

**Translated
from the
Hebrew original**

ADGAR INVESTMENTS AND DEVELOPMENT LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2014

UNAUDITED

ADGAR INVESTMENTS AND DEVELOPMENT LTD.

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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 March 31, 2014 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the period of 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 55.4% of total consolidated assets as of March 31, 2014, and whose revenues constitute approximately 63.3% of the total consolidated revenues for the 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
May 15, 2014

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31		December 31
	2014	2013	2013
	Unaudited		Audited
NIS in thousands			
CURRENT ASSETS			
Cash and cash equivalents	408,243	71,008	309,485
Short-term investments	20,017	15	5
Customers	14,133	11,751	12,745
Deposits	45,761	19,408	29,586
Debtors and receivables	11,327	8,344	10,397
Current taxes receivable	11,098	10,915	6,257
Derivatives	1,083	8,779	8,885
	<u>511,662</u>	<u>130,220</u>	<u>377,360</u>
Non-current assets designated for sale	21,731	-	381,414
	<u>533,393</u>	<u>130,220</u>	<u>758,774</u>
NON CURRENT ASSETS			
Deposit	7,230	-	20,662
Derivatives	-	423	-
Loans	13,268	8,527	13,778
Fixed assets	15,396	16,442	15,519
Investment property	2,651,856	2,805,647	2,649,017
Investment property under construction	165,319	99,386	151,518
Intangible assets	23	45	23
Deferred taxes	3,971	14,681	5,554
	<u>2,857,063</u>	<u>2,945,151</u>	<u>2,856,071</u>
	<u>3,390,456</u>	<u>3,075,371</u>	<u>3,614,845</u>

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31		December 31
	2014	2013	2013
	Unaudited		Audited
	NIS in thousands		
CURRENT LIABILITIES			
Credit from banking institutions and current maturities of long-term loans	226,293	188,308	155,381
Current maturities of bonds	205,355	118,606	145,507
Liabilities to suppliers and service providers	12,576	10,096	8,707
Taxes payable	16,804	13	193
Creditors and payables	86,465	66,147	69,312
Derivatives	12,408	7,507	11,831
	<u>559,901</u>	<u>390,677</u>	<u>390,931</u>
Liabilities relating to available for sale assets	-	-	165,050
	<u>559,901</u>	<u>390,677</u>	<u>555,981</u>
NON-CURRENT LIABILITIES			
Loans from banking institutions and other financial entities	1,139,862	1,200,559	1,183,085
Bonds	689,021	491,657	833,584
Derivatives	24,769	32,785	22,519
Employee benefit liabilities, net	87	87	87
Deferred taxes	121,469	123,947	143,029
	<u>1,975,208</u>	<u>1,849,035</u>	<u>2,182,304</u>
EQUITY			
Share capital	155,890	155,768	155,890
Share premium	257,523	256,643	257,523
Other reserves	(10,611)	(20,742)	(10,364)
Adjustments due to the translation of financial statements of activities abroad	(158,376)	(96,938)	(141,452)
Retained earnings	571,332	540,928	575,968
Total capital attributed to the Company's shareholders	<u>815,758</u>	<u>835,659</u>	<u>837,565</u>
Non-controlling interests	39,589	-	38,995
Total equity	<u>855,347</u>	<u>835,659</u>	<u>876,560</u>
	<u>3,390,456</u>	<u>3,075,371</u>	<u>3,614,845</u>

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

<u>May 15, 2014</u>			
Date of approval of the financial statements	Doron Schneidman Chairman of the Board	Roy Gadish CEO	Liat Manor Finance Manager

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	For the three months ended		For the year ended
	March 31		December 31
	2014	2013	2013
	Unaudited		Audited
NIS in thousands [except for net earnings per share data]			
INCOME			
Income from rental of properties	42,296	49,134	199,566
Increase in value of investment property and investment property under construction, net	3,307	-	122,417
	45,603	49,134	321,983
EXPENSES			
Maintenance of assets, net	4,236	3,297	14,155
Administrative and general	8,710	7,971	33,284
Issue expenses	-	-	8,817
	12,946	11,268	56,256
Income before financing	32,657	37,866	265,727
Finance income	2,857	853	3,965
Finance expenses	(19,865)	(22,591)	(131,692)
Finance expenses, net	(17,008)	(21,738)	(127,727)
Income before capital gain	15,649	16,128	138,000
Capital gain	12	-	35
Income before taxes on income	15,661	16,128	138,035
Taxes on income	5,026	5,626	47,586
Net income	10,635	10,502	90,449
Attributed to:			
Equity holders of the Company	10,364	10,502	74,236
Non-controlling interests	271	-	16,213
	10,635	10,502	90,449
Net earnings per share attributed to equity holders of the Company (in NIS)			
Basic net earnings	0.09	0.09	0.66
Diluted net earnings	0.09	0.09	0.66

