

**Translated
from the
Hebrew original**

ADGAR INVESTMENTS AND DEVELOPMENT LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2015

UNAUDITED

ADGAR INVESTMENTS AND DEVELOPMENT LTD.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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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 September 30, 2015 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the period of nine 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 57.7% of total consolidated assets as of September 30, 2015, and whose revenues constitute approximately 67.5% and 66.1% of the total consolidated revenues for the nine 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
November 19, 2015

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30		December 31
	2015	2014	2014
	Unaudited		Audited
	NIS in thousands		
CURRENT ASSETS			
Cash and cash equivalents	219,407	467,763	394,810
Short-term investments	23,582	50,625	50,035
Customers	16,837	10,798	12,618
Deposits	23,603	212,946	13,022
Debtors and receivables	36,998	14,614	39,417
Current taxes receivable	7,856	9,799	7,766
Derivatives	11,218	3,378	4,812
	<u>339,501</u>	<u>769,923</u>	<u>522,480</u>
NON-CURRENT ASSETS			
Deposit	36,352	8,238	30,632
Long term debtors	3,015	22,081	11,221
Loans	16,942	9,605	11,826
Fixed assets, net	12,795	13,559	14,605
Investment property	3,198,230	2,752,020	3,029,862
Investment property under construction	34,275	207,312	239,881
Intangible assets	24	15	12
Deferred taxes	1,030	1,388	1,450
	<u>3,302,663</u>	<u>3,014,218</u>	<u>3,339,489</u>
	<u><u>3,642,164</u></u>	<u><u>3,784,141</u></u>	<u><u>3,861,969</u></u>

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30		December 31
	2015	2014	2014
	Unaudited		Audited
	NIS in thousands		
CURRENT LIABILITIES			
Credit from banking institutions and current maturities of long-term loans	133,198	247,385	253,486
Current maturities of bonds	133,302	209,312	216,655
Liabilities to suppliers and service providers	20,779	13,464	16,676
Taxes payable	2,501	20,471	19,237
Creditors and payables	67,247	70,305	79,396
Derivatives	25,001	13,680	15,801
	<u>382,028</u>	<u>574,617</u>	<u>601,251</u>
NON-CURRENT LIABILITIES			
Loans from banking institutions and other financial entities	1,357,195	1,306,079	1,300,837
Bonds	873,461	862,398	861,772
Derivatives	20,416	30,410	30,338
Employee benefit liabilities, net	148	87	148
Deferred taxes	155,854	132,883	146,096
	<u>2,407,074</u>	<u>2,331,857</u>	<u>2,339,191</u>
EQUITY			
Share capital	158,144	157,414	157,414
Share premium	272,045	266,511	266,511
Other reserves	(6,264)	(14,235)	(13,707)
Adjustments due to the translation of financial statements of activities abroad	(230,514)	(152,580)	(137,516)
Retained earnings	613,096	579,264	602,972
	<u>806,507</u>	<u>836,374</u>	<u>875,674</u>
Total equity attributed to the Company's shareholders	806,507	836,374	875,674
Non-controlling interests	46,555	41,293	45,853
	<u>853,062</u>	<u>877,667</u>	<u>921,527</u>
Total equity	<u>3,642,164</u>	<u>3,784,141</u>	<u>3,861,969</u>

