

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

**ADGAR INVESTMENTS AND DEVELOPMENT LIMITED**

**CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2012**

**ADGAR INVESTMENTS AND DEVELOPMENT LIMITED**  
**CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2012**

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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, 2012 and 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years ended as at December 31, 2012, 2011 and 2010, and in our report dated March 18, 2013, 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  
April 4, 2013

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

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
	<u>NIS in thousands</u>	
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	181,598	112,672
Short-term investments	17	41,317
Customers	11,156	10,059
Deposits	32,593	41,186
Debtors and receivables	8,020	7,794
Current taxes receivable	10,938	11,224
Financial derivatives	1,291	821
	<u>245,613</u>	<u>225,073</u>
<b>NON-CURRENT ASSETS</b>		
Financial derivatives	400	80
Loans	8,835	8,530
Fixed assets	17,230	15,519
Investment property	2,903,661	3,174,375
Investment property under construction	97,370	91,860
Intangible assets	71	168
Deferred taxes	17,205	7,108
	<u>3,044,772</u>	<u>3,297,640</u>
	<u><u>3,290,385</u></u>	<u><u>3,522,713</u></u>

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2012	2011
	NIS in thousands	
<b>CURRENT LIABILITIES</b>		
Credit from banking institutions and current maturities of long-term loans	179,273	365,822
Current maturities of debentures	125,297	131,764
Liabilities to suppliers and service providers	7,621	11,346
Income taxes payable	15	6,177
Creditors and payables	103,548	57,801
Financial derivatives	10,743	9,965
	<u>426,497</u>	<u>582,875</u>
<b>LONG-TERM LIABILITIES</b>		
Loans from banking institutions and other financial institutions	1,273,287	1,312,973
Debentures	562,752	666,738
Financial derivatives	34,621	23,744
Employee benefit liabilities, net	87	23
Deferred taxes	126,494	100,633
	<u>1,997,241</u>	<u>2,104,111</u>
<b>EQUITY</b>		
Share capital	155,768	155,768
Share premium	256,643	256,643
Other reserves	(23,789)	(17,416)
Foreign currency translation adjustments of foreign activities	(52,401)	(54,100)
Retained earnings	530,426	494,832
	<u>866,647</u>	<u>835,727</u>
Total equity	<u>3,290,385</u>	<u>3,522,713</u>

March 18, 2013

Date of approval of the  
financial statementsDoron Schneidman  
Chairman of the BoardRoy Gadish  
Managing DirectorLiat Manor  
Finance Manager

**ADGAR INVESTMENTS AND DEVELOPMENT LIMITED**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands (except per share amounts)		
<b>INCOME</b>			
Revenues from rental of properties	197,170	191,468	182,215
Increase in value of investment property and investment property under construction, net	75,318	139,328	142,869
	272,488	330,796	325,084
<b>EXPENSES</b>			
Maintenance of properties, net	13,799	23,586	15,611
General and administrative	33,749	36,700	33,665
	47,548	60,286	49,276
Income before financing	224,940	270,510	275,808
Finance income	5,315	4,010	4,349
Finance expenses	(131,130)	(162,911)	(160,886)
Finance expenses, net	(125,815)	(158,901)	(156,537)
Income before capital gain (loss)	99,125	111,609	119,271
Capital gain (loss)	33	(19)	41
Income before taxes on income	99,158	111,590	119,312
Taxes on income	28,564	35,949	26,747
Net income	70,594	75,641	92,565
Attributable to			
Equity holders of the Company	70,594	75,641	92,276
Non-controlling interests	-	-	289
	70,594	75,641	92,565
Earnings per share:			
Net earnings per share attributable to equity holders of the Company (in NIS):			
Basic and diluted net earnings	0.63	0.67	0.84

**ADGAR INVESTMENTS AND DEVELOPMENT LIMITED**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Year ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>NIS in thousands</b>		
Net income	70,594	75,641	92,565
Other comprehensive income (loss) (after the tax benefit):			
Loss from cash flow hedges, net	(9,213)	(7,084)	(172)
Revaluation after classification of property, plant and equipment to investment property	-	593	910
Adjustments resulting from translation of financial statements of foreign activities	1,699	43,741	(47,970)
Total other comprehensive income (loss)	(7,514)	37,250	(47,232)
Total comprehensive income	63,080	112,891	45,333
Total comprehensive income attributable to:			
Equity holders of the Company	63,080	112,891	45,002
Non-controlling interests	-	-	331
	63,080	112,891	45,333

