate activities in Poland, in consideration for an investment totaling about € 13.3 million in the subsidiary (from the said amount about € 8.8 million was given to the subsidiary via an owner's loan, without stating a repayment date, at an annual interest rate of Euribor plus a margin of 2.6%).

In the framework of the agreement, the subsidiary made a commitment that the annual return from the real estate assets, in the years 2013 to 2015, will not be less than 7% (hereunder the yield threshold). In the event that the annual yield for the said real estate assets is less than the yield threshold, Migdal will be entitled to the adjustments stipulated in the agreement, in relation to its investment in the subsidiary. The Company expects that the annual return on the real estate assets will not be less than the yield threshold.

In addition, in the framework of the agreement the parties undertook that insofar as within seven years from the closing date there will not be a public issue of the subsidiary or another company which holds real estate assets of the subsidiary, Migdal shall be entitled to convert the shares of the subsidiary into the Company's shares, according to the conversion ratio determined in the agreement and which shall be based on a valuation of the subsidiary's shares. Hence, the value of the shares that the investor will receive will be identical to the value of the converted shares of the subsidiary on the date of said conversion.

b. Procedures for the initial public offering of the Company's activities in real estate in Canada

Further to the Company's report on the possibility of the initial public offering of the Company's activities in the real estate field in Canada, among others by way of an offer for sale of part of the said activities, on April 8, 2013 the Company reported the engagement of the subsidiary in Canada in a letter of intent with CIBC Markets Inc. (hereunder - CIBC), an entity that is not related to the Company and/or to its controlling shareholders, whereby CIBC will serve as a leading underwriter for a group of Canadian investment entities regarding the sale of securities of Canadian Right which will be set up by Canadian corporations controlled by the Company.

On June 30, 2013, the Company reported that due to the volatility in the financial markets in Canada and the United States during the relevant period, the issue will not be completed until the end of the second quarter of the year 2013, as first estimated by the Company. The Company continues to prepare for the completion of the aforementioned issue, but at this stage the Company is unable to estimate the date of the issue in the event that it will be carried out.

NOTE 7:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

c. Acquisition of an office building in a subsidiary in Poland

On June 6, 2013 the Company a transaction wherein a subsidiary of the Company entered into a preliminary agreement with a third party which is not related to the Company and/or to its controlling shareholders, for the acquisition of an office building in Warsaw, Poland on a total leasing area of about 42 thousand square meters and about 1,000 parking spaces. As of this date the property was fully occupied and the main tenant in the property, who held about 76% of the leased area, is going to vacate the premises by the end of July 2013 and therefore the occupancy rate was expected to decrease to about 24%. In consideration for the property the subsidiary paid the total sum of about € 36 million (including acquisition expenses) and about € 21 million of the consideration was financed by a bank loan. As at this date, the subsidiary signed a lease agreement with the Polish Government Authority for the lease of about 12 thousand square meters of office premises and about 2 thousand square meters of storage space with an additional investment of about € 2 million. Following the abovementioned agreement the occupancy rate in this asset is expected to increase to about 56%.

As at June 30, 2013 the Company received a valuation from an appraiser in Poland, according to which the asset was valuated, at its present condition, at the amount of about € 50.7 million. Therefore, the Company recorded a profit from a gross increase in value, in the amount of about € 14.6 million (the part attributed to the shareholders before tax is about € 11.7 million). The Company requested another valuation from an independent appraiser and received an evaluation at a similar amount.

d. Expansion of the Company’s bonds (Series G)

On May 19, 2013 the Company made a public issue of bonds (Series G) in the amount of NIS 180 million nominal value by expanding the series, in consideration for about NIS 193.9 million (net of issue expenses). The bonds conditions are in accordance with the conditions of the Bonds (Series G) issued by the Company according to a prospectus from May 29, 2012.

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