

**Translated
from the
Hebrew original**

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2011

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED
CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011

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To:
Adgar Investments And Development Limited
Efal 35
Petach – Tikva
Israel

Dear Sirs,

We have audited, in accordance with International Financial Reporting Standards, the consolidated balance sheets of Adgar Investments And Development Limited as at December 31, 2011 and 2010, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years ended as at December 31, 2011, 2010 and 2009, and in our report dated March 18, 2012, we expressed an unqualified opinion on those financial statements.

The accompanying financial statements are condensed financial statements and do not include the disclosures required by International Financial Reporting Standards. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the financial position, results of operations, and cash flows of the Company.

Tel-Aviv, Israel
August 12, 2012

Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31,	
	2011	2010
	NIS in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	112,672	114,304
Short-term investments	41,317	47,314
Trade receivables	10,059	15,172
Deposit	41,186	40,463
Other accounts receivable	7,794	76,091
Income taxes receivable	11,224	7,504
Financial derivatives	821	-
	<u>225,073</u>	<u>300,848</u>
NON-CURRENT ASSETS:		
Financial derivatives	80	985
Loans	8,530	7,292
Fixed assets, net	15,519	14,524
Investment property	3,174,375	2,853,099
Investment property under construction	91,860	78,471
Intangible assets, net	168	403
Deferred taxes	7,108	10,547
	<u>3,297,640</u>	<u>2,965,321</u>
	<u><u>3,522,713</u></u>	<u><u>3,266,169</u></u>

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

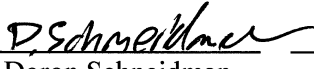
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31,	
	2011	2010
	NIS in thousands	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Credit from banks and current maturities of long-term loans	365,822	331,588
Current maturities of debentures	131,764	130,248
Trade payables	11,346	11,942
Income taxes payable	6,177	7,761
Other accounts payable	57,801	41,209
Financial derivatives	9,965	9,827
	<u>582,875</u>	<u>532,575</u>
LONG-TERM LIABILITIES:		
Loans from banks and other credit providers	1,312,973	1,336,437
Debentures	666,738	568,140
Financial derivatives	23,744	13,826
Employee benefit liabilities, net	23	10
Deferred taxes	100,633	69,758
	<u>2,104,111</u>	<u>1,988,171</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:		
Share capital	155,768	155,768
Share premium	256,643	256,643
Other capital reserves	(17,416)	(18,338)
Foreign currency translation adjustments of foreign operations	(54,100)	(97,841)
Retained earnings	494,832	449,191
	<u>835,727</u>	<u>745,423</u>
Total equity	<u><u>3,522,713</u></u>	<u><u>3,266,169</u></u>

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

March 18, 2012

Date of approval of the
financial statements


Doron Schneidman
Chairman of the Board


Roy Gadish
CEO


Daniel Sztern
CFO

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands (except per share amounts)		
REVENUES:			
Revenues from rental of properties	191,468	(* 182,215	(* 186,013
Increase (decrease) in value of investment property and investment property under construction, net	<u>139,328</u>	<u>(* 142,869</u>	<u>(* (216,513)</u>
	<u>330,796</u>	<u>325,084</u>	<u>(30,500)</u>
EXPENSES:			
Maintenance of properties, net	23,586	15,611	16,230
General and administrative	<u>36,700</u>	<u>33,665</u>	<u>22,728</u>
	<u>60,286</u>	<u>49,276</u>	<u>38,958</u>
Income (loss) before financing	270,510	275,808	(69,458)
Finance income	4,010	4,349	7,043
Finance expenses	<u>(162,911)</u>	<u>(160,886)</u>	<u>(128,414)</u>
Finance expenses, net	<u>(158,901)</u>	<u>(156,537)</u>	<u>(121,371)</u>
Income (loss) before capital gain (loss)	111,609	119,271	(190,829)
Income (loss) capital gain	<u>(19)</u>	<u>41</u>	<u>-</u>
Income (loss) before taxes on income	<u>111,590</u>	<u>119,312</u>	<u>(190,829)</u>
Taxes on income (tax benefit)	<u>35,949</u>	<u>26,747</u>	<u>(41,211)</u>
Net income (loss)	<u>75,641</u>	<u>92,565</u>	<u>(149,618)</u>
Attributable to:			
Equity holders of the Company	75,641	92,276	(149,533)
Non-controlling interests	-	289	(85)
	<u>75,641</u>	<u>92,565</u>	<u>(149,618)</u>
Net earnings (loss) per share attributable to equity holders of the Company (in NIS):			
Basic net earnings (loss)	<u>0.67</u>	<u>0.84</u>	<u>(1.38)</u>
Diluted net earnings (loss)	<u>0.67</u>	<u>0.84</u>	<u>(1.38)</u>