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OR LOSS

	For the three months ended March 31		For the year ended December 31
	2014	2013	2013
	Unaudited		Audited
	NIS in thousands		
Net income	<u>10,635</u>	<u>10,502</u>	<u>90,449</u>
Other comprehensive income (loss) (after the tax effect):			
Amounts that will be classified or reclassified to profit or loss under specific conditions:			
Other comprehensive income (loss) (after the tax effect):			
Income (loss) from cash flow hedges, net	(180)	2,694	9,831
Adjustment resulting from the translation of financial statements of activities abroad	<u>(16,668)</u>	<u>(44,537)</u>	<u>(92,672)</u>
Total other comprehensive loss	<u>(16,848)</u>	<u>(41,843)</u>	<u>(82,841)</u>
Total comprehensive income (loss)	<u>(6,213)</u>	<u>(31,341)</u>	<u>7,608</u>
Total comprehensive income (loss) attributable to:			
Company shareholders	(6,807)	(31,341)	(9,653)
Non-controlling interests	<u>594</u>	<u>-</u>	<u>17,261</u>
	<u>(6,213)</u>	<u>(31,341)</u>	<u>7,608</u>

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 premiums	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, 2014 (Audited)	155,890	257,523	(10,364)	(141,452)	575,968	837,565	38,995	876,560
Net income	-	-	-	-	10,364	10,364	271	10,635
Total other comprehensive income (loss)	-	-	(247)	(16,924)	-	(17,171)	323	(16,848)
Total comprehensive income (loss)	-	-	(247)	(16,924)	10,364	(6,807)	594	(6,213)
Dividend to Company shareholders	-	-	-	-	(15,000)	(15,000)	-	(15,000)
Balance as at March 31, 2014	<u>155,890</u>	<u>257,523</u>	<u>(10,611)</u>	<u>(158,376)</u>	<u>571,332</u>	<u>815,758</u>	<u>39,589</u>	<u>855,347</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	<u>Share capital</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Adjustments resulting from the translation of financial statements of activities abroad</u>	<u>Retained earnings</u>	<u>Total</u>
	Unaudited					
	NIS in thousands					
Balance as at January 1, 2013 (Audited)	155,768	256,643	(23,789)	(52,401)	530,426	866,647
Net income	-	-	-	-	10,502	10,502
Other comprehensive income (loss)	-	-	2,694	(44,537)	-	(41,843)
Total comprehensive income (loss)	-	-	2,694	(44,537)	10,502	(31,341)
Share-based payment	-	-	353	-	-	353
Balance as at March 31, 2013	<u>155,768</u>	<u>256,643</u>	<u>(20,742)</u>	<u>(96,938)</u>	<u>540,928</u>	<u>835,659</u>

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					Total	Non-controlling Interests	Total equity
	Share capital	Share premiums	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings			
Unaudited NIS in thousands								
Balance as at January 1, 2013	155,768	256,643	(23,789)	(52,401)	530,426	866,647	-	866,647
Net income	-	-	-	-	74,236	74,236	16,213	90,449
Total other comprehensive income (loss)	-	-	8,682	(92,571)	-	(83,889)	1,048	(82,841)
Total comprehensive income (loss)	-	-	8,682	(92,571)	74,236	(9,653)	17,261	7,608
Issue of shares in subsidiary to non-controlling interest holders	-	-	4,900	3,520	(8,694)	(274)	21,734	21,460
Cost of share-based payment	-	-	723	-	-	723	-	723
Realization of options to Company shares	122	880	(880)	-	-	122	-	122
Dividend to Company shareholders	-	-	-	-	(20,000)	(20,000)	-	(20,000)
Balance as at December 31, 2013 (Audited)	<u>155,890</u>	<u>257,523</u>	<u>(10,364)</u>	<u>(141,452)</u>	<u>575,968</u>	<u>837,565</u>	<u>38,995</u>	<u>876,560</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended March 31		For the year ended December 31
	2014	2013	2014
	Unaudited		Audited
	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES			
Net income	10,635	10,502	90,449
Adjustments needed to present cash flows from operating activities:			
Adjustments to the profit and loss items:			
Increase in value of investment property and investment property under construction, net	(3,307)	-	(122,417)
Finance expenses, net	17,008	21,738	127,727
Capital gain	(12)	-	(35)
Depreciation and amortization	1,663	1,661	7,790
Taxes on income	5,026	5,626	47,586
Share-based payment cost	-	353	723
	20,378	29,378	61,374
Changes in asset and liability items:			
Increase in customers	(1,435)	(1,092)	(2,150)
Increase in debtors and receivables	(989)	(990)	(6,263)
Increase (decrease) in liabilities to suppliers and service providers	(452)	3,590	(173)
Increase (decrease) in creditors and payables	8,058	(14,982)	(25,025)
	5,182	(13,474)	(33,611)
Cash paid and received during the year for:			
Interest paid	(32,189)	(32,256)	(107,943)
Interest received	2,472	442	5,836
Taxes paid	(14,372)	(12)	(1,544)
Taxes received	14	-	1,082
	(44,075)	(31,826)	(102,569)
Net cash (used in) provided by current activities	(7,880)	(5,420)	15,643

