

**Translated
from the
Hebrew original**

ADGAR INVESTMENTS AND DEVELOPMENT LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2015

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, 2015 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 57.8% of total consolidated assets as of March 31, 2015, and whose revenues constitute approximately 68.4% 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 18, 2015

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31		December 31
	2015	2014	2014
	Unaudited		Audited
	NIS in thousands		
CURRENT ASSETS			
Cash and cash equivalents	177,275	408,243	394,810
Short-term investments	30,594	20,017	50,035
Customers	11,722	14,133	12,618
Deposits	33,633	45,761	13,022
Debtors and receivables	38,288	11,327	39,417
Current taxes receivable	7,808	11,098	7,766
Derivatives	14,585	1,083	4,812
	<u>313,905</u>	<u>511,662</u>	<u>522,480</u>
Non-current assets designated for sale	-	21,731	-
	<u>313,905</u>	<u>533,393</u>	<u>522,480</u>
NON CURRENT ASSETS			
Deposit	27,737	7,230	30,632
Debtors	5,075	-	11,221
Loans	13,697	13,268	11,826
Fixed assets	12,733	15,396	14,605
Investment property	2,897,189	2,651,856	3,029,862
Investment property under construction	273,050	165,319	239,881
Intangible assets	35	23	12
Deferred taxes	819	1,238 *)	1,450
	<u>3,230,335</u>	<u>2,854,330 *)</u>	<u>3,339,489</u>
	<u>3,544,240</u>	<u>3,387,723 *)</u>	<u>3,861,969</u>

*) Change in accounting policy – see Note 2b below.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>March 31</u>		<u>December 31</u>
	<u>2015</u>	<u>2014</u>	<u>2014</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>NIS in thousands</u>		
CURRENT LIABILITIES			
Credit from banking institutions and current maturities of long-term loans	173,013	226,293	253,486
Current maturities of bonds	131,392	205,355	216,655
Liabilities to suppliers and service providers	22,592	12,576	16,676
Taxes payable	2,104	16,804	19,237
Creditors and payables	79,472	86,465	79,396
Derivatives	15,702	12,408	15,801
	<u>424,275</u>	<u>559,901</u>	<u>601,251</u>
NON-CURRENT LIABILITIES			
Loans from banking institutions and other financial entities	1,297,539	1,139,862	1,300,837
Debentures	788,876	689,021	861,772
Derivatives	29,747	24,769	30,338
Employee benefit liabilities, net	148	87	148
Deferred taxes	139,016	127,358 *)	146,096
	<u>2,255,326</u>	<u>1,981,097 *)</u>	<u>2,339,191</u>
EQUITY			
Share capital	157,526	155,890	157,414
Share premium	267,505	257,523	266,511
Other reserves	(13,601)	(10,611)	(13,707)
Adjustments due to the translation of financial statements of activities abroad	(219,052)	(156,607) *)	(137,516)
Retained earnings	628,986	560,941 *)	602,972
Total capital attributed to the Company's shareholders	<u>821,364</u>	<u>807,136 *)</u>	<u>875,674</u>
Non-controlling interests	43,275	39,589	45,853
Total equity	<u>864,639</u>	<u>846,725 *)</u>	<u>921,527</u>
	<u>3,544,240</u>	<u>3,387,723 *)</u>	<u>3,861,969</u>

*) Change in accounting policy – see Note 2b below.

