

**Translated
from the
Hebrew original**

ADGAR INVESTMENTS AND DEVELOPMENT LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2015

UNAUDITED

ADGAR INVESTMENTS AND DEVELOPMENT LTD.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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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 statement of financial position as of June 30, 2015 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the period of 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 56.2% of total consolidated assets as of June 30, 2015, and whose revenues constitute approximately 70.6% and 72.9% of the total consolidated revenues for the six and 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.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30		December 31
	2015	2014	2014
	Unaudited		Audited
	NIS in thousands		
CURRENT ASSETS			
Cash and cash equivalents	188,752	329,529	394,810
Short-term investments	29,838	49,427	50,035
Customers	13,417	12,782	12,618
Deposits	34,647	33,761	13,022
Debtors and receivables	36,921	13,529	39,417
Current taxes receivable	7,913	9,813	7,766
Derivatives	16,722	2,663	4,812
	<u>328,210</u>	<u>451,504</u>	<u>522,480</u>
NON-CURRENT ASSETS			
Deposit	26,787	8,674	30,632
Long term debtors	5,011	22,296	11,221
Loans	15,143	14,433	11,826
Fixed assets, net	12,726	15,237	14,605
Investment property	3,142,714	2,678,254	3,029,862
Investment property under construction	33,300	184,962	239,881
Intangible assets	31	15	12
Deferred taxes	1,009	994	1,450
	<u>3,236,721</u>	<u>2,924,865</u>	<u>3,339,489</u>
	<u><u>3,564,931</u></u>	<u><u>3,376,369</u></u>	<u><u>3,861,969</u></u>

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30		December 31
	2015	2014	2014
	Unaudited		Audited
NIS in thousands			
CURRENT LIABILITIES			
Credit from banking institutions and current maturities of long-term loans	170,810	138,776	253,486
Current maturities of bonds	138,026	211,309	216,655
Liabilities to suppliers and service providers	20,505	14,304	16,676
Taxes payable	2,061	19,873	19,237
Creditors and payables	69,207	62,899	79,396
Derivatives	14,798	13,358	15,801
	<u>415,407</u>	<u>460,519</u>	<u>601,251</u>
NON-CURRENT LIABILITIES			
Loans from banking institutions and other financial entities	1,265,807	1,239,052	1,300,837
Bonds	871,850	661,303	861,772
Derivatives	21,915	27,312	30,338
Employee benefit liabilities, net	148	87	148
Deferred taxes	141,266	129,789	146,096
	<u>2,300,986</u>	<u>2,057,543</u>	<u>2,339,191</u>
EQUITY			
Share capital	157,979	155,914	157,414
Share premium	270,588	257,807	266,511
Other reserves	(11,349)	(11,619)	(13,707)
Adjustments due to the translation of financial statements of activities abroad	(234,481)	(159,284)	(137,516)
Retained earnings	621,360	573,990	602,972
	<u>804,097</u>	<u>816,808</u>	<u>875,674</u>
Total equity attributed to the Company's shareholders	804,097	816,808	875,674
Non-controlling interests	44,441	41,499	45,853
	<u>848,538</u>	<u>858,307</u>	<u>921,527</u>
Total equity	<u>3,564,931</u>	<u>3,376,369</u>	<u>3,861,969</u>

