

**Translated  
from the  
Hebrew original**

**ADGAR INVESTMENTS AND DEVELOPMENT LTD.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF JUNE 30, 2012**

**UNAUDITED**

**ADGAR INVESTMENTS AND DEVELOPMENT LTD.**

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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 June 30, 2012 and the related condensed consolidated statements of profit and loss, comprehensive income, changes in equity and cash flows for the six 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 61.5% of total consolidated assets as of June 30, 2012, and whose revenues constitute approximately 71.4% and approximately 69.8% of the total consolidated revenues for the six and three month periods 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  
August 28, 2012*Kost Forer Gabbay & Kasierer*  
KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

	June 30,		December 31,
	2012	2011	2011
	Unaudited		Audited
NIS in thousands			
<b>CURRENT LIABILITIES</b>			
Credit from banking institutions and current maturities of long-term loans	250,251	281,768	365,822
Current maturities of bonds	124,961	131,332	131,764
Liabilities to suppliers and service providers	10,948	13,867	11,346
Taxes payable	7,367	116	6,177
Creditors and payables	51,660	55,780	57,801
Derivatives	12,151	6,814	9,965
	<u>457,338</u>	<u>489,677</u>	<u>582,875</u>
<b>NON-CURRENT LIABILITIES</b>			
Loans from banking institutions and other financial entities	1,241,025	1,391,335	1,312,973
Bonds	601,254	710,051	666,738
Derivatives	27,457	11,444	23,744
Employee benefit liabilities, net	23	10	23
Deferred taxes	120,640	83,024	100,633
	<u>1,990,399</u>	<u>2,195,864</u>	<u>2,104,111</u>
<b>EQUITY</b>			
Share capital	155,768	155,768	155,768
Share premium	256,643	256,643	256,643
Other reserves	(19,997)	(8,715)	(17,416)
Adjustments due to the translation of financial statements of activities abroad	(40,164)	(89,453)	(54,100)
Retained earnings	517,346	487,056	494,832
<b>TOTAL EQUITY</b>	<u>869,596</u>	<u>801,299</u>	<u>835,727</u>
	<u>3,317,333</u>	<u>3,486,840</u>	<u>3,522,713</u>

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

August 28, 2012  
Date of approval of the  
financial statements

  
Doron Schneidman  
Chairman of the Board

  
Roy Gadish  
CEO

  
Daniel Stern  
CFO

**ADGAR INVESTMENTS AND DEVELOPMENT LTD.**

**CONSOLIDATED STATEMENTS OF PROFIT AND LOSS**

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in thousands [except for net earnings per share data]				
<b>INCOME</b>					
Income from rental of properties	100,305	94,227	48,098	48,587	191,468
Increase in value of investment property and investment property under construction, net	63,872	94,091	63,872	72,089	139,328
<b>Total income</b>	<b>164,177</b>	<b>188,318</b>	<b>111,970</b>	<b>120,676</b>	<b>330,796</b>
<b>EXPENSES</b>					
Maintenance of assets, net	8,848	11,930	3,739	5,478	23,586
Administrative and general expenses	17,446	18,350	10,257	10,818	36,700
<b>Total expenses</b>	<b>26,294</b>	<b>30,280</b>	<b>13,996</b>	<b>16,296</b>	<b>60,286</b>
<b>Income before finance expenses</b>	<b>137,883</b>	<b>158,038</b>	<b>97,974</b>	<b>104,380</b>	<b>270,510</b>
Finance income	2,807	2,139	657	1,434	4,010
Finance expenses	(73,244)	(89,695)	(42,703)	(48,593)	(162,911)
<b>Finance expenses, net</b>	<b>(70,437)</b>	<b>(87,556)</b>	<b>(42,046)</b>	<b>(47,159)</b>	<b>(158,901)</b>
<b>Income (loss) before capital gain</b>	<b>67,446</b>	<b>70,482</b>	<b>55,928</b>	<b>57,221</b>	<b>111,609</b>
Capital gain (loss)	36	(19)	-	-	(19)
<b>Income before taxes on income</b>	<b>67,482</b>	<b>70,463</b>	<b>55,928</b>	<b>57,221</b>	<b>111,590</b>
Taxes on income	19,968	17,598	15,514	13,509	35,949
<b>Net income</b>	<b>47,514</b>	<b>52,865</b>	<b>40,414</b>	<b>43,712</b>	<b>75,641</b>
Net earnings per share attributed to Company shareholders (NIS):					
<b>Basic and diluted net earnings</b>	<b>0.42</b>	<b>0.47</b>	<b>0.36</b>	<b>0.39</b>	<b>0.67</b>