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

<u>May 18, 2015</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 March 31		For the year ended December 31
	2015	2014	2014
	Unaudited		Audited
	NIS in thousands [except for net earnings per share data]		
INCOME			
Income from rental of properties	47,581	42,296	182,096
Increase in value of investment property and investment property under construction, net	-	3,307	80,673
	<u>47,581</u>	<u>45,603</u>	<u>262,769</u>
EXPENSES			
Maintenance of assets, net	3,412	4,236	14,850
Administrative and general	7,944	8,710	33,661
	<u>11,356</u>	<u>12,946</u>	<u>48,511</u>
Income before financing	<u>36,225</u>	<u>32,657</u>	<u>214,258</u>
Finance income	19,978	2,857	6,535
Finance expenses	(23,887)	(19,865)	(118,972)
Finance expenses, net	<u>(3,909)</u>	<u>(17,008)</u>	<u>(112,437)</u>
Income before capital gain (loss)	32,316	15,649	101,821
Capital gain (loss)	(9)	12	2
Income before taxes on income	32,307	15,661	101,823
Taxes on income	4,753	4,205 *)	26,439
Net income	<u>27,554</u>	<u>11,456 *)</u>	<u>75,384</u>
Attributed to:			
Equity holders of the Company	26,014	11,185 *)	68,216
Non-controlling interests	1,540	271	7,168
	<u>27,554</u>	<u>11,456 *)</u>	<u>75,384</u>
Net earnings per share attributed to equity holders of the Company (in NIS)			
Basic net earnings	<u>0.23</u>	<u>0.09</u>	<u>0.61</u>
Diluted net earnings	<u>0.23</u>	<u>0.09</u>	<u>0.60</u>

*) Change in accounting policy – see Note 2b below.

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
	2015	2014	2014
	Unaudited		Audited
	NIS in thousands		
Net income	<u>27,554</u>	<u>11,456</u> *)	<u>75,384</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	1,167	(180)	22
Adjustment resulting from the translation of financial statements of activities abroad	<u>(85,866)</u>	<u>(16,957)</u> *)	<u>1,327</u>
Total other comprehensive loss	<u>(84,699)</u>	<u>(17,137)</u> *)	<u>1,349</u>
Total comprehensive income (loss)	<u>(57,145)</u>	<u>(5,681)</u> *)	<u>76,733</u>
Total comprehensive income (loss) attributable to:			
Company shareholders	(54,564)	(6,275) *)	69,875
Non-controlling interests	<u>(2,581)</u>	<u>594</u>	<u>6,858</u>
	<u>(57,145)</u>	<u>(5,681)</u> *)	<u>76,733</u>

*) Change in accounting policy – see Note 2b below.