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

August 26, 2015			
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 six months ended June 30		For the three months ended June 30		For the year ended December 31
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands [except for net earnings per share data]				
INCOME					
Income from rental of properties	95,154	86,926	47,573	44,630	182,096
Increase in value of investment property and investment property under construction, net	6,937	26,765	6,937	23,458	80,673
	<u>102,091</u>	<u>113,691</u>	<u>54,510</u>	<u>68,088</u>	<u>262,769</u>
EXPENSES					
Maintenance of assets, net	7,476	8,105	4,064	3,869	14,850
Administrative and general expenses	16,985	16,659	9,041	7,949	33,661
	<u>24,461</u>	<u>24,764</u>	<u>13,105</u>	<u>11,818</u>	<u>48,511</u>
Income before finance	<u>77,630</u>	<u>88,927</u>	<u>41,405</u>	<u>56,270</u>	<u>214,258</u>
Finance income	22,208	4,227	2,230	1,370	6,535
Finance expenses	(55,423)	(54,455)	(31,536)	(34,591)	(118,972)
Finance expenses, net	<u>(33,215)</u>	<u>(50,228)</u>	<u>(29,306)</u>	<u>(33,221)</u>	<u>(112,437)</u>
Income before capital gain (loss)	44,415	38,699	12,099	23,049	101,821
Capital gain (loss)	(13)	12	(4)	-	2
Income before taxes on income	<u>44,402</u>	<u>38,711</u>	<u>12,095</u>	<u>23,049</u>	<u>101,823</u>
Taxes on income	8,363	11,211	3,610	7,005	26,439
Net income	<u>36,039</u>	<u>27,500</u>	<u>8,485</u>	<u>16,044</u>	<u>75,384</u>
Attributed to:					
Company shareholders	33,388	24,234	7,374	13,049	68,216
Non-controlling interests	2,651	3,266	1,111	2,995	7,168
	<u>36,039</u>	<u>27,500</u>	<u>8,485</u>	<u>16,044</u>	<u>75,384</u>
Earnings per share:					
Net earnings per share attributed to equity holders of the Company (in NIS)					
Basic net earnings	<u>0.29</u>	<u>0.22</u>	<u>0.06</u>	<u>0.12</u>	<u>0.61</u>
Diluted net earnings	<u>0.29</u>	<u>0.21</u>	<u>0.06</u>	<u>0.11</u>	<u>0.60</u>

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
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands [except for net earnings per share data]				
Net income	36,039	27,500	8,485	16,044	75,384
Other comprehensive income (loss) (after the tax effect):					
Amounts to be classified or reclassified to profit or loss under specific conditions:					
Profit (loss) in respect of cash flow hedging transactions, net	5,179	(971)	4,012	(791)	22
Adjustment resulting from the translation of financial statements of activities abroad	(101,933)	(20,652)	(16,067)	(3,695)	1,327
Total other comprehensive income (loss)	(96,754)	(21,623)	(12,055)	(4,486)	1,349
Total comprehensive income (loss)	(60,715)	5,877	(3,570)	11,558	76,733
Total comprehensive income (loss) attributed to:					
Company shareholders	(59,284)	3,373	(4,720)	9,648	69,875
Non-controlling interests	(1,431)	2,504	1,150	1,910	6,858
	(60,715)	5,877	(3,570)	11,558	76,733