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

November 19, 2015			
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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands [except for net earnings per share data]				
INCOME					
Income from rental of properties	148,279	131,260	53,125	44,334	182,096
Increase in value of investment property and investment property under construction, net	19,838	32,183	12,901	5,418	80,673
	<u>168,117</u>	<u>163,443</u>	<u>66,026</u>	<u>49,752</u>	<u>262,769</u>
EXPENSES					
Maintenance of assets, net	11,953	11,835	4,477	3,730	14,850
Administrative and general expenses	24,895	23,433	7,910	6,774	33,661
	<u>36,848</u>	<u>35,268</u>	<u>12,387</u>	<u>10,504</u>	<u>48,511</u>
Income before finance	<u>131,269</u>	<u>128,175</u>	<u>53,639</u>	<u>39,248</u>	<u>214,258</u>
Finance income	18,889	5,938	(3,319)	1,711	6,535
Finance expenses	(101,459)	(87,306)	(46,036)	(32,851)	(118,972)
Finance expenses, net	<u>(82,570)</u>	<u>(81,368)</u>	<u>(49,355)</u>	<u>(31,140)</u>	<u>(112,437)</u>
Income before capital gain (loss)	48,699	46,807	4,284	8,108	101,821
Capital gain (loss)	<u>(43)</u>	<u>14</u>	<u>(30)</u>	<u>2</u>	<u>2</u>
Income before taxes on income	48,656	46,821	4,254	8,110	101,823
Taxes on income (see Note 6e below)	<u>22,030</u>	<u>13,958</u>	<u>13,667</u>	<u>2,747</u>	<u>26,439</u>
Net income (loss)	<u>26,626</u>	<u>32,863</u>	<u>(9,413)</u>	<u>5,363</u>	<u>75,384</u>
Attributed to:					
Company shareholders	25,124	29,508	(8,264)	5,274	68,216
Non-controlling interests	<u>1,502</u>	<u>3,355</u>	<u>(1,149)</u>	<u>89</u>	<u>7,168</u>
	<u>26,626</u>	<u>32,863</u>	<u>(9,413)</u>	<u>5,363</u>	<u>75,384</u>
Earnings per share:					
Net earnings per share attributed to equity holders of the Company (in NIS)					
Basic net earnings (loss)	<u>0.22</u>	<u>0.26</u>	<u>(0.07)</u>	<u>0.05</u>	<u>0.61</u>
Diluted net earnings	<u>0.22</u>	<u>0.26</u>	<u>(0.07)</u>	<u>0.05</u>	<u>0.60</u>

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands [except for net earnings per share data]				
Net income (loss)	26,626	32,863	(9,413)	5,363	75,384
Other comprehensive income (loss) (after the tax effect):					
Amounts to be classified or reclassified to profit or loss under specific conditions:					
Profit (loss) in respect of cash flow hedging transactions, net	3,364	(635)	(1,815)	336	22
Transfer to statement of profit (loss) in respect of cash flow hedging transactions, net	8,900	-	8,900	-	-
Adjustment resulting from the translation of financial statements of activities abroad	(96,123)	(14,355)	5,810	6,297	1,327
Total other comprehensive income (loss)	(83,859)	(14,990)	12,895	6,633	1,349
Total comprehensive income (loss)	(57,233)	17,873	3,482	11,996	76,733
Total comprehensive income (loss) attributed to:					
Company shareholders	(57,900)	15,575	1,384	12,202	69,875
Non-controlling interests	667	2,298	2,098	(206)	6,858
	(57,233)	17,873	3,482	11,996	76,733

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							Non controlling interests	Total 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, 2015 (Audited)	157,414	266,511	(13,707)	(137,516)	602,972	875,674	45,853	921,527	
Net income	-	-	-	-	25,124	25,124	1,502	26,626	
Total other comprehensive income (loss)	-	-	9,974	(92,998)	-	(83,024)	(835)	(83,859)	
Total comprehensive income (loss)	-	-	9,974	(92,998)	25,124	(57,900)	667	(57,233)	
Realization of options to Company shares	730	5,534	(4,396)	-	-	1,868	-	1,868	
Share based payment	-	-	1,865	-	-	1,865	35	1,900	
Dividend paid to Company's shareholders	-	-	-	-	(15,000)	(15,000)	-	(15,000)	
Balance as at September 30, 2014	<u>158,144</u>	<u>272,045</u>	<u>(6,264)</u>	<u>(230,514)</u>	<u>613,096</u>	<u>806,507</u>	<u>46,555</u>	<u>853,062</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							Non controlling interests	Total 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, 2014 (Audited)	155,890	257,523	(10,364)	(139,394)	564,756	828,411	38,995	867,406	
Net income	-	-	-	-	29,508	29,508	3,355	32,863	
Total other comprehensive loss	-	-	(747)	(13,186)	-	(13,933)	(1,057)	(14,990)	
Total comprehensive income (loss)	-	-	(747)	(13,186)	29,508	15,575	2,298	17,873	
Realization of options to Company shares	1,524	8,988	(3,124)	-	-	7,388	-	7,388	
Dividend to Company shareholders	-	-	-	-	(15,000)	(15,000)	-	(15,000)	
Balance as at September 30, 2014	157,414	266,511	(14,235)	(152,580)	579,264	836,374	41,293	877,667	

