

**Translated
from the
Hebrew original**

ADGAR INVESTMENTS AND DEVELOPMENT LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2016

UNAUDITED

ADGAR INVESTMENTS AND DEVELOPMENT LTD.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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INDEX

	<u>Page</u>
Accompanying Letter to the Financial Statements	2
Consolidated Statements of Financial Position	3 - 4
Consolidated Statements of Profit or Loss	5
Consolidated Statements of Comprehensive Income or Loss	6
Consolidated Statements of Changes in Equity	7 - 9
Consolidated Statements of Cash Flows	10 - 12
Notes to Interim Consolidated Financial Statements	13 - 15



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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, 2016 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 57.3% of total consolidated assets as of March 31, 2016, and whose revenues constitute approximately 65.2% 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 19, 2016

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31		December 31
	2016	2015	2015
	Unaudited		Audited
	NIS in thousands		
CURRENT ASSETS			
Cash and cash equivalents	219,448	177,275	281,778
Short-term investments	28,646	30,594	23,469
Customers	18,621	11,722	16,279
Deposits	18,541	33,633	11,965
Debtors and receivables	12,439	38,288	34,732
Current taxes receivable	5,345	7,808	5,693
Derivatives	1,234	14,585	6,478
	<u>304,274</u>	<u>313,905</u>	<u>380,394</u>
NON CURRENT ASSETS			
Deposit	37,392	27,737	60,111
Debtors	2,881	5,075	2,839
Loans	28,053	13,697	21,967
Fixed assets	12,882	12,733	12,584
Investment property	3,398,346	2,897,189	3,331,623
Investment property under construction	52,320	273,050	47,066
Intangible assets	309	35	262
Deferred taxes	2,168	819	1,931
	<u>3,534,351</u>	<u>3,230,335</u>	<u>3,478,383</u>
	<u><u>3,838,625</u></u>	<u><u>3,544,240</u></u>	<u><u>3,858,777</u></u>

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31		December 31
	2016	2015	2015
	Unaudited		Audited
NIS in thousands			
CURRENT LIABILITIES			
Credit from banking institutions and current maturities of long-term loans	114,391	173,013	144,370
Current maturities of bonds	131,824	131,392	143,603
Liabilities to suppliers and service providers	19,468	22,592	21,225
Taxes payable	1,516	2,104	3,054
Creditors and payables	68,179	79,472	62,762
Derivatives	24,721	15,702	18,408
	<u>360,099</u>	<u>424,275</u>	<u>393,422</u>
NON-CURRENT LIABILITIES			
Loans from banking institutions and other financial entities	1,515,239	1,297,539	1,464,193
Debentures	918,939	788,876	987,525
Derivatives	46,218	29,747	23,946
Employee benefit liabilities, net	148	148	148
Deferred taxes	172,112	139,016	158,690
	<u>2,652,656</u>	<u>2,255,326</u>	<u>2,634,502</u>
EQUITY			
Share capital	158,495	157,526	158,495
Share premium	275,450	267,505	275,450
Other reserves	(21,792)	(13,601)	(11,096)
Adjustments due to the translation of financial statements of activities abroad	(253,947)	(219,052)	(267,200)
Retained earnings	623,194	628,986	629,525
Total capital attributed to the Company's shareholders	<u>781,400</u>	<u>821,364</u>	<u>785,174</u>
Non-controlling interests	44,470	43,275	45,679
Total equity	<u>825,870</u>	<u>864,639</u>	<u>830,853</u>
	<u><u>3,838,625</u></u>	<u><u>3,544,240</u></u>	<u><u>3,858,777</u></u>

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

May 19, 2016			
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
	2016	2015	2015
	Unaudited		Audited
	NIS in thousands (except for basic and diluted earnings (loss) per share)		
INCOME			
Income from rental of properties	54,520	47,581	202,054
Increase in value of investment property and investment property under construction, net	126	-	44,397
	<u>54,646</u>	<u>47,581</u>	<u>246,451</u>
EXPENSES			
Maintenance of assets, net	5,375	3,412	16,173
Administrative and general	9,021	7,944	34,791
	<u>14,396</u>	<u>11,356</u>	<u>50,964</u>
Income before financing	<u>40,250</u>	<u>36,225</u>	<u>195,487</u>
Finance income	(6,973)	19,978	28,354
Finance expenses	(23,939)	(23,887)	(129,765)
Finance expenses, net	<u>(30,912)</u>	<u>(3,909)</u>	<u>(101,411)</u>
Income before capital loss	9,338	32,316	94,076
Capital loss	(54)	(9)	(52)
Income before taxes on income	9,284	32,307	94,024
Taxes on income	14,395	4,753	33,632
Net income (loss)	<u>(5,111)</u>	<u>27,554</u>	<u>60,392</u>
Attributed to:			
Equity holders of the Company	(6,331)	26,014	57,553
Non-controlling interests	1,220	1,540	2,839
	<u>(5,111)</u>	<u>27,554</u>	<u>60,392</u>
Net earning (loss) per share attributed to equity holders of the Company (in NIS)			
Basic and diluted net earnings (losses)	<u>(0.06)</u>	<u>0.23</u>	<u>0.50</u>