*) Reclassification.

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

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
Net income (loss)	<u>75,641</u>	<u>92,565</u>	<u>(149,618)</u>
Other comprehensive income (loss):			
Loss from cash flow hedges, net	(7,084)	(172)	(9,791)
Revaluation after classification of property, plant and equipment to investment property	593	910	-
Adjustments resulting from translation of financial statements of foreign operations	<u>43,741</u>	<u>(47,970)</u>	<u>69,098</u>
Other comprehensive income (loss), net	<u>37,250</u>	<u>(47,232)</u>	<u>59,307</u>
Total comprehensive income (loss)	<u>112,891</u>	<u>45,333</u>	<u>(90,311)</u>
Total comprehensive income (loss) attributable to:			
Equity holders of the Company	112,891	45,002	(90,577)
Non-controlling interests	<u>-</u>	<u>331</u>	<u>266</u>
	<u>112,891</u>	<u>45,333</u>	<u>(90,311)</u>

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							Total equity	
	Share capital	Share premium	Other capital reserves	Receipts on account of options	Foreign currency translation adjustments of foreign operations		Retained earnings		Non-controlling shareholders
					of foreign operations	Total			
NIS In thousands									
Balance as of January 1, 2009	152,268	239,557	(10,116)	3,955	(118,576)	514,448	781,536	2,229	783,765
Total comprehensive loss	-	-	(9,791)	-	68,747	(149,533)	(90,577)	266	(90,311)
Issue of shares to non-controlling interests	-	-	-	-	-	-	-	546	546
Dividend paid to equity holders of the Company	-	-	-	-	-	(8,000)	(8,000)	-	(8,000)
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	(315)	(315)
Balance as of December 31, 2009	152,268	239,557	(19,907)	3,955	(49,829)	356,915	682,959	2,726	685,685
Total comprehensive income	-	-	738	-	(48,012)	92,276	45,002	331	45,333
Share-based payment	-	-	831	-	-	-	831	-	831
Exercise of share options	3,500	17,086	-	(3,955)	-	-	16,631	-	16,631
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	(3,057)	(3,057)
Balance as of December 31, 2010	155,768	256,643	(18,338)	-	(97,841)	449,191	745,423	-	745,423
Total comprehensive income	-	-	(6,491)	-	43,741	75,641	112,891	-	112,891
Share-based payment	-	-	7,413	-	-	-	7,413	-	7,413
Dividend paid to non-controlling shareholders	-	-	-	-	-	(30,000)	(30,000)	-	(30,000)
Balance as of December 31, 2011	155,768	256,643	(17,416)	-	(54,100)	494,832	835,727	-	835,727