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 premium	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad				
	Unaudited							
	NIS in thousands							
Balance as at July 1, 2015	157,979	270,588	(11,349)	(234,481)	621,360	804,097	44,441	848,538
Loss	-	-	-	-	(8,264)	(8,264)	(1,149)	(9,413)
Total other comprehensive income	-	-	5,681	3,967	-	9,648	3,247	12,895
Total comprehensive income (loss)	-	-	5,681	3,967	(8,264)	1,384	2,098	3,482
Realization of options to Company shares	165	1,457	(1,457)	-	-	165	-	165
Share based payment	-	-	861	-	-	861	16	877
Balance as at September 30, 2015	<u>158,144</u>	<u>272,045</u>	<u>(6,264)</u>	<u>(230,514)</u>	<u>613,096</u>	<u>806,507</u>	<u>46,555</u>	<u>853,062</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 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 July 1, 2014	155,914	257,807	(11,619)	(159,284)	573,990	816,808	41,499	858,307
Net income	-	-	-	-	5,274	5,274	89	5,363
Total other comprehensive income (loss)	-	-	224	6,704	-	6,928	(295)	6,633
Total comprehensive income (loss)	-	-	224	6,704	5,274	12,202	(206)	11,996
Realization of options to Company shares	1,500	8,704	(2,840)	-	-	7,364	-	7,364
Balance as at September 30, 2014	<u>157,414</u>	<u>266,511</u>	<u>(14,235)</u>	<u>(152,580)</u>	<u>579,264</u>	<u>836,374</u>	<u>41,293</u>	<u>877,667</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 premium	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's shareholder	-	-	-	-	(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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands [except for net earnings per share data]				
CASH FLOWS FROM CURRENT ACTIVITIES					
Net income (loss)	26,626	32,863	(9,413)	5,363	75,384
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	(19,838)	(32,183)	(12,901)	(5,418)	(80,673)
Finance expenses, net	82,570	81,368	49,355	31,140	112,437
Capital gain (loss)	43	(14)	30	(2)	(2)
Depreciation and amortization	4,373	4,469	1,441	1,508	6,048
Taxes on income	22,030	13,958	13,667	2,747	26,439
Change in liabilities for employee benefits, net	-	-	-	-	61
Share-based payment cost	1,900	-	877	-	-
	91,078	67,598	52,469	29,975	64,310
Changes in asset and liability items:					
Decrease (increase) in customers	(4,921)	1,764	(3,200)	1,987	119
Decrease (increase) in debtors and receivables	7,833	(5,229)	3,328	(1,877)	(18,494)
Increase (decrease) in liabilities to suppliers and service providers	6,555	(965)	(49)	(3,133)	(4,835)
Decrease in creditors and payables	(10,490)	(9,475)	63	5,236	(1,371)
	(1,023)	(13,905)	142	2,213	(24,581)
Cash paid and received during the year for:					
Interest paid	(86,715)	(80,323)	(29,900)	(26,826)	(101,988)
Interest received	1,880	5,493	799	1,896	5,665
Dividend received	161	92	42	31	163
Taxes paid	(15,682)	(16,823)	(67)	(1,362)	(17,969)
Taxes received	123	1,205	123	41	1,205
	(100,233)	(90,356)	(29,003)	(26,220)	(112,924)
Net cash provided by (used in) current activities	16,448	(3,800)	14,195	11,331	2,189

