Translated from the Hebrew original

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2010

UNAUDITED

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INDEX

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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 ("the Group"), which comprises the condensed consolidated balance sheet as of March 31, 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for this period 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 a certain subsidiary, whose assets constitute approximately 31% of total consolidated assets as of March 31, 2010, and whose revenues constitute approximately 54% of total consolidated revenues for the three months then ended. The condensed interim financial information of that company 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 that company, 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 and the review reports of other auditors, 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.

Without qualifying our above conclusion, we draw attention to the matter discussed in Note 2c to the interim financial statements regarding a restatement of the financial statements as of March 31, 2009 and for the three months then ended in order to retroactively reflect the correction of accounting records of wholly controlled subsidiaries in Poland which is mainly the outcome of not reporting to the VAT authorities in Poland on the subsidiaries' entitlement to VAT refunds, net for investments in properties under construction and the mistaken documentation of balances of trade payables and properties under construction in consequence of disorders caused by fraud.

Tel-Aviv, Israel
May 26, 2010

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

CONSOLIDATED BALANCE SHEETS

	December 31, 2009	March 31, 2009	March 31, 2010	Convenience translation (Note 1e) March 31, 2010
	Audited	Unaudited		Unaudited
	N I S			U.S. $
	(In thousands)			
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	39,640	37,499	30,960	8,338
Trade receivables	20,353	29,594	23,191	6,246
Deposit	24,953	12,798	30,031	8,088
Other accounts receivable	79,362	*) 63,022	84,019	22,628
Ultimate parent company	-	22,313	-	-
Current taxes receivable	2,000	2,135	1,012	273
Financial derivatives	3,110	10,092	1,903	513
Loans	-	-	166	45
	169,418	177,453	171,282	46,131
ASSETS HELD FOR SALE	54,944	-	59,160	15,933
	224,362	177,453	230,442	62,064
NON-CURRENT ASSETS				
Loans	9,761	7,467	10,196	2,746
Fixed assets, net	14,120	18,614	12,908	3,476
Investment property	2,762,910	2,902,026	2,718,040	732,033
Investment property under construction	152,608	*) 270,299	152,908	41,182
Intangible assets, net	672	1,025	562	151
Deferred taxes	21,033	16,377	24,936	6,716
	2,961,104	3,215,808	2,919,550	786,304
	3,185,466	3,393,261	3,149,992	848,368

*) Restated, see Note 2c.

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

CONSOLIDATED BALANCE SHEETS

	December 31, 2009	March 31, 2009	March 31, 2010	Convenience translation (Note 1e) March 31, 2010
	Audited	Unaudited		Unaudited
	N I S			U.S. $
	(In thousands)			
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Credit from banks and current maturities of long-term loans	835,263	497,601	682,856	183,910
Trade payables	24,672	*) 33,242	22,443	6,044
Taxes payable	6,079	1,065	69	19
Other accounts payable	35,500	*) 55,913	43,440	11,698
Current maturities of debentures	60,306	50,858	116,238	31,306
Financial derivatives	26,163	28,653	27,764	7,478
	987,983	667,332	892,810	240,455
LONG-TERM LIABILITIES				
Loans from banks and others	989,898	1,316,902	1,128,231	303,860
Debentures	464,815	485,607	395,058	106,398
Employee benefit liabilities, net	14	1,332	89	24
Deferred taxes	57,071	98,441	63,700	17,156
	1,511,798	1,902,282	1,587,078	427,438
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:				
Share capital	152,268	152,268	152,268	41,009
Share premium	239,557	239,557	239,557	64,518
Other capital reserves	(19,907)	(19,299)	(23,074)	(6,214)
Receipts on account of options	3,955	3,955	3,955	1,065
Foreign currency translation adjustments of foreign investees	(49,829)	(69,506)	(69,475)	(18,711)
Retained earnings	356,915	514,244	365,211	98,360
	682,959	821,219	668,442	180,027
Non-controlling interests	2,726	2,428	1,662	448
Total equity	685,685	823,647	670,104	180,475
	3,185,466	3,393,261	3,149,992	848,368

*) Restated, see Note 2c.