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							Non controlling interests	Total equity
	Share capital	Share premium	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total			
	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	-	-	-	-	33,388	33,388	2,651	36,039	
Total other comprehensive income (loss)	-	-	4,293	(96,965)	-	(92,672)	(4,082)	(96,754)	
Total comprehensive income (loss)	-	-	4,293	(96,965)	33,388	(59,284)	(1,431)	(60,715)	
Realization of options to Company shares	565	4,077	(2,939)	-	-	1,703	-	1,703	
Share-based payment	-	-	1,004	-	-	1,004	19	1,023	
Dividend paid to Company's shareholders	-	-	-	-	(15,000)	(15,000)	-	(15,000)	
Balance as at June 30, 2015	<u>157,979</u>	<u>270,588</u>	<u>(11,349)</u>	<u>(234,481)</u>	<u>621,360</u>	<u>804,097</u>	<u>44,441</u>	<u>848,538</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							Total equity
	Share capital	Share premium	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad	Retained earnings	Total	Non controlling interests	
	Unaudited							
	NIS in thousands							
Balance as at January 1, 2014 (Audited)	155,890	257,523	(10,364)	(139,394)	564,756	828,411	38,995	867,406
Net income	-	-	-	-	24,234	24,234	3,266	27,500
Total other comprehensive loss	-	-	(971)	(19,890)	-	(20,861)	(762)	(21,623)
Total comprehensive income (loss)	-	-	(971)	(19,890)	24,234	3,373	2,504	5,877
Realization of options to Company shares	24	284	(284)	-	-	24	-	24
Dividend paid to Company's shareholders	-	-	-	-	(15,000)	(15,000)	-	(15,000)
Balance as at June 30, 2014	<u>155,914</u>	<u>257,807</u>	<u>(11,619)</u>	<u>(159,284)</u>	<u>573,990</u>	<u>816,808</u>	<u>41,499</u>	<u>858,307</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 premium	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad				
	Unaudited							
	NIS in thousands							
Balance as at April 1, 2015	157,526	267,505	(13,601)	(219,052)	628,986	821,364	43,275	864,639
Net income	-	-	-	-	7,374	7,374	1,111	8,485
Total other comprehensive income (loss)	-	-	3,335	(15,429)	-	(12,094)	39	(12,055)
Total comprehensive income (loss)	-	-	3,335	(15,429)	7,374	(4,720)	1,150	(3,570)
Realization of options to Company shares	453	3,083	(1,945)	-	-	1,591	-	1,591
Share-based payment	-	-	862	-	-	862	16	878
Dividend paid to Company's shareholders	-	-	-	-	(15,000)	(15,000)	-	(15,000)
Balance as at June 30, 2015	<u>157,979</u>	<u>270,588</u>	<u>(11,349)</u>	<u>(234,481)</u>	<u>621,360</u>	<u>804,097</u>	<u>44,441</u>	<u>848,538</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 premium	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad				
	Unaudited							
	NIS in thousands							
Balance as at April 1, 2014 (Audited)	155,890	257,523	(10,611)	(156,607)	560,941	807,136	39,589	846,725
Net income	-	-	-	-	13,049	13,049	2,995	16,044
Total other comprehensive loss	-	-	(724)	(2,677)	-	(3,401)	(1,085)	(4,486)
Total comprehensive income (loss)	-	-	(724)	(2,677)	13,049	9,648	1,910	11,558
Realization of options to Company shares	24	284	(284)	-	-	24	-	24
Balance as at June 30, 2014	<u>155,914</u>	<u>257,807</u>	<u>(11,619)</u>	<u>(159,284)</u>	<u>573,990</u>	<u>816,808</u>	<u>41,499</u>	<u>858,307</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 premium	Other reserves	Adjustments resulting from the translation of financial statements of activities abroad				
	Unaudited							
	NIS in thousands							
Balance as at January 1, 2014 (Audited)	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
Total 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
Realization of options to Company shares	1,524	8,988	(3,124)	-	-	7,388	-	7,388
Dividend to Company's shareholder	-	-	-	-	(30,000)	(30,000)	-	(30,000)
Balance as at December 31, 2014 (Audited)	<u>157,414</u>	<u>266,511</u>	<u>(13,707)</u>	<u>(137,516)</u>	<u>602,972</u>	<u>875,674</u>	<u>45,853</u>	<u>921,527</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31 2014
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands [except for net earnings per share data]				
CASH FLOWS FROM CURRENT ACTIVITIES					
Net income	36,039	27,500	8,485	16,044	75,384
Adjustments needed 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	(6,937)	(26,765)	(6,937)	(23,458)	(80,673)
Finance expenses, net	33,215	50,228	29,306	33,221	112,437
Capital loss (gain)	13	(12)	4	-	(2)
Depreciation and amortization	2,932	2,961	1,455	1,298	6,048
Taxes on income	8,363	11,211	3,610	7,005	26,439
Change in employee benefit liabilities, net	-	-	-	-	61
Share-based payment cost	1,023	-	878	-	-
	38,609	37,623	28,316	18,066	64,310
Changes in asset and liability items:					
Decrease (increase) in customers	(1,721)	(223)	(1,814)	1,212	119
Decrease (increase) in debtors and receivables	4,505	(3,352)	933	(2,364)	(18,494)
Increase (decrease) in liabilities to suppliers and service providers	6,604	2,168	(1,166)	2,620	(4,835)
Decrease in creditors and payables	(10,553)	(14,711)	(6,024)	(22,767)	(1,371)
	(1,165)	(16,118)	(8,071)	(21,299)	(24,581)
Cash paid and received during the year for:					
Interest paid	(56,815)	(53,497)	(19,848)	(21,309)	(101,988)
Interest received	1,081	3,597	311	1,125	5,665
Dividend received	119	61	83	61	163
Taxes paid	(15,615)	(15,461)	(128)	(1,089)	(17,969)
Taxes received	-	1,164	-	1,150	1,205
	(71,230)	(64,136)	(19,582)	(20,062)	(112,924)
Net cash provided by (used in) current activities	2,253	(15,131)	9,148	(7,251)	2,189