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
	2016	2015	2015
	Unaudited		Audited
	NIS in thousands		
Net income (loss)	(5,111)	27,554	60,392
Other comprehensive 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) in respect of cash flow hedge transactions, net	(14,403)	1,167	476
Transfer to statement of profit or loss in respect of cash flows hedge transactions, net	-	-	8,900
Adjustment resulting from the translation of financial statements of activities abroad	13,654	(85,866)	(134,438)
Total other comprehensive loss	(749)	(84,699)	(125,062)
Total comprehensive loss	(5,860)	(57,145)	(64,670)
Total comprehensive loss attributable to:			
Company shareholders	(4,635)	(54,564)	(64,445)
Non-controlling interests	(1,225)	(2,581)	(225)
	(5,860)	(57,145)	(64,670)

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, 2016 (Audited)	158,495	275,450	(11,096)	(267,200)	629,525	785,174	45,679	830,853
Net income (loss)	-	-	-	-	(6,331)	(6,331)	1,220	(5,111)
Total other comprehensive income (loss)	-	-	(11,557)	13,253	-	1,696	(2,445)	(749)
Total comprehensive income (loss)	-	-	(11,557)	13,253	(6,331)	(4,635)	(1,225)	(5,860)
Share-based payment	-	-	861	-	-	861	16	877
Balance as at March 31, 2016	<u>158,495</u>	<u>275,450</u>	<u>(21,792)</u>	<u>(253,947)</u>	<u>623,194</u>	<u>781,400</u>	<u>44,470</u>	<u>825,870</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, 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				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, 2015 (Audited)	157,414	266,511	(13,707)	(137,516)	602,972	875,674	45,853	921,527
Net income	-	-	-	-	57,553	57,553	2,839	60,392
Total other comprehensive income (loss)	-	-	7,686	(129,684)	-	(121,998)	(3,064)	(125,062)
Total comprehensive income (loss)	-	-	7,686	(129,684)	57,553	(64,445)	(225)	(64,670)
Share-based payment	-	-	2,726	-	-	2,726	51	2,777
Realization of options to Company shares	1,081	8,939	(7,801)	-	-	2,219	-	2,219
Dividend to Company shareholders	-	-	-	-	(31,000)	(31,000)	-	(31,000)
Balance as at December 31, 2015 (Audited)	158,495	275,450	(11,096)	(267,200)	629,525	785,174	45,679	830,853