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

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
<u>Cash flows from operating activities:</u>			
Net income (loss)	75,641	92,565	(149,618)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Adjustments to the profit or loss items:			
Decrease (increase) in value of investment property and investment property under construction, net	(139,328)	(* (142,869)	(* 216,513
Finance expenses, net	158,901	156,537	121,371
Capital loss (gain)	19	(41)	-
Depreciation and amortization	7,346	(* 6,286	(* 6,302
Taxes on income (tax benefit)	35,949	26,747	(41,211)
Change in employee benefit liabilities, net	13	(4)	(1,301)
Cost of share-based payment	7,413	831	-
	<u>70,313</u>	<u>47,487</u>	<u>301,674</u>
Changes in asset and liability items:			
Decrease in trade receivables	5,415	4,554	3,304
Decrease (increase) in other accounts receivable	1,080	(8,792)	778
Increase (decrease) in trade payable	(3,565)	3,133	3,480
Increase (decrease) in other accounts payable	8,592	473	(4,004)
	<u>11,522</u>	<u>(632)</u>	<u>3,558</u>
Cash paid and received during the year for:			
Interest paid	(132,655)	(116,162)	(112,250)
Interest received	6,357	3,498	1,040
Dividend received from short term investments	458	-	-
Taxes paid	(11,299)	(6,706)	(2,829)
Taxes received	150	162	2,342
	<u>(136,989)</u>	<u>(119,208)</u>	<u>(111,697)</u>
Net cash provided by operating activities	<u>20,487</u>	<u>20,212</u>	<u>43,917</u>

*) Reclassification.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
<u>Cash flows from investing activities:</u>			
Proceeds from sale of investment property	15,642	94,260	220,630
VAT refund for investment property	70,925	-	-
Purchase of available-for-sale financial assets	(93,068)	(35,903)	-
Sale of available-for-sale financial assets	95,127	-	-
Purchase of investment property	(47,856)	(62,500)	(67,582)
Purchase of property under construction	(11,563)	(2,631)	(164,385)
Acquisition of subsidiary	(16,719)	-	-
Purchase of fixed assets	(384)	(1,981)	(831)
Purchase of intangible assets	(53)	(214)	(118)
Proceeds from sale of fixed assets	136	192	3,806
Grant of loan to tenant, net	(556)	-	-
Repayment (grant) of loan to non-controlling interests, net	-	3,071	(1,848)
Net cash used in investing activities	11,631	(5,706)	(10,328)
<u>Cash flows from financing activities:</u>			
Repayment of short-term credit from banks	(69,271)	(43,938)	(97,065)
Loans from related companies and the parent company, net	-	-	19,093
Receipt of long-term loans	75,320	117,968	235,197
Repayment of long-term loans	(82,051)	(176,460)	(225,914)
Grant of deposit for interest	(7,056)	(6,180)	-
Proceeds from disposal of financial derivatives	-	3,180	38,497
Dividend paid to equity holders of the Company	(30,000)	-	(3,075)
Dividend paid to non-controlling interests	-	(3,057)	(315)
Issue of shares to non-controlling interests	-	-	546
Exercise of share options	-	16,631	-
Repayment of debentures	(113,701)	(44,505)	(43,918)
Early repayment of debentures	(7,920)	(119)	-
Issue of debentures net of issue expenses	196,603	197,855	-
Net cash provided by (used in) financing activities	(38,076)	61,375	(76,954)
Increase (decrease) in cash and cash equivalents	(5,958)	75,881	(43,365)
Translation differences for cash balances in foreign investees	4,326	(1,217)	(2,410)
Cash and cash equivalents at beginning of year	114,304	39,640	85,415
Cash and cash equivalents at end of year	112,672	114,304	39,640

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2011	2010	2009
	NIS in thousands		
(a) <u>Significant non-cash transactions:</u>			
Purchase of property, plant and equipment and investment property against trade payables	8,643	7,319	27,607
Proceeds from sale of investment property against other accounts receivable	-	8,846	11,099
Proceeds from sale of investment property against available-for-sale financial assets	-	10,715	-

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

APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- OPERATING SEGMENTS

a. Operating segment information:

	Year ended December 31, 2011				Total
	Israel	Belgium	Poland	Canada	
	NIS in thousands				
Revenues:					
Revenues from rental of properties	41,651	10,015	42,062	103,432	197,160
Amortization of tenant inducements	(12)	-	(225)	(5,455)	(5,692)
Increase (decrease) in value of investment property and provision for impairment of investment property under construction, net	<u>10,953</u>	<u>5,925</u>	<u>26,000</u>	<u>96,450</u>	<u>139,328</u>
Total revenues	<u>52,592</u>	<u>15,940</u>	<u>67,837</u>	<u>194,427</u>	<u>330,796</u>
Segment results	<u>29,711</u>	<u>10,312</u>	<u>58,095</u>	<u>172,392</u>	<u>270,510</u>
Finance income					4,010
Finance expenses					(162,911)
					<u>(158,901)</u>
Income before other expenses					111,609
Capital loss					<u>(19)</u>
Income before taxes on income					111,590
Taxes on income					<u>35,949</u>
Net income					<u>75,641</u>
Depreciation and amortization	<u>1,116</u>	<u>51</u>	<u>455</u>	<u>5,724</u>	<u>7,346</u>
Capital investments	<u>10,452</u>	<u>1,690</u>	<u>38,465</u>	<u>25,968</u>	<u>76,575</u>