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands				
CASH FLOWS FROM					
INVESTMENT ACTIVITIES:					
Settlement (investment) in deposit, net	(17,119)	(171,370)	1,982	(178,931)	6,511
Proceeds from sale of investment property	-	358,733	-	-	358,733
Acquisition of short term investments	(12,738)	(57,908)	(2,048)	(4,501)	(59,564)
Proceeds from the sale of short term investments	39,423	7,933	7,964	3,835	9,890
Acquisition of hedge transaction	(13,860)	(2,100)	(8,600)	-	(3,750)
Proceeds from the sale of hedge transactions	32,610	13,585	19,050	-	13,585
Acquisition of investment property	(94,246)	(81,183)	(30,128)	(55,865)	(277,610)
Acquisition of investment property under construction	(65,004)	(43,592)	(2,251)	(17,574)	(66,423)
Acquisition of fixed assets	(821)	(587)	(441)	(6)	(1,050)
Proceeds from sale of fixed assets	248	1,160	154	19	1,228
Capitalization of interest paid for investment property under construction	(1,525)	(5,702)	-	(2,479)	(7,474)
Acquisition of intangible assets	(25)	(12)	-	(3)	(12)
Grant of loan to partners in assets in Canada, net	(7,288)	3,923	(3,044)	4,531	2,550
Settlement of lessee's loan, net	-	165	-	56	165
Net cash (used in) provided by investment activities	(140,345)	23,045	(17,362)	(250,918)	(23,221)
CASH FLOWS FROM					
FINANCE ACTIVITIES					
Settlement of short-term credit from banking institutions	-	104,142	-	106,299	(11,167)
Receipt of long-term loans	82,158	158,345	52,713	73,676	273,132
Settlement of long-term loans	(41,234)	(203,132)	(11,346)	(10,486)	(219,916)
Dividend paid to Company shareholders	(15,000)	(15,000)	-	-	(30,000)
Realization of options to shares	1,868	7,388	165	7,364	7,388
Settlement of CPI hedging transactions interest rate fixing	(8,217)	-	(8,217)	-	(1,397)
Settlement of bonds	(193,170)	(126,872)	-	-	(126,872)
Issue of bonds net issue expenses	132,836	222,961	-	200,449	222,961
Net cash provided by (used in) finance activities	(40,759)	147,832	33,315	377,302	114,129
Translation differences in respect of cash balances in units held abroad	(10,747)	(8,799)	507	519	(7,772)
Increase (decrease) in cash and cash equivalents	(175,403)	158,278	30,655	138,234	85,325
Balance of cash and cash equivalents as at the beginning of the period	394,810	309,485	188,752	329,529	309,485
Balance of cash and cash equivalents as at the end of the period	219,407	467,763	219,407	467,763	394,810

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands				
(a) Significant activities not involving cash flows					
Acquisition of fixed assets and investment property against creditors, suppliers and service providers	<u>39,939</u>	<u>32,837</u>	<u>39,939</u>	<u>32,837</u>	<u>40,738</u>
Sale of investment property against debtors	<u>-</u>	<u>22,259</u>	<u>-</u>	<u>-</u>	<u>22,259</u>

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 September 30, 2015 for the nine 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, 2014 and for the year then ended and their accompanying notes (hereunder - annual financial statements).
- b. As of September 30, 2015, the Company has a working capital deficiency of about NIS 42.5 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. 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. On June 2 2015, Midroog approved the A3 stable rating for each series of outstanding bonds (Series E - H) and approved the A3 rating for the issue of additional bonds of up to NIS 250 million par value with a stable rating outlook which was executed in June 2015, see Note 6d below.
- d. For details regarding the completion of refinancing in investees in Poland during the reporting period and afterwards see Notes 6f and 7a below.

For details regarding the completion of the acquisition of asset portfolio in a subsidiary in Canada after the balance sheet date see Note 7b below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Representative exchange rate of			
	Zloty (Polish currency)	Canadian dollar	Euro	Israeli CPI Points *)
As at				
September 30, 2015	1.039	2.927	4.404	222.9
September 30, 2014	1.113	3.303	4.649	223.8
December 31, 2014	1.108	3.359	4.725	223.4
Change in rates during the period				
	%	%	%	%
September 2015 (nine months)	(6.3)	(12.9)	(6.8)	(0.2)
September 2015 (three months)	3.3	(3.8)	4.4	0.3
September 2014 (nine months)	(3.4)	1.2	(2.8)	0.1
September 2014 (three months)	(1.3)	2.6	(1.0)	0.3
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 nine months ended as at September 30, 2015				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	37,710	10,565	55,973	47,592	151,840
Deduction of deferred incentives to lessees	(132)	-	(571)	(2,858)	(3,561)
Increase in value of investment property and investment property under construction, net	18,866	-	40	932	19,838
Total income	56,444	10,565	55,442	45,666	168,117
Segment results	41,348	8,167	45,442	36,312	131,269
Finance income					18,889
Finance expenses					(101,459)
Net finance expenses					(82,570)
Capital loss					(43)
Income before taxes on income					48,656