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, 2015 (Audited)	157,414	266,511	(13,707)	(137,516)	602,972	875,674	45,853	921,527
Net income	-	-	-	-	26,014	26,014	1,540	27,554
Total other comprehensive income (loss)	-	-	958	(81,536)	-	(80,578)	(4,121)	(84,699)
Total comprehensive income (loss)			958	(81,536)	26,014	(54,564)	(2,581)	(57,145)
Share-based payment	-	-	142	-	-	142	3	145
Realization of options to Company shares	112	994	(994)	-	-	112	-	112
Balance as at March 31, 2015	<u>157,526</u>	<u>267,505</u>	<u>(13,601)</u>	<u>(219,052)</u>	<u>628,986</u>	<u>821,364</u>	<u>43,275</u>	<u>864,639</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)	(139,394)	564,756	828,411	38,995	867,406
Net income	-	-	-	-	11,185	11,185	271	11,456
Total other comprehensive income (loss)	-	-	(247)	(17,213)	-	(17,460)	323	(17,137)
Total comprehensive income (loss)	-	-	(247)	(17,213)	11,185	(6,275)	594	(5,681)
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>(156,607)</u>	<u>560,941</u>	<u>807,136</u>	<u>39,589</u>	<u>846,725</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				Retained earnings	Total	Non-controlling Interests	Total equity
	Share capital	Share premiums	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad				
	Unaudited							
	NIS in thousands							
Balance as at January 1, 2014 (Audited)	155,890	257,523	(10,364)	(139,394)	564,756	828,411	38,995	867,406
Net income	-	-	-	-	68,216	68,216	7,168	75,384
Total other comprehensive income (loss)	-	-	(219)	1,878	-	1,659	(310)	1,349
Total comprehensive income (loss)	-	-	(219)	1,878	68,216	69,875	6,858	76,733
Realization of options to Company shares	1,524	8,988	(3,124)	-	-	7,388	-	7,388
Dividend to Company shareholders	-	-	-	-	(30,000)	(30,000)	-	(30,000)
Balance as at December 31, 2014 (Audited)	<u>157,414</u>	<u>266,511</u>	<u>(13,707)</u>	<u>(137,516)</u>	<u>602,972</u>	<u>875,674</u>	<u>45,853</u>	<u>921,527</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
	2015	2014	2014
	Unaudited		Audited
	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES			
Net income	27,554	11,456 *)	75,384
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)	(80,673)
Finance expenses, net	3,909	17,008	112,437
Capital gain (loss)	9	(12)	(2)
Depreciation and amortization	1,477	1,663	6,048
Taxes on income	4,753	4,205 *)	26,439
Change in employee benefit liabilities, net	-	-	61
Share-based payment cost	145	-	-
	10,293	19,557 *)	64,310
Changes in asset and liability items:			
Decrease (increase) in customers	93	(1,435)	119
Decrease (increase) in debtors and receivables	3,572	(989)	(18,494)
Increase (decrease) in liabilities to suppliers and service providers	7,770	(452)	(4,835)
Increase (decrease) in creditors and payables	(4,529)	8,058	(1,371)
	6,906	5,182	(24,581)
Cash paid and received during the year for:			
Interest paid	(36,967)	(32,189)	(101,988)
Interest received	770	2,472	5,665
Dividend received	36	-	163
Taxes paid	(15,487)	(14,372)	(17,969)
Taxes received	-	14	1,205
	(51,648)	(44,075)	(112,924)
Net cash (used in) provided by current activities	(6,895)	(7,880)	2,189

*) Change in accounting policy – see Note 2b below.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended		For the year ended
	March 31		December 31
	2015	2014	2014
	Unaudited		Audited
	NIS in thousands		
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Investment in deposits, net	(18,897)	(2,546)	6,511
Proceeds from sale of investment property	-	360,407	358,733
Acquisition of short term investments	(2,267)	(20,002)	(59,564)
Sale of short term investments	22,694	-	9,890
Acquisition of hedge transaction	(5,260)	(2,100)	(3,750)
Proceeds from the sale of hedge transactions	13,560	13,585	13,585
Acquisition of investment property	(56,533)	(17,132)	(277,610)
Acquisition of investment property under construction	(29,720)	(12,680)	(66,423)
Acquisition of fixed assets	(11)	(310)	(1,050)
Proceeds from sale of fixed assets	87	1,141	1,228
Capitalization of interest paid for investment property under construction	(682)	(803)	(7,474)
Acquisition of intangible assets	(25)	(9)	(12)
Settlement (grant) of loan to partners in assets in Canada, net	(2,571)	180	2,550
Settlement of loan granted to lessee, net	-	54	165
Net cash (used in) provided by investment activities	(79,625)	319,785	(23,221)
CASH FLOWS FROM FINANCE ACTIVITIES			
Settlement of short-term credit from banking institutions	-	(871)	(11,167)
Receipt of long-term loans	29,445	47,828	273,132
Settlement of long-term loans	(12,113)	(175,357)	(219,916)
Dividend paid to Company shareholders	-	-	(30,000)
Realization of options into Company shares	112	-	7,388
Settlement of CPI hedging transactions	-	-	(1,397)
Settlement of debentures	(139,247)	(72,401)	(126,872)
Issue of bonds net of issue expenses	-	-	222,961
Net cash (used in) provided by finance activities	(121,803)	(200,801)	114,129
Translation differences in respect of cash balances in foreign entities	(9,212)	(12,346)	(7,772)
Increase (decrease) in cash and cash equivalents	(217,535)	98,758	85,325
Balance of cash and cash equivalents as at the beginning of the year	394,810	309,485	309,485
Balance of cash and cash equivalents as at the end of the year	177,275	408,243	394,810