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	months ended		months ended		ended
	June 30		June 30		December 31
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands				
CASH FLOWS FROM INVESTMENT ACTIVITIES:					
Settlement (investment) in deposit, net	(19,101)	7,561	(204)	10,107	6,511
Proceeds from sale of investment property	-	358,733	-	-	358,733
Acquisition of short term investments	(10,690)	(53,407)	(8,423)	(33,405)	(59,564)
Proceeds from the sale of short term investments	31,459	4,098	8,765	4,098	9,890
Acquisition of hedge transaction	(5,260)	(2,100)	-	-	(3,750)
Proceeds from the sale of hedge transactions	13,560	13,585	-	-	13,585
Acquisition of investment property	(64,118)	(25,318)	(7,585)	(9,860)	(277,610)
Acquisition of investment property under construction	(62,753)	(26,018)	(33,033)	(13,338)	(66,423)
Acquisition of fixed assets	(380)	(581)	(369)	(271)	(1,050)
Proceeds from sale of fixed assets	94	1,141	7	-	1,228
Capitalization of interest paid for investment property under construction	(1,525)	(3,223)	(843)	(2,420)	(7,474)
Acquisition of intangible assets	(25)	(9)	-	-	(12)
Grant of loan to partners in assets in Canada, net	(4,244)	(608)	(1,673)	(788)	2,550
Settlement of lessee's loan, net	-	109	-	55	165
Net cash (used in) provided by investment activities	(122,983)	273,963	(43,358)	(45,822)	(23,221)
CASH FLOWS FROM FINANCE ACTIVITIES					
Settlement of short-term credit from banking institutions	-	(2,157)	-	(1,286)	(11,167)
Receipt of long-term loans	29,445	84,669	-	36,841	273,132
Settlement of long-term loans	(29,888)	(192,646)	(17,775)	(17,289)	(219,916)
Dividend paid to Company shareholders	(15,000)	(15,000)	(15,000)	(15,000)	(30,000)
Realization of options to shares	1,703	24	1,591	24	7,388
Settlement of CPI hedging transactions	-	-	-	-	(1,397)
Settlement of bonds	(193,170)	(126,872)	(53,923)	(54,471)	(126,872)
Issue of bonds net issue expenses	132,836	22,512	132,836	22,512	222,961
Net cash provided by (used in) finance activities	(74,074)	(229,470)	47,729	(28,669)	114,129
Translation differences in respect of cash balances in units held abroad	(11,254)	(9,318)	(2,042)	3,028	(7,772)
Increase (decrease) in cash and cash equivalents	(206,058)	20,044	11,477	(78,714)	85,325
Balance of cash and cash equivalents as at the beginning of the period	394,810	309,485	177,275	408,243	309,485
Balance of cash and cash equivalents as at the end of the period	188,752	329,529	188,752	329,529	394,810

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2015	2014	2015	2014	2014
	Unaudited				Audited
	NIS in thousands				
(a) Significant activities not involving cash flows					
Acquisition of fixed assets and investment property against creditors, suppliers and service providers	44,979	29,985	44,979	29,985	40,738
Sale of investment property against debtors	-	22,296	-	22,296	22,259

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

- a. These financial statements have been prepared in a condensed format as of June 30, 2015 for the six and three months then ended (hereunder - interim consolidated financial statements). These financial statements should be read in conjunction with the Company's audited annual financial statements as of December 31, 2014 and for the year then ended and their accompanying notes (hereunder - annual financial statements).
- b. As of June 30, 2015, the Company has a working capital deficiency of about NIS 87.2 million. As an income-generating real estate company which finances most of its investments using credit from financial institutions, including short term credit, the Company often incurs a working capital deficiency. In management's opinion, this deficit is not expected to impair the Company's business operations since the banks usually refinance the short term credit which they grant.

c. The rating of bonds

On June 2 2015, Midroog approved the A3 stable rating for each series of outstanding bonds (Series E - H) and approved the A3 rating for the issue of additional bonds of up to NIS 250 million par value with a stable rating outlook which was executed in June 2015, see Note 6d below.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the interim consolidated financial statements

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3:- DATA OF THE CPI AND REPRESENTATIVE EXCHANGE RATE OF FOREIGN CURRENCY

