

**Part of the Financial
Statements
translated from the
Hebrew original**

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015

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AS OF DECEMBER 31, 2015

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Dear Sirs,

We have audited, in accordance with International Financial Reporting Standards, the condensed consolidated statements of financial position of **ADGAR INVESTMENTS AND DEVELOPMENT LIMITED** as at December 31, 2015 and 2014 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for each of the years ended as at December 31, 2015, 2014 and 2014, and in our report dated March 16, 2016 we expressed an unqualified opinion on those financial statements.

The accompanying financial statements are condensed consolidated 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
March 27, 2016

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

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2015	2014
	NIS in thousands	
CURRENT ASSETS		
Cash and cash equivalents	281,778	394,810
Short-term investments	23,469	50,035
Customers	16,279	12,618
Deposits	11,965	13,022
Debtors and receivables	34,732	39,417
Current taxes receivable	5,693	7,766
Derivatives	6,478	4,812
	380,394	522,480
NON-CURRENT ASSETS		
Deposit	60,111	30,632
Debtors	2,839	11,221
Loans	21,967	11,826
Fixed assets, net	12,584	14,605
Investment property	3,331,623	3,029,862
Investment property under construction	47,066	239,881
Intangible assets	262	12
Deferred taxes	1,931	1,450
	3,478,383	3,339,489
	3,858,777	3,861,969

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2015	2014
	NIS in thousands	
CURRENT LIABILITIES		
Credit from banking institutions and current maturities of long-term loans	144,370	253,486
Current maturities of debentures	143,603	216,655
Liabilities to suppliers and service providers	21,225	16,676
Income taxes payable	3,054	19,237
Creditors and payables	62,762	79,396
Derivatives	18,408	15,801
	<u>393,422</u>	<u>601,251</u>
NON CURRENT LIABILITIES		
Loans from banking institutions and other financial institutions	1,464,193	1,300,837
Debentures	987,525	861,772
Derivatives	23,946	30,338
Employee benefit liabilities, net	148	148
Deferred taxes	158,690	146,096
	<u>2,634,502</u>	<u>2,339,191</u>
EQUITY		
Share capital	158,495	157,414
Share premium	275,450	266,511
Other reserves	(11,096)	(13,707)
Foreign currency translation adjustments of foreign activities	(267,200)	(137,516)
Retained earnings	629,525	602,972
	<u>785,174</u>	<u>875,674</u>
Total equity attributable to the Company's shareholders	<u>785,174</u>	<u>875,674</u>
Non-controlling interest	<u>45,679</u>	<u>45,853</u>
Total equity	<u>830,853</u>	<u>921,527</u>
	<u>3,858,777</u>	<u>3,861,969</u>

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands (Except for basic and diluted earnings per share)		
INCOME			
Revenues from rental of properties	202,054	182,096	199,566
Increase in value of investment property and investment property under construction, net	44,397	80,673	122,417
	246,451	262,769	321,983
EXPENSES			
Maintenance of properties, net	16,173	14,850	14,155
General and administrative	34,791	33,661	33,284
Issue expenses	-	-	8,817
	50,964	48,511	56,256
Income before finance	195,487	214,258	265,727
Finance income	28,354	6,535	3,965
Finance expenses	(129,765)	(118,972)	(131,692)
Finance expenses, net	(101,411)	(112,437)	(127,727)
Income before capital gain (loss)	94,076	101,821	138,000
Capital gain (loss)	(52)	2	35
Income before taxes on income	94,024	101,823	138,035
Taxes on income	33,632	26,439	40,150
Net income	60,392	75,384	97,885
Attributable to:			
Company's shareholders	57,553	68,216	81,672
Non-controlling interests	2,839	7,168	16,213
	60,392	75,384	97,885
Earnings per share:			
Net earnings per share attributable to Company's shareholders (in NIS):			
Basic net earnings	0.50	0.61	0.73
Diluted net earnings	0.50	0.60	0.73

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
Net income	60,392	75,384	97,885
Other comprehensive income (loss) (after the tax effect):			
Amounts that will be classified or reclassified to profit or loss when specific conditions are met:			
Profit in respect of cash flow hedge transactions, net	476	22	9,831
Transfer to statement of profit or loss in respect of cash flows hedge transactions, net	8,900	-	-
Adjustments resulting from translation of financial statements of foreign activities	(134,438)	1,327	(91,295)
Total other comprehensive income (loss)	(125,062)	1,349	(81,464)
Total comprehensive income (loss)	(64,670)	76,733	16,421
Total comprehensive income (loss) attributable to:			
Company shareholders	(64,445)	69,875	(840)
Non-controlling interests	(225)	6,858	17,261
	(64,670)	76,733	16,421