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
	2015	2014	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 creditors, suppliers and service providers	28,919	11,667	25,238
Acquisition of investment property under construction against creditors and receivables	20,131	8,500	15,500
Sale of investment property against debtors	-	-	22,259

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, 2015 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, 2014 and for the year then ended and their accompanying notes (hereunder - annual financial statements).
- b. As of March 31, 2015, the Company has a working capital deficiency of about NIS 110 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.
- c. After the balance sheet date, on May 6, 2015, the Company published an off the shelf prospectus for the issuance of securities during the coming 24 months as specified in the said prospectus. The Company has not yet offered securities based on the off the shelf prospectus.

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. Change in accounting policy regarding creation of deferred taxes in respect of asset companies

In July 2014, the IFRIC published a ruling regarding the creation of deferred taxes in respect of temporary difference attributable to asset companies when the entity expects the temporary differences in respect of the asset to reverse in the form of sale of shares in the asset company rather than by selling the asset itself. According to the said ruling and in view of the provisions of IAS 12, the Company is required to recognize deferred taxes also in respect of inside differences arising from the gap between the tax base of the asset and its book value.

Prior to the date of issuance of said ruling, the Company's accounting policy was to create deferred taxes in respect of temporary differences according to the tax implications and relevant tax rates relevant to the sale of shares in the asset company rather than the sale of the asset itself.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

- b. Change in accounting policy regarding creation of deferred taxes in respect of asset companies (Cont.)

The effect of the change in accounting policy following the IFRIC's resolution on the Company's financial statements is as follows:

Consolidated statements of financial position

	As previously reported	The change	As presented in these financial statements
	NIS in thousands		
March 31, 2014			
Deferred taxes (under non-current assets)	3,971	(2,733)	1,238
Deferred taxes (under non-current liabilities)	121,469	5,889	127,358
Total equity	855,347	(8,622)	846,725

The consolidated statements of profit or loss and statements of income or comprehensive loss

	As previously reported	The change	As presented in these financial statements
	NIS in thousands		
For the three months ended as at March 31, 2014			
Taxes on income	(5,026)	821	(4,205)
Total other comprehensive loss (in item adjustments due to the translation of financial statements of activities abroad)	(16,668)	(289)	(16,957)

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, 2015	1.045	3.116	4.274	219.8
March 31, 2014	1.152	3.158	4.812	222.0
December 31, 2014	1.108	3.359	4.725	223.4
Change in rates during the period	%	%	%	%
March 2015 (three months)	(5.7)	(7.2)	(9.5)	(1.6)
March 2014 (three months)	(0.1)	(3.2)	0.6	(0.7)
December 2014 (twelve months)	(3.9)	2.9	(1.2)	(0.1)

*) 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.

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, 2015				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	11,430	3,636	18,918	14,790	48,774
Deduction of deferred incentives to lessees	(43)	-	(197)	(953)	(1,193)
Total income	11,387	3,636	18,721	13,837	47,581
Segment results	5,946	2,921	16,061	11,297	36,225
Finance income					19,978
Finance expenses					(23,887)
Net finance expenses					(3,909)
Income before capital gain					32,316
Capital gain					(9)
Income before taxes on income					32,307
	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 taxes on income					15,649
Capital gain					12
Income before taxes on income					15,661

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, 2014				
	Israel	Belgium	Poland	Canada	Total
	Audited				
NIS in thousands					
Income:					
Income from leasing of properties before amortization	45,390	16,327	66,223	58,868	186,808
Deduction of deferred incentives to lessees	(152)	-	(763)	(3,797)	(4,712)
Increase in value of investment property and investment property under construction, net	36,001	3,383	27,741	13,548	80,673
Total income	81,239	19,710	93,201	68,619	262,769
Segment results	62,425	16,675	78,419	56,739	214,258
Finance income					6,535
Finance expenses					(118,972)
Net finance expenses					(112,437)
Income before capital gain					101,821
Capital gain					2
Income before taxes on income					101,823