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

May 26, 2010			
Date of approval of the financial statements	Doron Schneidman Chairman of the Board	Roy Gadish Managing Director and Member of the Board	Ronen Nakar Deputy Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31, 2009	Three months ended March 31, 2009	Three months ended March 31, 2010	Convenience translation (Note 1e) Three months ended March 31, 2010
	Audited	Unaudited		Unaudited
	N I S			U.S. $
	(In thousands, except per share data)			
Revenues:				
Revenues from rental of properties	189,608	47,618	46,634	12,560
Impairment of investment property and investment property under construction, net	(220,108)	(7,873)	-	-
	(30,500)	39,745	46,634	12,560
Expenses:				
Maintenance of properties, net	16,230	2,987	2,792	752
General and administrative	22,728	5,206	6,487	1,747
	38,958	8,193	9,279	2,499
Income (loss) before financial expenses	(69,458)	31,552	37,355	10,061
Financial income	7,043	872	310	83
Financial expenses	(128,414)	(16,928)	(25,691)	(6,919)
Financial expenses, net	(121,371)	(16,056)	(25,381)	(6,836)
Income (loss) before taxes on income	(190,829)	15,496	11,974	3,225
Taxes on income (tax benefit)	(41,211)	7,667	3,628	977
Net income (loss)	(149,618)	7,829	8,346	2,248
Attributable to:				
Equity holders of the Company	(149,533)	7,796	8,296	2,234
Non-controlling interests	(85)	33	50	14
	(149,618)	7,829	8,346	2,248
Net earnings (loss) per share attributable to equity holders of the Company:				
Basic and diluted net earnings (loss)	(1.38)	0.07	0.08	0.02

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31, 2009	Three months ended March 31, 2009	Three months ended March 31, 2010	Convenience translation (Note 1e) Three months ended March 31, 2010
	Audited	Unaudited		Unaudited
	N I S (In thousands)			U.S. $
Net income (loss)	(149,618)	7,829	8,346	2,248
Other comprehensive income (loss):				
Loss from cash flow hedges, net	(9,791)	(9,183)	(3,167)	(853)
Foreign currency translation adjustments of foreign investees	69,098	49,236	(19,624)	(5,285)
Other comprehensive income (loss), net	59,307	40,053	(22,791)	(6,138)
Total comprehensive income (loss)	(90,311)	47,882	(14,445)	(3,890)
Total comprehensive income (loss) attributable to:				
Equity holders of the Company	(90,577)	47,683	(14,517)	(3,910)
Non-controlling interests	266	199	72	20
	(90,311)	47,882	(14,445)	(3,890)