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to shareholders of the Company							Total equity
	Share capital	Share premium	Other reserves	Foreign currency translation adjustments of foreign activities	Retained earnings	Total	Non-controlling interests	
				NIS In thousands				
Balance as of January 1, 2013	155,768	256,643	(23,789)	(51,720)	511,778	848,680	-	848,680
Net income	-	-	-	-	81,672	81,672	16,213	97,885
Other comprehensive income (loss)	-	-	8,682	(91,194)	-	(82,512)	1,048	(81,464)
Total comprehensive income (loss)	-	-	8,682	(91,194)	81,672	(840)	17,261	16,421
Issue of shares in subsidiary to non-controlling interests	-	-	4,900	3,520	(8,694)	(274)	21,734	21,460
Share-based payment cost	-	-	723	-	-	723	-	723
Realization of options to Company shares	122	880	(880)	-	-	122	-	122
Dividend to Company shareholders	-	-	-	-	(20,000)	(20,000)	-	(20,000)
Balance as of December 31, 2013	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
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
Issue of shares in subsidiary to non-controlling interest	1,524	8,988	(3,124)	-	-	7,388	-	7,388
Dividend to Company shareholders	-	-	-	-	(30,000)	(30,000)	-	(30,000)
Balance as of December 31, 2014	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
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 cost	-	-	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 of December 31, 2015	158,495	275,450	(11,096)	(267,200)	629,525	785,174	45,679	830,853

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
CASH FLOWS FROM CURRENT ACTIVITIES			
Net income	60,392	75,384	97,885
Adjustments required 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	(44,397)	(80,673)	(122,417)
Finance expenses, net	101,411	112,437	127,727
Capital loss (gain)	52	(2)	(35)
Depreciation and amortization	5,775	6,048	7,790
Taxes on income	33,632	26,439	40,150
Change in employee benefit liabilities, net	-	61	-
Share-based payment cost	2,777	-	723
	99,250	64,310	53,938
Changes in asset and liability items:			
Decrease (increase) in customers	(4,658)	119	(2,150)
Decrease (increase) in debtors and receivables	9,111	(18,494)	(6,263)
Increase (decrease) in liabilities to suppliers and service providers	8,177	(4,835)	(173)
Increase (decrease) in creditors and payables	(5,753)	(1,371)	(25,025)
	6,877	(24,581)	(33,611)
Cash paid and received during the year for:			
Interest paid	(105,192)	(101,988)	(107,943)
Interest received	2,024	5,665	5,836
Dividend received	184	163	-
Taxes paid	(15,697)	(17,969)	(1,544)
Taxes received	123	1,205	1,082
	(118,558)	(112,924)	(102,569)
Net cash provided by current activities	47,961	2,189	15,643

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Investment in deposits, net	(29,646)	6,511	(30,626)
Proceeds from sale of investment property	-	358,733	13,308
Purchase of short term investments	(13,365)	(59,564)	-
Sale of short term investments	40,209	9,890	-
Purchase of hedging transaction	(16,110)	(3,750)	(4,116)
Proceeds from sale and settlement of hedging transactions	47,634	13,585	377
Purchase and investment of investment property	(309,114)	(277,610)	(208,531)
Purchase of investment property under construction	(71,488)	(66,423)	(39,591)
Purchase of fixed assets	(1,102)	(1,050)	(2,445)
Proceeds from sale of fixed assets	259	1,228	192
Capitalization of interest paid to investment property under construction	(1,525)	(7,474)	(6,705)
Purchase of intangible assets	(270)	(12)	(6)
Settlement (grant) of loan to partners in assets in Canada, net	(12,042)	2,550	(5,771)
Settlement of loan to lessee, net	-	165	204
Net cash used in investment activities	<u>(366,560)</u>	<u>(23,221)</u>	<u>(283,710)</u>
CASH FLOWS FROM FINANCE ACTIVITIES			
Settlement of short-term credit from banking institution	-	(11,167)	(4,742)
Receipt of long-term loans	276,237	273,132	250,932
Settlement of long-term loans	(69,708)	(219,916)	(110,973)
Dividend paid to shareholders of the Company	(31,000)	(30,000)	(30,000)
Issue of shares to non-controlling interests in subsidiary of the Company	-	-	21,460
Realization of options to shares	2,219	7,388	122
Settlement of CPI hedging transactions	(15,280)	(1,397)	-
Settlement of bonds	(193,170)	(126,872)	(110,628)
Issue of bonds net of issue expenses	251,977	222,961	388,998
Net cash provided by finance activities	<u>221,275</u>	<u>114,129</u>	<u>405,169</u>
Translation differences for cash balances in foreign investees	(15,708)	(7,772)	(9,215)
Increase (decrease) in cash and cash equivalents	(113,032)	85,325	127,887
Balance of cash and cash equivalents as at the beginning of the year	394,810	309,485	181,598
Balance of cash and cash equivalents as at the end of the year	<u>281,778</u>	<u>394,810</u>	<u>309,485</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2015	2014	2013
	NIS in thousands		
SIGNIFICANT NON-CASH TRANSACTIONS			
Sale of investment property against debtors	-	22,259	-
Purchase of investment property under construction against creditors and suppliers and service providers	29,934	40,738	13,505