	For the period of nine months ended as at September 30, 2014				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	34,023	12,247	45,873	42,549	134,692
Deduction of deferred incentives to lessees	(117)	-	(563)	(2,752)	(3,432)
Increase in investment property value	14,300	294	9,853	7,736	32,183
Total income	48,206	12,541	55,163	47,533	163,443
Segment results	35,417	9,730	44,091	38,937	128,175
Finance income					5,938
Finance expenses					(87,306)
Net finance expenses					(81,368)
Capital gain					14
Income before taxes on income					46,821

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- SEGMENTS OF ACTIVITY (Cont.)

b. Report regarding segments of activity (Cont.)

	For the period of three months ended as at September 30, 2015				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	14,593	3,484	18,339	17,876	54,292
Deduction of deferred incentives to lessees	(47)	-	(186)	(934)	(1,167)
Increase in value of investment property and investment property under construction, net	14,447	-	(1,546)	-	12,901
Total income	28,993	3,484	16,607	16,942	66,026
Segment results	24,347	2,801	13,110	13,381	53,639
Finance income					(3,319)
Finance expenses					(46,036)
Net finance expenses					(49,355)
Capital loss					(30)
Income before taxes on income					4,254

	For the period of three months ended as at September 30, 2014				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	11,190	4,052	15,755	14,492	45,489
Deduction of deferred incentives to lessees	(41)	-	(153)	(961)	(1,155)
Increase (decrease) in investment property value	8,000	-	(5,685)	3,103	5,418
Total income	19,149	4,052	9,917	16,634	49,752
Segment results	14,585	2,906	7,619	14,138	39,248
Finance income					1,711
Finance expenses					(32,851)
Net finance expenses					(31,140)
Capital gain					2
Income before taxes on income					8,110

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)
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 assets that are not reported according to their fair value and there fair value is, as at September 30, 2015:

	<u>Book balance</u>	<u>Fair value</u>
	<u>NIS in thousand</u>	
Financial liabilities:		
Long term loans with fixed interest (1)	655,884	658,906
Bonds (including payable interest) (2)	<u>1,006,763</u>	<u>1,033,282</u>
	<u>1,662,647</u>	<u>1,692,188</u>

Hereunder are the book balances of the financial assets that are not reported according to their fair value and there fair value is, as at September 30, 2015:

	<u>Book balance</u>	<u>Fair value</u>
	<u>NIS in thousand</u>	
Financial liabilities:		
Long term loans with fixed interest (1)	625,523	658,906
Bonds (including payable interest) (2)	<u>1,071,710</u>	<u>1,143,823</u>
	<u>1,697,233</u>	<u>1,802,729</u>

Hereunder are the book balances of the financial assets that are not reported according to their fair value and there fair value is, as at December 31, 2004:

	<u>Book balance</u>	<u>Fair value</u>
	<u>NIS in thousand</u>	
Financial liabilities:		
Long term loans with fixed interest (1)	620,496	654,014
Bonds (including payable interest) (2)	<u>1,078,427</u>	<u>1,108,016</u>
	<u>1,698,923</u>	<u>1,762,030</u>

(1) The fair value of the long term loans received which bear a fixed interest rate are based on the calculation of the present value of the cash flows according to acceptable interest rate for similar loans with similar characteristics.

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

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

The financial instruments presented in the statement of financial position at fair value or possible disclosure of their fair value, are classified by groups with similar characteristics determined fair value hierarchy based on the inputs used to determine fair value:

- Level 1 - Fair value measured by quoted prices (unadjusted) in active markets for identical instruments.
- Level 2 - Fair value measured by inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 - Fair value measured by 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 recognized at fair value periodically, the Company estimates at the end of each reporting period whether there have been transfers between different levels of the fair value hierarchy.