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

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 investees	Retained earnings	Total	Non-controlling interests	Total equity
	N I S (In thousands)								
Balance as of January 1, 2009 (audited)	152,268	239,557	(10,116)	3,955	(118,576)	514,448	781,536	2,229	783,765
Total comprehensive income (loss)	-	-	(9,791)	-	68,747	(149,533)	(90,577)	266	(90,311)
Issue of shares to non-controlling interests	-	-	-	-	-	-	-	546	546
Dividend paid to Company shareholders	-	-	-	-	-	(8,000)	(8,000)	-	(8,000)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(315)	(315)
Balance as of December 31, 2009 (audited)	152,268	239,557	(19,907)	3,955	(49,829)	356,915	682,959	2,726	685,685
Balance as of January 1, 2009 (audited)	152,268	239,557	(10,116)	3,955	(118,576)	514,448	781,536	2,229	783,765
Total comprehensive income (loss)	-	-	(9,183)	-	49,070	7,796	47,683	199	47,882
Dividend declared	-	-	-	-	-	(8,000)	(8,000)	-	(8,000)
Balance as of March 31, 2009 (unaudited)	152,268	239,557	(19,299)	3,955	(69,506)	514,244	821,219	2,428	823,647
Balance as of January 1, 2010 (audited)	152,268	239,557	(19,907)	3,955	(49,829)	356,915	682,959	2,726	685,685
Total comprehensive income (loss)	-	-	(3,167)	-	(19,646)	8,296	(14,517)	72	(14,445)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(1,136)	(1,136)
Balance as of March 31, 2010 (unaudited)	152,268	239,557	(23,074)	3,955	(69,475)	365,211	668,442	1,662	670,104
	Convenience translation into U.S. $ (Note 1e) (In thousands)								
Balance as of January 1, 2010 (audited)	41,009	64,518	(5,361)	1,065	(13,420)	96,126	183,937	734	184,671
Total comprehensive income (loss)	-	-	(853)	-	(5,291)	2,234	(3,910)	20	(3,890)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(306)	(306)
Balance as of March 31, 2010 (unaudited)	41,009	64,518	(6,214)	1,065	(18,711)	98,360	180,027	448	180,475

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2009	Three months ended March 31, 2009	Three months ended March 31, 2010	Convenience translation (Note 1e) Three months ended March 31, 2010
	Audited	Unaudited		Unaudited
	N I S (In thousands)			U.S. $
Cash flows from operating activities:				
Net income (loss)	(149,618)	7,829	8,346	2,248
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Adjustments to the profit or loss items:				
Impairment of investment property and investment property under construction, net	220,108	7,873	-	-
Financial expenses, net	121,371	16,056	25,381	6,836
Depreciation and amortization	2,707	775	493	133
Tax expenses (tax benefit)	(41,211)	7,667	3,628	977
Change in employee benefit liabilities, net	(1,301)	17	75	20
	301,674	32,388	29,577	7,966
Changes in asset and liability items:				
Decrease (increase) in trade receivables	3,304	(5,180)	(3,101)	(835)
Decrease (increase) in other accounts receivable	778	(5,135)	(6,284)	(1,692)
Increase in trade payable	3,480	2,364	8,283	2,231
Increase (decrease) in other accounts payable	(4,004)	15,045	9,567	2,577
	3,558	7,094	8,465	2,281
Cash paid and received during the period for:				
Interest paid	(112,250)	(36,915)	(37,962)	(10,224)
Interest received	1,040	872	310	83
Taxes paid	(2,829)	*) (1,191)	(6,095)	(1,642)
Taxes received	2,342	680	134	36
	(111,697)	(36,554)	(43,613)	(11,747)
Net cash provided by operating activities	43,917	10,757	2,775	748

*) Restated, see Note 2c.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2009	Three months ended March 31, 2008	Three months ended March 31, 2010	Convenience translation (Note 1e) Three months ended March 31, 2010
	Audited	Unaudited		Unaudited
	N I S			U.S. $
	(In thousands)			
Cash flows from investing activities:				
Investment in deposit, net	-	377	741	200
Proceeds from sale of investment property	220,630	-	-	-
Purchase of investment property	(67,582)	*) (9,467)	(7,511)	(2,023)
Purchase of investment property under construction	(164,385)	(31,037)	(9,072)	(2,443)
Purchase of fixed assets	(831)	(108)	-	-
Purchase of intangible assets	(118)	(62)	(12)	(3)
Proceeds from sale of fixed assets	3,806	-	21	6
Grant of loan to non-controlling interests, net	(1,848)	(668)	(208)	(56)
Net cash used in investing activities	(10,328)	(40,965)	(16,041)	(4,319)
Cash flows from financing activities:				
Receipt (repayment) of short-term credit from banks	(97,065)	(59,230)	(32,764)	(8,824)
Loans from related companies and the parent company, net	19,093	-	-	-
Receipt of long-term loans	235,197	57,810	51,730	13,932
Repayment of long-term loans	(225,914)	(14,912)	(13,681)	(3,685)
Proceeds from sale of financial derivatives	38,497	-	-	-
Dividend paid to Company shareholders	(3,075)	-	-	-
Dividend paid to non-controlling interests	(315)	-	(1,136)	(306)
Issue of shares to non-controlling interests	546	-	-	-
Repayment of debentures	(43,918)	-	-	-
Net cash provided by (used in) financing activities	(76,954)	(16,332)	4,149	1,117
Decrease in cash and cash equivalents	(43,365)	(46,540)	(9,117)	(2,455)
Translation differences for cash balances in foreign investees	(2,410)	(1,376)	437	118
Cash and cash equivalents at beginning of period	85,415	85,415	39,640	10,675
Cash and cash equivalents at end of period	39,640	37,499	30,960	8,338