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- SEGMENTS OF ACTIVITY

a. General

1. The Group operates in the field of real estate. Its main activity is holding income-producing properties, mainly for use as office premises in Israel and abroad. 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, including administration and general, are allocated directly to operational segments of activity since the Company's management examines its activities based on these segments.
3. The segment assets include all the operational assets which are used by the segment and are mainly composed of investment property and investment property under construction, cash and cash equivalents, customers and debtors and receivables. The liabilities of the segment include all the operational liabilities that result from operational transactions of the segment and are mainly composed of liabilities to banking institutions and others and creditors and payables. The assets and liabilities of the segment do not include income tax assets and liabilities.

b. Segment of activity informationOperating results

	Year ended December 31, 2015				Total
	Israel	Belgium	Poland	Canada	
	NIS in thousands				
Income					
Income from rental of properties before amortization	52,616	13,947	75,405	64,771	206,739
Amortization of tenant inducements	(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)
Finance expenses, net					(101,411)
Income before capital loss					94,076
Capital loss					(52)
Income before taxes on income					94,024
Taxes on income					33,632
Net income					60,392
Depreciation and amortization	791	-	1,136	3,848	5,775
Capital investments	96,685	4,121	34,115	234,542	369,463

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- SEGMENTS OF ACTIVITY (Cont.)

b. Segment of activity information (Cont.)

	Year ended December 31, 2014				Total
	Israel	Belgium	Poland	Canada	
	NIS in thousands				
Income					
Income from rental of properties before depreciation	45,390	16,327	66,223	58,868	186,808
Amortization of tenant inducements	(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)
Finance expenses, net					(112,437)
Income before capital gain					101,821
Capital gain					2
Income before taxes on income					101,823
Taxes on income					26,439
Net income					75,384
Depreciation and amortization	854	33	1,183	3,978	6,048
Capital investments	141,720	641	232,809	54,549	429,719

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- SEGMENTS OF ACTIVITY (Cont.)

b. Segment of activity information (Cont.)

	Year ended December 31, 2013				
	Israel	Belgium	Poland	Canada	Total
	NIS in thousands				
Income					
Income from rental of properties before depreciation	46,223	16,398	59,794	83,108	205,523
Amortization of tenant inducements	(203)	-	(787)	(4,967)	(5,957)
Increase in value of investment property and investment property under construction, net	5,070	2,330	79,303	35,714	122,417
Total income	51,090	18,728	138,310	113,855	321,983
Segment results	31,037	15,786	127,199	91,705	265,727
Finance income					3,965
Finance expenses					(131,692)
Finance expenses, net					(127,727)
Income before capital gain					138,000
Capital gain					35
Income before taxes on income					138,035
Taxes on income					40,150
Net income					97,885
Depreciation and amortization	947	33	1,656	5,154	7,790
Capital investments	31,055	1,420	183,431	41,372	257,278

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- SEGMENTS OF ACTIVITY (Cont.)

b. Segment of activity information (Cont.)Assets used by the segments

	December 31,	
	2015	2014
	NIS in thousands	
Israel	1,368,423	1,370,109
Belgium	226,382	251,536
Poland	1,162,572	1,191,874
Canada	1,093,776	1,039,234
Unallocated assets	7,624	9,216
	<u>3,858,777</u>	<u>3,861,969</u>

Liabilities used by the segments

	December 31,	
	2015	2014
	NIS in thousands	
Israel	1,557,399	1,526,549
Belgium	151,559	178,095
Poland	630,412	589,448
Canada	526,810	481,017
Unallocated liabilities	161,744	165,333
	<u>3,027,924</u>	<u>2,940,442</u>