As at September 30, 2015 the Company holds financial instruments measured at fair value according to the classifications as follows:

Financial assets measured at fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	Unaudited			
	NIS in thousands			
Short term investments	23,582	-	-	23,582
Financial derivatives	-	11,218	-	11,218
Total	23,582	11,218	-	34,800

Financial liabilities measured at fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	NIS in thousands			
Financial derivatives	-	45,417	-	45,417

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

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

As at September 30, 2014 the Company holds financial instruments measured at fair value according to the classifications as follows:

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	50,625	-	-	50,625
Financial derivatives	-	3,378	-	3,378
Total	<u>50,625</u>	<u>3,378</u>	<u>-</u>	<u>54,003</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	-	44,090	-	44,090

As at December 31, 2014 the Company holds financial instruments measured at fair value according to the classifications as follows:

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 between level 2 and level.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIODa. Grant of options to senior officeholders and employees of the Group

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 in the 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.

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 31.6% 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.

b. During the reporting period 2,382,500 options were realized not listed, previously allocated to employees and officeholders of the Company's shares, to 729,388 Company shares of NIS 1 par value.

After the reporting period in October 2015 1,800,000 options were realized not listed, previously allocated to employees and officeholders of the Company's shares to 350,427 shares of NIS 1 par value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIODc. Dividend distribution

In June 2015 the Company paid a dividend to its shareholders in the amount of NIS 15 million (constituting about 13.12 agoroth per NIS 1 par value per share).

d. In June 2015 the Company issued to the public the amount of NIS 134.6 million nominal value debentures (Series I) for a net amount of about NIS 132.8 million (net of issue expenses). The debentures are linked to the CPI interest and principal index for May 2015 of NIS 1 par value each and bearing an annual interest rate of 4.65%. Interest will be paid as from 1 January 2016 until and including July 1, 2025, in two installments in each calendar year and the principal will be repaid in five annual installments on July 1 each year from 2021 to 2025 inclusive. The bond issue is in accordance with the Company's prospectus dated May 7, 2015.

In the framework of the issue, the following financial criterion were set for the Company:

1. The shareholders equity will not be less than NIS 650 million.
2. The ratio between the shareholders equity and the Company' s balance amount net cash and deposits, will not be less than 20%.
3. The ratio between the net consolidated debt less cash, deposits and owner's loans of partner in Belgian company through which are held activities in Poland and the annually adjusted NOI will not exceed 15.

If the Company exceeds one of the criteria mentioned above, the interest rate, paid by the Company to debentures holders Series H, will increase at an annual rate of 0.5%.

In addition, if the debentures (Series I) is upgraded, so that the rating determined for debentures (Series I) is one rate lower than Baa1 or an equivalent rating, the interest rate, paid by the Company to holders of debentures (Series I) will increase at an annual rate of 0.5%. In respect of any additional decrease the rating will increase the interest rate by an additional 0.25% up to the limit in the total amount of 1%. A rating lower than Baa3 is cause for immediate settlement. Likewise, if the ratio between the shareholders equity and the amount in the Company's balance sheet (less cash and deposits) is less than 17%, or if the shareholders equity is less than NIS 535 million, or if the ratio between the net consolidated debt (less cash, deposits, and loans from the partner Belgian company through which are held activities in Poland) and between the annual adjusted NOI exceeds 19 for more than 2 quarters, the deviation shall be grounds for calling for immediate repayment of the entire outstanding balance of the debentures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

d. (Cont.)

In addition, the Company undertook that the dividend each calendar year from the date of deposit of the bonds until the date of final repayment does not exceed the total amount of all the annual real FFO and proceeds from sale of assets exceeds the cost of acquisition. Also, during the period from the date of issuance of the debentures until the date 12.31.2019 cannot be divided in excess of NIS 60 million per year. (This is beyond the FFO limit).

The dividend distribution will not lead to the ratio of consolidated net debt to CAP (Consolidated net debt + equity) exceeds 78%.

The actual amount that was not distributed in the calendar year from the maximum amount of the distribution, will build up the credit of the Company shall be entitled to its share in periods thereafter.