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
	2016	2015	2015
	Unaudited		Audited
	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES			
Net income (loss)	(5,111)	27,554	60,392
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	(126)	-	(44,397)
Finance expenses, net	30,912	3,909	101,411
Capital loss	54	9	52
Depreciation and amortization	1,336	1,477	5,775
Taxes on income	14,395	4,753	33,632
Share-based payment cost	877	145	2,777
	<u>47,448</u>	<u>10,293</u>	<u>99,250</u>
Changes in asset and liability items:			
Decrease (increase) in customers	(2,198)	93	(4,658)
Decrease in debtors and receivables	2,050	3,572	9,111
Increase (decrease) in liabilities to suppliers and service providers	(2,627)	7,770	8,177
Increase (decrease) in creditors and payables	5,584	(4,529)	(5,753)
	<u>2,809</u>	<u>6,906</u>	<u>6,877</u>
Cash paid and received during the year for:			
Interest paid	(37,622)	(36,967)	(105,192)
Interest received	395	770	2,024
Dividend received	25	36	184
Taxes paid	(1,252)	(15,487)	(15,697)
Taxes received	361	-	123
	<u>(38,093)</u>	<u>(51,648)</u>	<u>(118,558)</u>
Net cash provided by (used in) current activities	<u>7,053</u>	<u>(6,895)</u>	<u>47,961</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
	2016	2015	2015
	Unaudited		Audited
	NIS in thousands		
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Investment in deposits, net	(1,746)	(18,897)	(29,646)
Proceeds from sale of investment property	18,347	-	-
Acquisition of short term investments	(7,071)	(2,267)	(13,365)
Sale of short term investments	1,597	22,694	40,209
Acquisition of hedge transaction	(1,200)	(5,260)	(16,110)
Proceeds from the sale of hedge transactions	-	13,560	47,634
Purchase and investment of investment property	(22,017)	(56,533)	(309,114)
Acquisition of investment property under construction	(3,603)	(29,720)	(71,488)
Acquisition of fixed assets	(570)	(11)	(1,102)
Proceeds from sale of fixed assets	49	87	259
Capitalization of interest paid for investment property under construction	-	(682)	(1,525)
Acquisition of intangible assets	(53)	(25)	(270)
Grant of loan to partners in assets in Canada, net	(5,084)	(2,571)	(12,042)
Net cash used in investment activities	(21,351)	(79,625)	(366,560)
CASH FLOWS FROM FINANCE ACTIVITIES			
Receipt of long-term loans	40,500	29,445	276,237
Settlement of long-term loans	(23,773)	(12,113)	(69,708)
Dividend paid to Company shareholders	-	-	(31,000)
Realization of options into Company shares	-	112	2,219
Settlement of CPI hedging transactions	-	-	(15,280)
Settlement of debentures	(66,449)	(139,247)	(193,170)
Issue of bonds net of issue expenses	-	-	251,977
Net cash provided by (used in) finance activities	(49,722)	(121,803)	221,275
Translation differences in respect of cash balances in foreign entities	1,690	(9,212)	(15,708)
Increase in cash and cash equivalents	(62,330)	(217,535)	(113,032)
Balance of cash and cash equivalents as at the beginning of the period	281,778	394,810	394,810
Balance of cash and cash equivalents as at the end of the period	219,448	177,275	281,778

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
2016	2015	2015
Unaudited		Audited
NIS in thousands		

(a) SIGNIFICANT ACTIVITIES NOT INVOLVING CASH FLOWS

Acquisition of investment property and investment property under construction against creditors, suppliers and service providers

<u>29,332</u>	<u>49,050</u>	<u>29,934</u>
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The accompanying notes are an integral part of the interim consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**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.

b. Report regarding segments of activity

	For the period of three months ended as at March 31, 2016				
	<u>Israel</u>	<u>Belgium</u>	<u>Poland</u>	<u>Canada</u>	<u>Total</u>
	Unaudited				
	NIS in thousands				
Income from leasing of properties	15,499	3,520	18,982	17,582	55,583
Deduction of deferred incentives to lessees	(47)	-	(167)	(849)	(1,063)
Increase in value of investment property, net	-	-	126	-	126
Total income	<u>15,452</u>	<u>3,520</u>	<u>18,941</u>	<u>16,733</u>	<u>54,646</u>
Segment results	<u>9,089</u>	<u>3,080</u>	<u>15,171</u>	<u>12,910</u>	<u>40,250</u>
Finance income					(6,973)
Finance expenses					(23,939)
Net finance expenses					(30,912)
Income before capital loss					9,338
Capital loss					(54)
Income before taxes on income					<u>9,284</u>

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 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	<u>11,387</u>	<u>3,636</u>	<u>18,721</u>	<u>13,837</u>	<u>47,581</u>
Segment results	<u>5,946</u>	<u>2,921</u>	<u>16,061</u>	<u>11,297</u>	<u>36,225</u>
Finance income					19,978
Finance expenses					<u>(23,887)</u>
Net finance expenses					<u>(3,909)</u>
Income before taxes on income					32,316
Capital loss					<u>(9)</u>
Income before taxes on income					<u>32,307</u>

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, 2015				
	Israel	Belgium	Poland	Canada	Total
	Audited				
NIS in thousands					
Income:					
Income from leasing of properties before amortization	52,616	13,947	75,405	64,771	206,739
Deduction of deferred incentives to lessees	(185)	-	(740)	(3,760)	(4,685)
Increase (decrease) in value of investment property and investment property under construction, net	14,407	(4,012)	40	33,962	44,397
Total income	66,838	9,935	74,705	94,973	246,451
Segment results	47,937	6,949	59,825	80,776	195,487
Finance income					28,354
Finance expenses					(129,765)
Net finance expenses					(101,411)
Income before capital gain					94,076
Capital gain					(52)
Income before taxes on income					94,024