*) Restated, see Note 2c.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31, 2009	Three months ended March 31, 2008	Three months ended March 31, 2010	Convenience translation (Note 1e) Three months ended March 31, 2010
	Audited	Unaudited		Unaudited
	N I S			U.S. $
	(In thousands)			
(a) Significant activities not involving cash flows:				
Purchase of fixed assets and investment property against trade payables	27,607	8,058	9,116	2,455
Dividend declared	-	8,000	-	-
Proceeds from sale of investment property against other accounts receivable	11,099	-	396	107

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

NOTE 1:- GENERAL

a. These financial statements have been prepared in a condensed format as of March 31, 2010 and for the three months then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements as of December 31, 2009 and for the year then ended and accompanying notes ("annual financial statements").

b. The Company has a working capital deficiency of approximately NIS 662 million as of March 31, 2010. As an income-producing real estate company which finances most of its investments using credit from financial institutions, including for the short term, now and then the Company incurs a working capital deficiency. This deficiency is not expected to impair the Company's business operations since the banks usually refinance the credit granted by them for the short term.

The working capital deficiency stems mostly from current maturities of loans provided against the pledge of assets, principally in Israel and Canada, whose maturity date is in 2010. In view of the relatively low financing rate of these loans compared to the value of the pledged assets, the Company estimates that the credit will be refinanced.

As for the issuance of debentures (series F) after the balance sheet date, see Note 5b.

c. As for the lowering of the rating of debentures after the balance sheet date, see Note 5d.

d. As for the filing of a shelf prospectus after the balance sheet date, see Note 5c.

e. The financial statements as of March 31, 2010 and for the three months then ended have been translated into U.S. dollars using the representative exchange rate as of that date ($ 1 = NIS 3.713). The translation was made solely for the convenience of the reader. The amounts presented in these financial statements should not be construed to represent amounts receivable or payable in dollars or convertible into dollars, unless otherwise indicated in these statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. 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 significant accounting policies and methods of computation adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the annual financial statements, except as noted below:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IFRS 3 (Revised) - Business Combinations and IAS 27 (Amended) - Consolidated and Separate Financial Statements:

According to the new Standards:

- The definition of a business was broadened so that it contains also activities and assets that are not managed as a business as long as the seller is capable of operating them as a business.

- Non-controlling interests, including goodwill, can be measured either at fair value or at the proportionate share in the acquiree's fair value of net identifiable assets on the acquisition date, this separately in respect of each business combination transaction.

- Contingent consideration in a business combination is measured at fair value and changes in the fair value of the contingent consideration, which do not represent adjustments to the acquisition cost in the measurement period, are not recognized as goodwill adjustments. If the contingent consideration is classified as a financial derivative within the scope of IAS 39, it will be measured at fair value through profit or loss.

- Direct acquisition costs attributed to a business combination transaction are recognized in the statement of income as incurred.

- Subsequent measurement of a deferred tax asset for acquired temporary differences which did not meet the recognition criteria at acquisition date will be against profit or loss and not as adjustment to goodwill.