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended March 31		For the year ended December 31
	2014	2013	2014
	Unaudited		Audited
	NIS in thousands		
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Investment in deposits, net	(2,546)	-	(30,626)
Proceeds from sale of investment property	360,407	13,308	13,308
Acquisition of short term investments	(20,002)	-	-
Acquisition of hedge transaction	(2,100)	-	(4,116)
Proceeds from the sale of hedge transactions	13,585	-	377
Acquisition of investment property	(17,132)	(15,432)	(208,531)
Acquisition of investment property under construction	(12,680)	(1,050)	(39,591)
Acquisition of fixed assets	(310)	(40)	(2,445)
Proceeds from sale of fixed assets	1,141	-	192
Capitalization of interest paid for investment property under construction	(803)	(1,178)	(6,705)
Acquisition of intangible assets	(9)	-	(6)
Grant of loan to partners in assets in Canada, net	180	-	(5,771)
Settlement of loan granted to lessee, net	54	49	204
Net cash (used in) provided by investment activities	319,785	(4,343)	(283,710)
CASH FLOWS FROM FINANCE ACTIVITIES			
Settlement of short-term credit from banking institutions	(871)	(40)	(4,742)
Receipt of long-term loans	47,828	-	250,932
Settlement of long-term loans	(175,357)	(14,645)	(110,973)
Dividend paid to Company shareholders	-	(10,000)	(30,000)
Issue of shares to non-controlling interests in a subsidiary of the Company	-	-	21,460
Realization of options into Company shares	-	-	122
Settlement of bonds	(72,401)	(71,406)	(110,628)
Issue of bonds net of issue expenses	-	-	388,998
Net cash (used in) provided by finance activities	(200,801)	(96,091)	405,169
Translation differences in respect of cash balances in foreign entities	(12,346)	(4,736)	(9,215)
Increase (decrease) in cash and cash equivalents	98,758	(110,590)	127,887
Balance of cash and cash equivalents as at the beginning of the year	309,485	181,598	181,598
Balance of cash and cash equivalents as at the end of the year	408,243	71,008	309,485

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended March 31		For the year ended December 31
	2014	2013	2014
	Unaudited		Audited
	NIS in thousands		
(a) SIGNIFICANT ACTIVITIES NOT INVOLVING CASH FLOWS			
Dividend declared but not yet paid	15,000	-	-
Acquisition of fixed assets and investment property against suppliers and service providers	11,667	8,308	6,005
Acquisition of investment property under construction against creditors and receivables	8,500	-	7,500

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. These financial statements have been prepared in a condensed format as of March 31, 2014 for the 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, 2013 and for the year then ended and their accompanying notes (hereunder - annual financial statements).
- b. As of March 31, 2014, the Company has a working capital deficiency of about NIS 26.5 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. This deficit is not expected to impair the Company's business operations since the banks usually refinance the short term credit which they grant.

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. Interpretation of IFRIC 21 - Levies

In May 2013, the IASB published the interpretation of IFRIC 21 (hereunder – the interpretation) regarding levies imposed by Government institutions through legislation. According to the interpretation, the liability to pay a levy will only be recognized when the activity that triggers payment occurs. The interpretation is applied retrospectively.