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

APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- OPERATING SEGMENTS (cont.)

a. Operating segment information: (cont.)

	Year ended December 31, 2010				Total
	Israel	Belgium	Poland	Canada	
	NIS in thousands				
Revenues:					
Revenues from rental of properties	47,564	10,024	28,208	100,494	186,290
Amortization of tenant inducements	-	-	-	(* (4,075))	(* (4,075))
Increase (decrease) in value of investment property and provision for impairment of investment property under construction, net	(1,780)	(8,593)	27,156	(* 126,086)	(*142,869)
Total revenues	<u>45,784</u>	<u>1,431</u>	<u>55,364</u>	<u>222,505</u>	<u>325,084</u>
Segment results	<u>29,389</u>	<u>(3,931)</u>	<u>43,459</u>	<u>206,891</u>	<u>275,808</u>
Finance income					4,349
Finance expenses					(160,886)
					<u>(156,537)</u>
Income before other expenses					<u>119,271</u>
Capital loss					<u>41</u>
Income before taxes on income					119,312
Taxes on income					<u>26,747</u>
Net income					<u>92,565</u>
Depreciation and amortization	<u>1,388</u>	<u>47</u>	<u>226</u>	<u>4,625</u>	<u>6,286</u>
Capital investments	<u>4,274</u>	<u>4,408</u>	<u>37,079</u>	<u>21,351</u>	<u>67,112</u>

*) Reclassification.

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

APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- OPERATING SEGMENTS (cont.)

a. Operating segment information: (cont.)

	Year ended December 31, 2009				
	Israel	Belgium	Poland	Canada	Total
	NIS in thousands				
Revenues:					
Revenues from rental of properties	57,271	12,084	21,673	98,580	189,608
Amortization of tenant inducements	-	-	-	(* (3,595))	(* (3,595))
Decrease in value of investment property and provision for impairment of investment property under construction, net	(20,386)	(10,897)	(165,943)	(* (19,287))	(* (216,513))
Total revenues	<u>36,885</u>	<u>1,187</u>	<u>(144,270)</u>	<u>75,698</u>	<u>(30,500)</u>
Segment results	<u>21,652</u>	<u>(3,353)</u>	<u>(155,676)</u>	<u>67,919</u>	<u>(69,458)</u>
Finance income					7,043
Finance expenses					(128,414)
					(121,371)
Loss before taxes on income					(190,829)
Tax benefit					(41,211)
Loss					<u>(149,618)</u>
Depreciation and amortization	<u>2,120</u>	<u>50</u>	<u>32</u>	<u>4,100</u>	<u>6,302</u>
Capital investments	<u>4,247</u>	<u>6,238</u>	<u>184,764</u>	<u>37,667</u>	<u>232,916</u>

*) Reclassification.

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

APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- OPERATING SEGMENTS (Cont.)

b. Assets used by the segments:

	December 31,	
	2011	2010
	NIS in thousands	
Israel	959,264	911,785
Belgium	254,291	240,678
Poland	635,909	602,255
Canada	1,654,917	1,493,400
Unallocated assets	18,332	18,051
	<u>3,522,713</u>	<u>3,266,169</u>

c. Liabilities used by the segments:

	December 31,	
	2011	2010
	NIS in thousands	
Israel	1,298,255	1,217,311
Belgium	125,179	130,891
Poland	394,331	335,905
Canada	762,411	759,120
Unallocated liabilities	106,810	77,519
	<u>2,686,986</u>	<u>2,520,746</u>

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