- A subsidiary's losses, even if resulting in a capital deficiency in a subsidiary, will be allocated between the parent company and non-controlling interests, even if the minority has not guaranteed or has no contractual obligation for sustaining the subsidiary or of investing further amounts.

- On the loss of control over a subsidiary, the remaining interests, if any, will be revalued to fair value against gain or loss from the sale and this fair value will represent the cost basis for the purpose of subsequent treatment.

- A transaction, whether sale or purchase, with non-controlling interests that does not result in a loss of control, is accounted for as an equity transaction. Accordingly, the acquisition of non-controlling interests by the Group is recognized as an increase or decrease in equity and is calculated as the difference between the consideration paid by the Group and the proportionate amount of the non-controlling interests acquired on the acquisition date. Upon the disposal of an interest in a subsidiary that does not result in a loss of control, an increase or decrease is recognized in equity for the amount of the difference between the consideration received by the Group and the carrying amount of the non-controlling interests in the subsidiary which have been added to the Company's equity, also taking into account the reattribution of reserves originating from other comprehensive income (loss), such as translation differences, if any, based on the decrease in the interests in the subsidiary.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- Any classification or designation made when recognizing assets and liabilities are assessed in accordance with the contractual terms, economic circumstances and pertinent conditions that exist at the acquisition date, except for leases and insurance contracts.

- In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition date fair value and recognize the resulting gain or loss, if any, including reverse of deferred amounts, in other comprehensive income.

The Standards were adopted as a prospective change from January 1, 2010. The adoption of the Standards will affect the accounting treatment of future business combinations and transactions with non-controlling interest shareholders.

IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations:

According to the amendment to IFRS 5, when the parent decides to sell part of its interest in a subsidiary so that after the sale the parent retains a non-controlling interest, such as rights conferring significant influence, all the assets and liabilities attributed to the subsidiary will be classified as held for sale if the relevant criteria of IFRS 5 are met, including the presentation as a discontinued operation. Further, an additional amendment specifies the disclosures required in respect of non-current assets (or disposal groups) that are classified as held for sale or discontinued operations. Pursuant to the amendment, only the disclosures required in IFRS 5 will be provided. Disclosures in other IFRSs apply to such assets only if they require specific disclosures in respect of those non-current assets or disposal groups.

The amendment was adopted prospectively from January 1, 2010. The amendment had no effect in the interim consolidated financial statements.

b. Disclosure of new IFRS Standards in the period prior to their adoption:

IFRS 3 - Business Combinations:

The amendments to IFRS 3 are as follows:

Measurement of non-controlling interests:

The amendment limits the circumstances in which it is possible to choose the measurement of non-controlling interests based on their fair value on the date of acquisition or at the present ownership instruments' share in the recognized amounts of the acquiree's identifiable net assets. According to the amendment, this possibility is only available for types of non-controlling interests that entitle their holders to present ownership interests and a proportionate share to the entity's net assets in the event of liquidation (usually shares). In contrast, other types of non-controlling interests (such as options that represent equity instruments in the acquiree) do not allow such choice and must be measured at fair value on the acquisition date, unless another measurement basis is required by IFRSs such as in IFRS 2. The amendment will be effective from the financial statements for periods commencing on January 1, 2011. The amendment will be adopted retrospectively from the date of adoption of IFRS 3 (Revised). Early adoption is possible.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Share-based payment awards in a business combination:

The amendment elaborates the accounting treatment of a business combination that refers to the exchange of the acquiree's share-based payment transactions (whether it is obligated or chooses to exchange them) with the acquirer's share-based payment transactions. Accordingly, the acquirer must allocate a value on the acquisition date and an expense in the period following the acquisition date. However, if the award expires as a result of the business combination and is exchanged for a new award, the value of the new award in accordance with IFRS 2 will be recognized as an expense in the period following the acquisition date and will not be included in the purchase price. Furthermore, if share-based payment awards are not exchanged, then, if the instruments have vested, they will form part of the non-controlling interests and are measured pursuant to the provisions of IFRS 2. If the instruments have not vested, they will be measured at the value that would have been used had they been re-granted on the acquisition date whereby this amount is allocated between the non-controlling interests and the post-acquisition expense. The amendment will be in effect starting from the financial statements for periods commencing on January 1, 2011. The amendment will be adopted retrospectively from the date of the first time adoption of IFRS 3 (Revised). Early adoption is possible.