The initial implementation of the interpretation did not have a significant impact on the Company's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIESb. New Standards, interpretations and amendments initially adopted by the Company
(Cont.)2. Amendments to IFRS 10, Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27R, Separate Financial Statements related to investment entities:

In October 2012, the IASB published amendments regarding investment entities (amendments to IFRS 10, IFRS 12 and IAS 27, (hereunder – the investment entities amendments). The investment entities amendments determine that investment entities are not required to consolidate their subsidiaries but rather to measure the investments therein at fair value through profit or loss. The amendments also set out specific disclosure requirements for investment entities. The amendments are applied retrospectively.

Investment entities are entities whose sole purpose is to invest in companies for returns from capital appreciation, investment income or both.

The initial implementation of the interpretation did not have a significant impact on the Company's financial statements.

3. Amendment to IAS 39, Financial Instruments: Recognition and Measurement regarding Novation of Derivatives and Continuation of Hedge Accounting:

The Amendment to IAS 39 (hereunder - IAS 39) deals with an exception to the requirement to discontinue hedge accounting. The amendment added conditions that must be met so replacement or rollover of a hedging instrument with another hedging instrument will not be considered an expiration or termination. The amendment is applied retrospectively.

The implementation of the amendment did not have a significant effect on the Company.

4. Amendments to IAS 32, Financial Instruments: Presentation regarding Offsetting Financial Assets and Financial Liabilities:

The IASB published amendments to IAS 32 (hereunder - the amendments to IAS 32) regarding the offsetting of financial assets and financial liabilities. The amendments to IAS 32 clarify, among others, the meaning of "currently has a legally enforceable right of set-off" (hereunder - the right of set-off). Among others, the amendments to IAS 32 prescribe that the right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. The amendments to IAS 32 also state that in order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

The implementation of the amendments did not have a significant effect on the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE 3:- DATA OF THE CPI AND REPRESENTATIVE EXCHANGE RATE OF FOREIGN CURRENCY**

	Representative exchange rate of			Index for December in points *)
	Zloty (Polish currency)	Canadian dollar	Euro	
As at				
March 31, 2014	1.152	3.158	4.812	222.7
March 31, 2013	1.136	3.589	4.661	219.9
December 31, 2013	1.153	3.264	4.782	223.8
Change in rates during the period	%	%	%	%
March 2014 (three months)	(0.1)	(3.2)	0.6	(0.5)
March 2013 (three months)	(6.4)	(4.3)	(5.3)	-
December 2013 (twelve months)	(5.0)	(13.0)	(2.8)	1.8

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

NOTE 4:- SEGMENTS OF ACTIVITYa. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- SEGMENTS OF ACTIVITY (Cont.)

b. Report regarding segments of activity

	For the period of three months ended as at March 31, 2014				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	11,455	4,120	14,164	13,884	43,623
Deduction of deferred incentives to lessees	(38)	-	(392)	(897)	(1,327)
Increase in value of investment property and investment property under construction, net	-	-	1,510	1,797	3,307
Total income	11,417	4,120	15,282	14,784	45,603
Segment results	6,883	3,098	10,673	12,003	32,657
Finance income					2,857
Finance expenses					(19,865)
Net finance expenses					(17,008)
Income before capital gain					15,649
Capital gain					12
Income before taxes on income					15,661

	For the period of three months ended as at March 31, 2013				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	11,655	3,913	12,925	21,963	50,456
Deduction of deferred incentives to lessees	(53)	-	(169)	(1,100)	(1,322)
Total income	11,602	3,913	12,756	20,863	49,134
Segment results	7,038	2,907	11,369	16,552	37,866
Finance income					853
Finance expenses					(22,591)
Net finance expenses					(21,738)
Income before taxes on incom					16,128

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- SEGMENTS OF ACTIVITY (Cont.)

b. Report regarding segments of activity (Cont.)

	Year ended as at December 31, 2013				
	Israel	Belgium	Poland	Canada	Total
	Audited				
NIS in thousands					
Income:					
Income from leasing of properties before amortization	46,223	16,398	59,794	83,108	205,523
Deduction of deferred incentives to lessees	(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)
Net finance expenses					(127,727)
Income before capital gain					138,000
Capital gain					35
Income before taxes on income					138,035

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**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 March 31, 2014:

	<u>Balance</u>	<u>Fair value</u>
	<u>NIS in thousand</u>	
Financial liabilities:		
Long term loans with fixed interest (1)	563,165	586,920
Bonds (including payable interest) (2)	<u>894,376</u>	<u>992,182</u>
	<u>1,457,541</u>	<u>1,579,102</u>

- (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.