As at September 30, 2015 the Company complied with all the financial criterion mentioned above.

e. Income Tax Expenses

In the third quarter of the year the Company recorded a one-time tax expense in the amount of about CAD 3.3 million (about NIS 9.9 million), following the update of the tax rate in respect of Canadian trusts gradually from 39% up to 44%. (capital gains are taxed at a rate of 50% of the above rates).

f. Completion of refinancing of investee in Poland

On September 30, 2015, an investee of the company in Poland completed early settlement of loans against asset pledge in the amount of about € 42.3 million (whose original settlement date is December 31, 2016) and took loans (hereunder – "the borrower") from a banking institution (hereunder – "the Bank") totaling about € 54.3 million.

The loan is for a period of 10 years, each year the borrower will repay 3.5% - 4% of the loan principal and the balance of about € 34.5 million at the end of the period. The loan principle bears an annual interest rate of monthly Euribor plus a margin of 1.95%. The borrower has made a deal for determining the interest to fix the interest up until the end of the loan period, so that the overall interest rate is about 2.74%.

The borrower has committed to the Bank that the LTV ratio (the ratio of the balance of the loan to the asset value) shall not exceed 65% and that the ratio between the cash flow from the asset to the amount of the debt repayment, for the past 12 months and 6 months ahead. (Principal and interest) will not be less than 1.25. In a state of non-compliance with the above terms, the borrower will be required to repay part to comply with the terms.

As of September 30, 2015, the borrower meet the criteria described above.

In addition, on September 30, 2015 the borrower repaid the outstanding liability in respect of the fixing interest rates until the end of the original loan (31/12/2016) in the amount of € 2.5 million euros and classified the liability from the capital reserves clause to finance expenses

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- EVENTS AFTER THE BALANCE SHEET DATEa. Completion of refinancing of investees in Poland

On October 1, 2015, the Company's subsidiary in Poland completed the early settlement of loans against asset pledges totaling about € 42.3 million (whose original settlement date is 31.12.2016) and taking loans (hereunder - the "Borrower") from a bank institution (hereunder – "the Bank") in the amount of about € 20.9 million.

The loan is for a period of 7 years, each year the borrower will repay 3.5% of the loan's principal and the balance in the amount of about € 16 million at the end of the period. The loan's principal bears interest at an annual rate of monthly Eurobir plus a margin of 2%.- 2.15% The borrower has made a deal for determining the interest until the end of the loan period so that the comprehensive interest is about 2.45% – 2.60%.

The borrower committed to the Bank that the LTV ratio will not exceed 60% and that the coverage ratio will not be less than 1.25 . In a situation of non-compliance in the above ratios, the borrower will be required to a partial settlement until compliance with the ratios.

As of September 30, 2015, the borrower has complied with the criteria described above.

b. Completion of acquisition agreement of asset portfolio in a subsidiary in Canada

In October 2015 the subsidiary in Canada (wholly owned by the Company) completed the acquisition of a portfolio consisting of three office buildings located in Toronto, Markham (GTA) and Winnipeg, Canada, on a total leasable area of approximately 31 thousand sq.m. (hereunder - the "Assets") for a total cost of about C USD 60 million (about NIS 178 million). About USA 32.6 million (about NIS 96.7 million) of the consideration was financed through a bank loan for 10 years bearing interest of about 3.64%, about CAD 7.3 million (about NIS 21.7 million) through conversion of existing loans in respect of the asset Winnipeg (at an average interest rate of about 6.3% to be settled up until August 1, 2016, the balance of the consideration is financed from equity.

About -32.6 million Canadian dollars (about 96.7 million) of the consideration was financed through a bank loan for 10 years at an interest of approximately -3.64%, 7.3 millions of Canadian dollars) approximately -21.7 million) through the conversion of Existing loans for the property in Winnipeg (an average interest rate of 6.3%, repayable until August 1, 2016, the balance of the consideration was financed by shareholders' equity. The average occupancy rate of properties is about 85% and an annual NOI yield of about CAD 4 million (about NIS 11.8 million).

c. Dividend distribution

After the balance sheet date, on November 19, 2015 the Company announced a dividend distribution in the amount of NIS 16 million (constituting about 13.93 agoroth per NIS 1 par value per share), the dividend will be paid in December 2015.