The Company estimates that the above amendments will not have a material effect on its financial position, operating results and cash flows.

IFRS 7 - Financial Instruments: Disclosure:

The amendment to IFRS 7 clarifies the disclosure requirements prescribed by the Standard. The Standard highlights the connection between the quantitative and qualitative disclosures and the nature and scope of the risks arising from financial instruments. The disclosure requirements regarding securities held by the company have been minimized and the disclosure requirements regarding credit risk have been revised. The amendment will be adopted retrospectively in the financial statements for periods starting from January 1, 2011. Early adoption is possible.

The Company estimates that the amendment is will not have a material effect on financial instruments presented in the financial statements.

IAS 34 - Interim Financial Reporting:

Pursuant to the amendment to IAS 34, new disclosure requirements were introduced to interim financial reporting regarding the circumstances that are likely to affect the fair value of financial instruments and their classification, the transfers of financial instruments between different fair value levels, changes in the classification of financial assets and changes in contingent liabilities and contingent assets. The amendment will be adopted retrospectively in the financial statements for periods starting from January 1, 2011. Early adoption is possible.

The required disclosure will be included in the Company's financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IAS 1 - Presentation of Financial Statements:

According to the amendment to IAS 1, the changes between the opening and the closing balances of each other comprehensive income component may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. The amendment will be adopted retrospectively in the financial statements for periods starting from January 1, 2011. Early adoption is possible.

The amendment is not expected to have a material effect on the Company's financial statements.

c. Restatement:

The Company has restated its financial statements as of March 31, 2009 and for the three months then ended in order to retroactively reflect the effect of the correction of accounting records of wholly controlled subsidiaries in Poland which is mainly the outcome of not reporting to the VAT authorities in Poland on the subsidiaries' entitlement to VAT refunds, net for investments in investment properties under construction and the mistaken documentation of balances of trade payables and investment property under construction. The correction of the above records is required in consequence of disorders caused by fraud in the subsidiaries of some NIS 1.4 million.

The effect of the changes on the relevant items is as follows:

	As previously reported	The change	As presented in these financial statements
	NIS in thousands		
As of March 31, 2009 (unaudited):			
Other accounts receivable	29,636	33,386	63,022
Investment property under construction	285,638	(15,339)	270,299
Trade payables	18,589	14,653	33,242
Other accounts payable	52,519	3,394	55,913
Total equity	823,647	-	823,647
Three months ended March 31, 2009 (unaudited):			
Cash flows from operating activities	11,294	(537)	10,757
Cash flows from investing activities	(41,502)	537	(40,965)

NOTE 3:- DATA OF THE ISRAELI CPI AND THE EXCHANGE RATES OF FOREIGN CURRENCIES

	Israeli CPI	Representative exchange rate		
		U.S. $	C$	€
As of	**Points *)**		**NIS**	
March 31, 2010	204.4	3.713	3.651	4.991
March 31, 2009	198.2	4.188	3.341	5.574
December 31, 2009	206.2	3.775	3.603	5.442
Change during the period			**%**	
March 2010 (3 months)	(0.9)	(1.6)	1.3	(8.3)
March 2009 (3 months)	(0.1)	10.2	7.3	5.2
December 2009 (12 months)	3.9	(0.7)	(15.7)	(2.7)

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

NOTE 4:- OPERATING SEGMENTS

a. General:

1. The Group operates in the income-producing real estate market. The Group's 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 operating segments since management examines its activities based on these segments.

b. Operating segment information:

	Year ended December 31, 2009 (audited)				
	Israel	**Belgium**	**Poland**	**Canada**	**Total**
			NIS in thousands		
Revenues from rental of properties	57,271	12,084	21,673	98,580	189,608
Impairment of investment property and investment property under construction, net	(20,386)	(10,897)	(165,943)	(22,882)	(220,108)
Total revenues	36,885	1,187	(144,270)	75,698	(30,500)
Segment results	21,652	(3,353)	(155,676)	67,919	(69,458)
Financial expenses, net					(121,371)
Loss before taxes on income					(190,829)

NOTE 4:- OPERATING SEGMENTS (Cont.)

	Three months ended March 31, 2009 (unaudited)				
	Israel	Belgium	Poland	Canada	Total
	NIS in thousands				
Revenues from rental of properties	16,604	2,871	4,560	23,583	47,618
Impairment of investment property and investment property under construction, net	-	-	(7,873)	-	(7,873)
Total revenues	16,604	2,871	(3,313)	23,583	39,745
Segment results	13,492	1,488	(4,799)	21,371	31,552
Financial expenses, net					(16,056)
Income before taxes on income					15,496

	Three months ended March 31, 2010 (unaudited)				
	Israel	Belgium	Poland	Canada	Total
	NIS in thousands				
Revenues from rental of properties	12,229	2,848	6,346	25,211	46,634
Segment results	11,994	1,667	1,699	21,995	37,355
Financial expenses, net					(25,381)
Income before taxes on income					11,974

NOTE 5:- EVENTS AFTER THE BALANCE SHEET DATE

a. Agreements for the sale of investment property:

In April 2010, a subsidiary, which is 92.5% held by the Company, sold an office building in Montreal, Canada for a total consideration of approximately NIS 59.5 million. As a result of the sale, the Company repaid a loan of NIS 38.3 million. Since the asset was presented at fair value, the Company did not derive/incur a material gain/loss.

b. Issuance of debentures:

On May 4, 2010, the Company issued NIS 200,000 thousand par value of registered debentures (series F) of the Company of NIS 1 par value each, in return for their par value. The debentures are repayable in four equal annual installments to be paid on May 1 of each of the years 2014 through 2017, linked to the Israeli CPI (the base index being March 2010) and bear annual interest of 6.1% paid semi-annually starting November 1, 2010 through May 1, 2017 (effective annual interest of 6.3%).

The total proceeds from the issuance, net of issuance expenses of approximately NIS 2,000 thousand, amounted to approximately NIS 198,000 thousand.

NOTE 5:- EVENTS AFTER THE BALANCE SHEET DATE (Cont.)

In the context of the issuance, the following financial covenants were imposed on the Company:

1. Its shareholders' equity shall not be below NIS 500 million.

2. The ratio of the Company's shareholders' equity to its total balance sheet less cash and deposits shall not be lower than 20%.

Failing to comply with one or both of said financial covenants will lead to an increase in the interest payable by the Company to the holders of debentures (series F) by an annual rate of 0.5%.

In addition, if the rating of the debentures (series F) is lower from Baa1, or a corresponding rating, the interest payable by the Company to the holders of debentures (series F) will increase by an annual rate of 0.25%.

c. Shelf prospectus:

On April 13, 2010, the Company filed a shelf prospectus draft with the Israeli Securities Authority for offering securities based on its financial statements as of December 31, 2009.

On May 26, 2010, the Israeli Securities Authority approved the shelf prospectus.

d. Lowering of the rating of debentures:

On April 22, 2010, Midroog announced that it was updating the rating of the Company's series of debentures from A3 with a stable outlook to Baa1 with a stable outlook. This rating was also granted to the debentures (series F) issued by the Company in May 2010 totaling NIS 200,000 thousand.

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