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31 2011
	2012	2011	2012	2011	2011
	Unaudited				Audited
	NIS in thousands				
Net income	47,514	52,865	40,414	43,712	75,641
Other comprehensive income (loss) (after the tax effect):					
Profit (loss) in respect of cash flow hedging transactions, net	(4,554)	5,196	(2,683)	(2,620)	(7,084)
Revaluation in respect of change of classification of fixed assets to investment property	-	593	-	593	593
Adjustment resulting from the translation of financial statements of activities abroad	13,936	8,388	15,103	(11,325)	43,741
Total other comprehensive income (loss), net	9,382	14,177	12,420	(13,352)	37,250
Total comprehensive income	56,896	67,042	52,834	30,360	112,891

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Other capital reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total
	Unaudited					
	NIS in thousands					
<b>Balance as at January 1, 2012 (Audited)</b>	155,768	256,643	(17,416)	(54,100)	494,832	835,727
Net income	-	-	-	-	47,514	47,514
Other comprehensive income (loss)	-	-	(4,554)	13,936	-	9,382
Total comprehensive income (loss)	-	-	(4,554)	13,936	47,514	56,896
Dividend paid to Company shareholders	-	-	-	-	(25,000)	(25,000)
Share-based payment	-	-	1,973	-	-	1,973
<b>Balance as at June 30, 2012</b>	<u>155,768</u>	<u>256,643</u>	<u>(19,997)</u>	<u>(40,164)</u>	<u>517,346</u>	<u>869,596</u>

	Share capital	Share premium	Other capital reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total
	Unaudited					
	NIS in thousands					
<b>Balance as at January 1, 2011 (Audited)</b>	155,768	256,643	(18,338)	(97,841)	449,191	745,423
Net income	-	-	-	-	52,865	52,865
Other comprehensive income	-	-	5,789	8,388	-	14,177
Total comprehensive income	-	-	5,789	8,388	52,865	67,042
Share-based payment	-	-	3,834	-	-	3,834
Dividend paid to Company shareholders	-	-	-	-	(15,000)	(15,000)
<b>Balance as at June 30, 2011</b>	<u>155,768</u>	<u>256,643</u>	<u>(8,715)</u>	<u>(89,453)</u>	<u>487,056</u>	<u>801,299</u>

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Share capital	Share premium	Other capital reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total
	Unaudited					
	NIS in thousands					
<b>Balance as at April 1, 2012</b>	155,768	256,643	(18,217)	(55,267)	501,932	840,859
Net income	-	-	-	-	40,414	40,414
Other comprehensive income (loss)	-	-	(2,683)	15,103	-	12,420
Total comprehensive income (loss)	-	-	(2,683)	15,103	40,414	52,834
Dividend paid to Company shareholders	-	-	-	-	(25,000)	(25,000)
Share-based payment	-	-	903	-	-	903
<b>Balance as at June 30, 2012</b>	<u>155,768</u>	<u>256,643</u>	<u>(19,997)</u>	<u>(40,164)</u>	<u>517,346</u>	<u>869,596</u>

	Share capital	Share premium	Other capital reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total
	Unaudited					
	NIS in thousands					
<b>Balance as at April 1, 2011</b>	155,768	256,643	(8,605)	(78,128)	458,344	784,022
Net income	-	-	-	-	43,712	43,712
Other comprehensive loss	-	-	(2,027)	(11,325)	-	(13,352)
Total comprehensive income (loss)	-	-	(2,027)	(11,325)	43,712	30,360
Share-based payment	-	-	1,917	-	-	1,917
Dividend paid to Company shareholders	-	-	-	-	(15,000)	(15,000)
<b>Balance as at June 30, 2011</b>	<u>155,768</u>	<u>256,643</u>	<u>(8,715)</u>	<u>(89,453)</u>	<u>487,056</u>	<u>801,299</u>

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