	Representative exchange rate of			
	Zloty (Polish currency)	Canadian dollar	Euro	Israeli CPI Points *)
As at				
June 30, 2015	1.006	3.043	4.219	222.2
June 30, 2014	1.128	3.218	4.694	223.8
December 31, 2014	1.108	3.359	4.725	223.4
Change in rates during the period				
	%	%	%	%
June 2015 (six months)	(9.3)	(9.4)	(10.7)	(0.5)
June 2015 (three months)	(3.8)	(2.3)	(1.3)	1.1
June 2014 (six months)	(2.2)	(1.4)	(1.8)	(0.2)
June 2014 (three months)	(2.1)	1.9	(2.5)	0.5
December 2014 (twelve months)	(3.9)	2.9	(1.2)	(0.1)

*) The index on an average basis of 1993 = 100.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- SEGMENTS OF ACTIVITY (Cont.)

b. Report regarding segments of activity

	For the period of six months ended as at June 30, 2015				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	23,117	7,081	37,634	29,716	97,548
Deduction of deferred incentives to lessees	(85)	-	(385)	(1,924)	(2,394)
Increase in value of investment property and investment property under construction, net	4,419	-	1,586	932	6,937
Total income	<u>27,451</u>	<u>7,081</u>	<u>38,835</u>	<u>28,724</u>	<u>102,091</u>
Segment results	<u>17,001</u>	<u>5,366</u>	<u>32,333</u>	<u>22,930</u>	<u>77,630</u>
Finance income					22,208
Finance expenses					(55,423)
Net finance expenses					(33,215)
Capital loss					(13)
Income before taxes on income					<u>44,402</u>

	For the period of six months ended as at June 30, 2014				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	22,833	8,195	30,118	28,057	89,203
Deduction of deferred incentives to lessees	(76)	-	(410)	(1,791)	(2,277)
Increase in value of investment property and investment property under construction, net	6,300	294	15,538	4,633	26,765
Total income	<u>29,057</u>	<u>8,489</u>	<u>45,246</u>	<u>30,899</u>	<u>113,691</u>
Segment results	<u>20,832</u>	<u>6,824</u>	<u>36,472</u>	<u>24,799</u>	<u>88,927</u>
Finance income					4,227
Finance expenses					(54,455)
Net finance expenses					(50,228)
Capital gain					12
Income before taxes on income					<u>38,711</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 June 30, 2015				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	11,687	3,445	18,716	14,925	48,773
Deduction of deferred incentives to lessees	(42)	-	(188)	(970)	(1,200)
Increase in value of investment property and investment property under construction, net	4,419	-	1,586	932	6,937
Total income	16,064	3,445	20,114	14,887	54,510
Segment results	11,055	2,445	16,272	11,633	41,405
Finance income					2,230
Finance expenses					(31,536)
Net finance expenses					(29,306)
Capital loss					(4)
Income before taxes on income					12,095

	For the period of three months ended as at June 30, 2014				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Income from leasing of properties	11,378	4,075	15,954	14,172	45,579
Deduction of deferred incentives to lessees	(38)	-	(18)	(893)	(949)
Increase in value of investment property and investment property under construction, net	6,300	294	14,028	2,836	23,458
Total income	17,640	4,369	29,964	16,115	68,088
Segment results	13,949	3,725	25,800	12,796	56,270
Finance income					1,370
Finance expenses					(34,591)
Finance expenses					(33,221)
Income before taxes on income					23,049

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, 2014				
	Israel	Belgium	Poland	Canada	Total
	Audited				
	NIS in thousands				
Income:					
Income from leasing of properties before amortization	45,390	16,327	66,223	58,868	186,808
Deduction of deferred incentives to lessees	(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)
Net finance expenses					(112,437)
Income before capital gain					101,821
Capital gain					2
Income before taxes on income					101,823

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- FINANCIAL INSTRUMENTS

a. Fair value

Hereunder are the book balances of the financial assets and financial liabilities that are not reported according to their fair value as at June 30, 2015:

	<u>Book balance</u>	<u>Fair value</u>
	<u>Unaudited</u>	
	<u>NIS in thousand</u>	
Financial liabilities:		
Long term loans with fixed interest (1)	643,996	676,378
Bonds (including payable interest) (2)	<u>1,009,876</u>	<u>1,023,762</u>
	<u>1,653,872</u>	<u>1,700,140</u>

(1) The fair value of the long term loans received which bear a fixed interest rate are based on the calculation of the present value of the cash flows according to acceptable interest rate for similar loans with similar characteristics.