Hereunder are the book balances of the financial liabilities that are not reported according to their fair value, and their fair value as at March 31, 2013:

	<u>Balance</u>	<u>Fair value</u>
	<u>NIS in thousand</u>	
Financial liabilities:		
Long term loans with fixed interest	717,412	760,407
Bonds (including payable interest)	<u>610,263</u>	<u>632,582</u>
	<u>1,327,675</u>	<u>1,392,989</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE 5:- FINANCIAL INSTRUMENTS**a. Fair value (Cont.)

Hereunder are the book balances of the financial liabilities that are not reported according to their fair value, and their fair value as at December 31, 2013:

	<u>Balance</u>	<u>Fair value</u>
	<u>NIS in thousand</u>	
Financial liabilities:		
Long term loans with fixed interest	705,853	723,489
Bonds (including payable interest)	<u>979,091</u>	<u>1,038,229</u>
	<u>1,684,944</u>	<u>1,761,718</u>

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.
- Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

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.

As at March 31, 2014 the Company holds the financial instruments measured at fair value as classified below:

Financial assets measured at fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>NIS in thousands</u>			
Short term investments	20,017	-	-	20,017
Financial derivatives	<u>-</u>	<u>1,083</u>	<u>-</u>	<u>1,083</u>
Total	<u>20,017</u>	<u>1,083</u>	<u>-</u>	<u>21,100</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE 5:- FINANCIAL INSTRUMENTS**b. Classification of financial instruments by fair value hierarchy (Cont.)Financial liabilities measured at fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>NIS in thousands</u>			
Financial derivatives	-	37,177	-	37,177

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

As at March 31, 2013 the Company holds the financial instruments measured at fair value as classified below:

Financial assets measured at fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>NIS in thousands</u>			
Short term investments	15	-	-	15
Financial derivatives	-	9,202	-	9,202
Total	15	9,202	-	9,217

Financial liabilities measured at fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>NIS in thousands</u>			
Financial derivatives	-	40,292	-	40,292

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE 5:- FINANCIAL INSTRUMENTS**b. Classification of financial instruments by fair value hierarchy (Cont.)

As at December 31, 2013 the Company holds the financial instruments measured at fair value as classified below:

Financial assets measured at fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>NIS in thousands</u>		
December 31, 2013			
Short term investments	5	-	-
Financial derivatives	-	8,885	-

Financial liabilities measured at fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>NIS in thousands</u>		
December 31, 2013			
Financial derivatives	-	34,350	-

During the year 2013 there were no transfers from Level 2 to Level 1.

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIODa. Completion of agreement for the sale of an additional 25% in most of the assets of the subsidiary in Canada

In January 2014 (hereunder – "the completion date of the transaction), the subsidiary in Canada completed the agreement with a Canadian financial entity which is not related to the Company and/or to controlling shareholders therein (hereunder – "the purchaser") for the sale of an additional 25% of the rights in most of the assets in Canada, so that after the sale, the subsidiary in Canada holds 50% of the ownership in the abovementioned assets (after the sale of 25% of the rights in the assets in May 2012). On the date of completion of the transaction the subsidiary was paid total consideration in the amount of about CAD 110 million (about NIS 359 million), which a portion share of about CAD 62 million (about NIS 202 million) was paid in cash to the subsidiary, and the purchaser assumed the liabilities towards the financial institutions which provided finance to the subsidiary regarding the assets in the amount of about CAD 48 million (about NIS 156 million) which constitute the proportional share of the purchaser in loans to finance the assets. In addition, upon the completion date of the transaction, the Company has committed to minimum operating income for the first year from the date of completion of the transaction, with respect to the sold assets. The Company estimates these adjustments, as far as needed, will not likely be in a significant amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

- b. The signing of a preliminary agreement for sale of a building in the subsidiary in Belgium

In March 2014, an agreement between a subsidiary in Belgium and a third party unrelated to the Company and/or its controlling shareholders, the sale of a building in Rlstrat, Antwerp, Belgium in consideration for about €4.8 million, the proceeds will be made in installments up to two years from the date of sale. Completion of the transaction is subject to fulfillment of stipulating conditions in the agreement (mainly technical), in respect of the sale no material gain/loss is expected.

The abovementioned asset is presented in the framework of assets designated for sale.

NOTE 7:- EVENTS AFTER THE BALANCE SHEET DATE

- a. Dividend distribution

In April 2014 the Company paid a dividend its shareholders in the amount of NIS 15 million (constituting about 13.4 agoroth per NIS 1 par value per share).