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 respective fair value as at March 31, 2015:

	<u>Balance</u>	<u>Fair value</u>
	<u>NIS in thousand</u>	
Financial liabilities:		
Long term loans with fixed interest (1)	662,694	710,495
Bonds (including payable interest) (2)	<u>920,268</u>	<u>991,314</u>
	<u>1,582,962</u>	<u>1,701,809</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 respective 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	563,165	586,920
Debentures (including interest due)	<u>894,376</u>	<u>992,182</u>
	<u>1,457,541</u>	<u>1,579,102</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 respective fair value as at December 31, 2014:

	<u>Balance</u>	<u>Fair value</u>
	<u>NIS in thousand</u>	
Financial liabilities:		
Long term loans with fixed interest	620,496	654,014
Bonds (including payable interest)	<u>1,078,427</u>	<u>1,108,016</u>
	<u><u>1,698,923</u></u>	<u><u>1,762,030</u></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, 2015 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	30,594	-	-	30,594
Financial derivatives	<u>-</u>	<u>14,585</u>	<u>-</u>	<u>14,585</u>
Total	<u><u>30,594</u></u>	<u><u>14,585</u></u>	<u><u>-</u></u>	<u><u>45,179</u></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	-	45,449	-	45,449

The balance in the financial statements of remaining financial assets is compatible or close to their fair value.

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	-	1,083	-	1,083
Total	20,017	1,083	-	21,100

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

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

As at December 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	50,035	-	-	50,035
Financial derivatives	-	4,812	-	4,812
Total	<u>50,035</u>	<u>4,812</u>	<u>-</u>	<u>54,847</u>

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	-	46,139	-	46,139

During the year 2014 there were no transfers from Level 2 to Level 1.

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

On March 23, 2015, the Company's Board of Directors decided to grant senior officeholders and employees of the Group 6,370,000 options convertible into to 6,370,000 ordinary shares of NIS 1 par value each. From the above grant a total of 1,500,000 options were granted to the Company's CEO and approved general assembly on April 29, 2015. The options constitute about 5.6% of the Company's issued capital.

The abovementioned grants have been made at no consideration as part of a compensation plan for employees and officeholders, adopted by the Company in November 2010. The vesting conditions of the options to the offerees has been amended in such a manner that 50% of the options will be realizable from the end of two years from the grant date and then will acquire 12.5% at the end of each calendar quarter, provided the relevant offeree is employed by the Company during the vesting period. The options are realizable during the period until the end of 5 years from the grant date. The realization price of each option will be in the amount of NIS 6.7 unlinked. The options are subject to adjustment in the event of a structural change, voluntary liquidation, a change in the capital structure, issue of rights and dividend. The options are not listed for trading on the Stock Exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

The fair value is about NIS 7,939 thousand. while the fair value of the benefit at the grant date is approximately NIS 1.25 per each option. The calculation is done in accordance to the binomial model (Hull-White) and based on the fluctuation of 36.1% and a risk free interest rate of 0.97%.

The options, except for options issued to service providers, are allotted to a trustee under Section 102 of the Income Tax Ordinance (capital track). On the options, including the shares acquired through the realization of options are subject to limitations in terms of Section 102 of the Income Tax Ordinance.

NOTE 7:- EVENTS AFTER THE BALANCE SHEET DATE

- a. After the balance sheet date, on May 18, 2015 the Company declared a dividend distribution in the amount of NIS 15 million (constituting about 13.12 agoroth per NIS 1 par value per share). The dividend is payable in June 2015.
- b. After the balance sheet date, in April 2015, 1,075,000 options, not listed for trade, allocated to employees and ex officeholders, were realized into 453,247 shares.