(2) The fair value is based on quoted prices in an active market at the date of the statement of the financial position.

Hereunder are the book balances of the financial assets and financial liabilities that are not reported according to their fair value as at June 30, 2014:

	<u>Book balance</u>	<u>Fair value</u>
	<u>NIS in thousand</u>	
Financial liabilities:		
Long term loans with fixed interest	589,392	615,439
Bonds (including payable interest)	<u>872,612</u>	<u>928,851</u>
	<u>1,462,004</u>	<u>1,544,290</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5:- FINANCIAL INSTRUMENTSa. Fair value (Cont.)

Hereunder are the book balances of the financial assets and financial liabilities that are not reported according to their fair value as at December 31, 2014:

	Book balance	Fair value
	NIS in thousand	
Financial liabilities:		
Long term loans with fixed interest	620,496	654,014
Bonds (including payable interest)	<u>1,078,427</u>	<u>1,108,016</u>
	<u><u>1,698,923</u></u>	<u><u>1,762,030</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE 5:- FINANCIAL INSTRUMENTS**b. Classification of financial instruments by fair value hierarchy

The financial instruments presented in the statement of financial position at fair value or possible disclosure of their fair value, are classified by groups with similar characteristics determined fair value hierarchy based on the inputs used to determine fair value:

- Level 1 - Fair value measured by quoted prices (unadjusted) in active markets for identical instruments.
- Level 2 - Fair value measured by inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 - Fair value measured by inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

For financial instruments recognized at fair value periodically, the Company estimates at the end of each reporting period whether there have been transfers between different levels of the fair value hierarchy.

As at June 30, 2015 the Company holds financial instruments measured at fair value according to the classifications as follows:

Financial assets measured at fair value

	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Short term investments	29,838	-	-	29,838
Financial derivatives	-	16,722	-	16,722
Total	<u>29,838</u>	<u>16,722</u>	<u>-</u>	<u>46,560</u>

Financial liabilities measured at fair value

	Level 1	Level 2	Level 3	Total
	NIS in thousands			
Financial derivatives	-	36,713	-	36,713

The balance in the financial statements of the financial assets balance is compatible or close to their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**NOTE 5:- FINANCIAL INSTRUMENTS**b. Classification of financial instruments by fair value hierarchy (Cont.)

As at June 30, 2014 the Company holds financial instruments measured at fair value according to the classifications as follows:

Financial assets measured at fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>NIS in thousands</u>			
Short term investments	49,427	-	-	49,427
Financial derivatives	-	2,663	-	2,663
Total	<u>49,427</u>	<u>2,663</u>	<u>-</u>	<u>52,090</u>

Financial liabilities measured at fair value

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>NIS in thousands</u>			
Financial derivatives	-	40,670	-	40,670

During the year 2014 there were no transfers from Level 2 to Level 1.

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIODa. Grant of options to senior officeholders and employees of the Group

On March 23, 2015, the Company's Board of Directors decided to grant senior officeholders and employees of the Group 6,370,000 options convertible into to 6,370,000 ordinary shares of NIS 1 par value each. From the above grant a total of 1,500,000 options were granted to the Company's CEO and approved in the general assembly on April 29, 2015. The options constitute about 5.6% of the Company's issued capital.

The abovementioned grants have been made at no consideration as part of a compensation plan for employees and officeholders, adopted by the Company in November 2010. The vesting conditions of the options to the offerees has been amended in such a manner that 50% of the options will be realizable from the end of two years from the grant date and then will acquire 12.5% at the end of each calendar quarter, provided the relevant offeree is employed by the Company during the vesting period. The options are realizable during the period until the end of 5 years from the grant date. The realization price of each option will be in the amount of NIS 6.7 unlinked. The options are subject to adjustment in the event of a structural change, voluntary liquidation, a change in the capital structure, issue of rights and dividend. The options are not listed for trading on the Stock Exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)a. Grant of options to senior officeholders and employees of the Group (Cont.)