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium	Other capital reserves	Receipts on account of options	Foreign currency translation adjustments of foreign activities	Retained earnings	Total	Non-controlling shareholders	Total equity
					NIS In thousands				
Balance as of January 1, 2010	152,268	239,557	(19,907)	3,955	(49,829)	356,915	682,959	2,726	685,685
Total comprehensive income (loss)	-	-	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 holders of non-controlling interests	-	-	-	-	-	-	-	(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 (loss)	-	-	(6,491)	-	43,741	75,641	112,891	-	112,891
Share-based payment	-	-	7,413	-	-	-	7,413	-	7,413
Dividend to Company 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
Total comprehensive income (loss)	-	-	(9,213)	-	1,699	70,594	63,080	-	63,080
Share-based payment	-	-	2,840	-	-	-	2,840	-	2,840
Dividend to Company equity holders	-	-	-	-	-	(35,000)	(35,000)	-	(35,000)
Balance as of December 31, 2012	155,768	256,643	(23,789)	-	(52,401)	530,426	866,647	-	866,647



## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
<b>CASH FLOWS FROM CURRENT ACTIVITIES</b>			
Net income	70,594	75,641	92,565
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	(75,318)	(139,328)	(142,869)
Finance expenses, net	125,815	158,901	156,537
Capital loss (gain)	(33)	19	(41)
Depreciation and amortization	7,824	7,346	6,286
Taxes on income	28,564	35,949	26,747
Change in employee benefit liabilities, net	64	13	(4)
Cost of share-based payment	2,840	7,413	831
	89,756	70,313	47,487
Changes in asset and liability items:			
Decrease (increase) in customers	(1,687)	5,415	4,554
Decrease (increase) in debtors and receivables	3,103	1,080	(8,792)
Increase (decrease) in liabilities to suppliers and service providers	1,027	(3,565)	3,133
Increase in creditors and payables	29,395	8,592	473
	31,838	11,522	(632)
Cash paid and received during the year for:			
Interest paid	(124,316)	(132,655)	(116,162)
Interest received	3,514	6,357	3,498
Dividend received	-	458	-
Taxes paid	(18,186)	(11,299)	(6,706)
Taxes received	1,681	150	162
	(137,307)	(136,989)	(119,208)
Net cash provided by operating activities	54,881	20,487	20,212

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>			
Proceeds from sale of investment property	220,320	15,642	94,260
VAT refund for investment property	-	70,925	-
Purchase of short term investments	-	(93,068)	(35,903)
Sale of short term investments	41,892	95,127	-
Purchase of investment property	(30,098)	(47,856)	(62,500)
Purchase of property under construction	(5,510)	(11,563)	(2,631)
Acquisition of subsidiary	-	(16,719)	-
Purchase of fixed assets	(1,673)	(384)	(1,981)
Purchase of intangible assets	(18)	(53)	(214)
Proceeds from sale of fixed assets	1,682	136	192
Settlement (grant) of loan to lessee, net	189	(556)	-
Settlement of loan to partners in subsidiaries, net	-	-	3,071
	<u>226,784</u>	<u>11,631</u>	<u>(5,706)</u>
Net cash provided by (used in) investment activities			
<b>CASH FLOWS FROM FINANCE ACTIVITIES</b>			
Settlement of short-term credit from banking institution	(33,390)	(69,271)	(43,938)
Receipt of long-term loans	44,022	75,320	117,968
Settlement of long-term loans	(79,651)	(82,051)	(176,460)
Deposit of pledge for debenture interest	-	(7,056)	(6,180)
Proceeds from realization of financial derivatives	-	-	3,180
Dividend paid to equity holders of the Company	(25,000)	(30,000)	-
Dividend paid to non-controlling interests	-	-	(3,057)
Realization of share options	-	-	16,631
Settlement of bonds	(109,375)	(113,701)	(44,505)
Early settlement of bonds	(9,425)	(7,920)	(119)
Issue of bonds net of issue expenses	-	196,603	197,855
	<u>(212,819)</u>	<u>(38,076)</u>	<u>61,375</u>
Net cash provided by (used in) finance activities			
Translation differences for cash balances in foreign investees	80	4,326	(1,217)
Increase (decrease) in cash and cash equivalents	68,926	(1,632)	74,664
<b>Balance of cash and cash equivalents at beginning of the year</b>	<u>112,672</u>	<u>114,304</u>	<u>39,640</u>
<b>Balance of cash and cash equivalents at end of the year</b>	<u><u>181,598</u></u>	<u><u>112,672</u></u>	<u><u>114,304</u></u>

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2012	2011	2010
	NIS in thousands		
<b>(a) Significant non-cash transactions</b>			
Purchase of fixed assets and investment property against suppliers and service providers	742	8,643	7,319
Dividend declared but not yet paid	10,000	-	-
Realization of investment property against debtors and receivables	-	-	8,846
Realization of investment property against short term investments	-	-	10,715

## APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1:- OPERATING SEGMENTS

a. General

1. The Group operates in the real estate market. 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 operating segments 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. Operating segment informationOperating results

	Year ended December 31, 2012				
	Israel	Belgium	Poland	Canada	Total
	NIS in thousands				
<b>Income</b>					
Income from rental of properties before amortization	44,895	14,209	46,867	97,566	203,537
Amortization of tenant inducements	(65)	-	(704)	(5,598)	(6,367)
Increase (decrease) in value of investment property and investment property under construction, net	(366)	1,761	3,652	70,271	75,318
Total income	<u>44,464</u>	<u>15,970</u>	<u>49,815</u>	<u>162,239</u>	<u>272,488</u>
Segment results	<u>21,889</u>	<u>10,774</u>	<u>44,016</u>	<u>148,261</u>	<u>224,940</u>
Finance income					5,315
Finance expenses					(131,130)
Finance expenses, net					(125,815)
Income before capital gain					99,125
Capital gain					33
Income before taxes on income					99,158
Taxes on income					28,564
Net income					<u>70,594</u>
Depreciation and amortization	<u>959</u>	<u>45</u>	<u>937</u>	<u>5,883</u>	<u>7,824</u>
Capital investments	<u>14,640</u>	<u>4,502</u>	<u>4,055</u>	<u>14,102</u>	<u>37,299</u>

## APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1:- OPERATING SEGMENTS (Cont.)

b. Operating segment information (Cont.)

	Year ended December 31, 2011				Total
	Israel	Belgium	Poland	Canada	
	NIS in thousands				
<b>Income</b>					
Income from rental of properties before depreciation	41,651	10,015	42,062	103,432	197,160
Amortization of tenant inducements	(12)	-	(225)	(5,455)	(5,692)
Increase in value of investment property and investment property under construction, net	10,953	5,925	26,000	96,450	139,328
Total income	<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)
Finance expenses, net					(158,901)
Income before capital gain					111,609
Capital gain					(19)
Income before taxes on income					111,590
Taxes on income					35,949
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>

## APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1:- OPERATING SEGMENTS (Cont.)

b. Operating segment information (Cont.)

	Year ended December 31, 2010				Total
	Israel	Belgium	Poland	Canada	
	NIS in thousands				
<b>Income</b>					
Income from rental of properties before depreciation	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 investment property under construction, net	(1,780)	(8,593)	27,156	126,086	142,869
Total income	45,784	1,431	55,364	222,505	325,084
Segment results	29,389	(3,931)	43,459	206,891	275,808
Finance income					4,349
Finance expenses					(160,886)
Finance expenses, net					(156,537)
Income before capital gain					119,271
Capital gain					41
Income before taxes on income					119,312
Taxes on income					26,747
Net income					92,565
Depreciation and amortization	1,388	47	226	4,625	6,286
Capital investments	4,274	4,408	37,079	21,351	67,112

## APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1:- OPERATING SEGMENTS (Cont.)

b. Operating segment information (Cont.)Assets used by the segments

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>NIS in thousands</b>	
Israel	943,394	959,264
Belgium	253,302	254,291
Poland	675,262	635,909
Canada	1,390,284	1,654,917
Unallocated assets	28,143	18,332
	<u>3,290,385</u>	<u>3,522,713</u>

Liabilities used by the segments

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>NIS in thousands</b>	
Israel	1,159,980	1,298,255
Belgium	134,889	125,179
Poland	418,986	394,331
Canada	583,374	762,411
Unallocated liabilities	126,509	106,810
	<u>2,423,738</u>	<u>2,686,986</u>

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