The fair value is about NIS 7,939 thousand. while the fair value of the benefit at the grant date is approximately NIS 1.25 per each option. The calculation is done in accordance to the binomial model (Hull-White) and based on the fluctuation of 36.1% and a risk free interest rate of 0.97%.

The options, except for options issued to service providers, are allotted to a trustee under Section 102 of the Income Tax Ordinance (capital track). On the options, including the shares acquired through the realization of options are subject to limitations in terms of Section 102 of the Income Tax Ordinance.

b. Realization of options not listed for trade

During the reporting period 1,612,500 options were realized not listed, previously allocated to employees and officeholders of the Company's shares, to 563,686 Company shares of NIS 1 par value.

c. Dividend distribution

In June 2015 the Company paid a dividend its shareholders in the amount of NIS 15 million (constituting about 13.12 agoroth per NIS 1 par value per share).

d. In June 2015 the Company issued a total of NIS 134.6 million nominal value debentures (Series I) for a net amount of about NIS 132.8 million (net of issue expenses). The debentures are linked to the CPI interest and principal index for May 2015 of NIS 1 par value each and bearing an annual interest rate of 4.65%. Interest will be paid as from 1 January 2016 until and including July 1, 2025, in two installments in each calendar year and the principal will be repaid in five annual installments on July 1 each year from 2021 to 2025 inclusive. The bond issue is in accordance with the Company's prospectus dated May 7, 2015.

In the framework of the issue, the following financial criterion were set for the Company:

1. The shareholders equity will not be less than NIS 650 million.
2. The ratio between the shareholders equity and the Company' s balance amount net cash and deposits, will not be less than 20%.
3. The ratio between the net consolidated debt less cash, deposits and owner's loans of partner in Belgian company through which are held activities in Poland and the annually adjusted NOI will not exceed 15.

If the Company exceeds one of the criteria mentioned above, the interest rate, paid by the Company to debentures holders Series H, will increase at an annual rate of 0.5%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

d. (Cont.)

In addition, if the debentures (Series I) is upgraded, so that the rating determined for debentures (Series I) is one rate lower than Baa1 or an equivalent rating, the interest rate, paid by the Company to holders of debentures (Series I) will increase at an annual rate of 0.5%. In respect of any additional decrease the rating will increase the interest rate by an additional 0.25% up to the limit in the total amount of 1%. A rating lower than Baa3 is cause for immediate settlement. Likewise, if the ratio between the shareholders equity and the amount in the Company's balance sheet (less cash and deposits) is less than 17%, or if the shareholders equity is less than NIS 535 million, or if the ratio between the net consolidated debt (less cash, deposits, and loans from the partner Belgian company through which are held activities in Poland) and between the annual adjusted NOI exceeds 19 for more than 2 quarters, the deviation shall be grounds for calling for immediate repayment of the entire outstanding balance of the debentures.

In addition, the Company undertook that the dividend each calendar year from the date of deposit of the bonds until the date of final repayment does not exceed the total amount of all the annual real FFO and proceeds from sale of assets exceeds the cost of acquisition. Also, during the period from the date of issuance of the debentures until the date 12.31.2019 cannot be divided in excess of NIS 60 million per year. (This is beyond the FFO limit).

The dividend distribution will not lead to the ratio of consolidated net debt to CAP (Consolidated net debt + equity) exceeds 78%.

The actual amount that was not distributed in the calendar year from the maximum amount of the distribution, will build up the credit of the Company shall be entitled to its share in periods thereafter.

As at June 30, 2015 the Company complied with all the financial criterion mentioned above.

e. A preliminary agreement to acquire assets from the subsidiary in Canada

In June 2015, the Company reported that a Canadian corporation, wholly owned by the Company, entered into a preliminary agreement with a partner, which will be purchased jointly, by a third party unrelated to the Company and/or its controlling shareholders, a portfolio consisting of three office buildings in Canada, with a total area rent of about 30 thousand square meters and about 600 parking spaces. The weighted average occupancy rate of the properties is approximately 85%.

After the balance sheet date, in August 2015 the Company's management updated that acquisition will be made without the partner. The volume of the transaction amounts to about (CAD) 60 million (about NIS 180 million). The transactions will be completed and, subject to a due diligence review and the signing of a customary binding agreement.
