Translated
from the
Hebrew original

ADGAR INVESTMENTS & DEVELOPMENT LTD

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 31, 2011

UNAUDITED

ADGAR INVESTMENTS & DEVELOPMENT LTD

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 31, 2011

UNAUDITED

INDEX

- - - - - - - - - - - -

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 67067, Israel

Tel: 972 (3)6232525
Fax: 972 (3)5622555
www.ey.com

Auditors' review report to the shareholders of Adgar Investments & Development Ltd

Introduction

We have reviewed the accompanying financial information of Adgar Investments & Development Ltd and its subsidiaries ("the Group"), which comprises the condensed consolidated balance sheet as of June 30, 2011 and the related condensed consolidated statements of income, 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 a certain subsidiary, whose assets constitute approximately 61% of total consolidated assets as of June 30, 2011, and whose revenues constitute approximately 73.9% and 74% of total consolidated revenues for the six and three months then ended, respectively. 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, 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 18, 2011

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

CONSOLIDATED BALANCE SHEETS

	June 30, 2011	June 30, 2010	December 31, 2010
	Unaudited	Unaudited	Audited
	NIS in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	140,160	192,056	114,304
Short-term investments	129,164	-	47,314
Trade receivables	14,007	24,740	15,172
Deposit	41,183	29,976	40,463
Other accounts receivable	10,042	69,846	76,091
Current taxes receivable	9,021	870	7,504
Financial derivatives	-	2,432	-
	343,577	319,920	300,848
NON-CURRENT ASSETS:			
Loans	7,477	11,611	7,292
Financial derivatives	1,694	168	985
Fixed assets, net	15,823	14,276	14,524
Investment property	3,032,901	2,772,786	2,853,099
Investment property under construction	78,517	154,465	78,471
Intangible assets, net	239	630	403
Deferred taxes	6,612	9,562	10,547
	3,143,263	2,963,498	2,965,321
	3,486,840	3,283,418	3,266,169

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

CONSOLIDATED BALANCE SHEETS

	June 30, 2011	June 30, 2010	December 31, 2010
	Unaudited	Unaudited	Audited
	NIS in thousands		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans	281,768	601,538	331,588
Trade payables	13,867	17,914	11,942
Taxes payable	116	596	7,761
Other accounts payable	55,780	35,242	41,209
Current maturities of debentures	131,332	126,368	130,248
Financial derivatives	6,814	10,935	9,827
	489,677	792,593	532,575
NON-CURRENT LIABILITIES:			
Loans from banks and others	1,391,335	1,099,567	1,336,437
Debentures	710,051	601,089	568,140
Financial derivatives	11,444	19,349	13,826
Employee benefit liabilities, net	10	89	10
Deferred taxes	83,024	58,506	69,758
	2,195,864	1,778,600	1,988,171
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital	155,768	155,768	155,768
Share premium	256,643	256,643	256,643
Other capital reserves	(8,715)	(24,828)	(18,338)
Foreign currency translation adjustments of foreign operations	(89,453)	(76,329)	(97,841)
Retained earnings	487,056	400,691	449,191
	801,299	711,945	745,423
Non-controlling interests	-	280	-
Total equity	801,299	712,225	745,423
	3,486,840	3,283,418	3,266,169

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

August 18, 2011			
Date of approval of the financial statements	Doron Schneidman Chairman of the Board	Roy Gadish CEO	Daniel Stern CFO

CONSOLIDATED STATEMENTS OF INCOME

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2011	2010	2011	2010	2010
	Unaudited				Audited
	NIS in thousands [except for net earnings per share data]				
Revenues:					
Revenues from rental of properties	94,227	93,427	48,587	46,793	186,290
Appreciation of investment property and investment property under construction, net	94,091	62,224	72,089	62,224	138,794
	188,318	155,651	120,676	109,017	325,084
Expenses:					
Maintenance of properties, net	11,930	7,709	5,478	4,917	15,611
General and administrative	18,350	14,930	10,818	8,443	33,665
	30,280	22,639	16,296	13,360	49,276
Income before financial expenses	158,038	133,012	104,380	95,657	275,808
Financial income	2,139	1,289	1,434	979	4,349
Financial expenses	(89,695)	(76,021)	(48,593)	(50,330)	(160,886)
Financial expenses, net	(87,556)	(74,732)	(47,159)	(49,351)	(156,537)
Income before capital gain	70,482	58,280	57,221	46,306	119,271
Capital gain (loss)	(19)	-	-	-	41
Income before taxes on income	70,463	58,280	57,221	46,306	119,312
Taxes on income	17,598	14,203	13,509	10,575	26,747
Net income	52,865	44,077	43,712	35,731	92,565
Attributable to:					
Equity holders of the Company	52,865	43,776	43,712	35,480	92,276
Non-controlling interests	-	301	-	251	289
	52,865	44,077	43,712	35,731	92,565
Net earnings per share attributable to equity holders of the Company (NIS):					
Basic and diluted net earnings	0.47	0.40	0.36	0.33	0.84

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	2010	2011	2010	2010
	Unaudited				Audited
	NIS in thousands				
Net income	52,865	44,077	43,712	35,731	92,565
Other comprehensive income (loss):					
Gain (loss) from cash flow hedges, net	5,196	(5,831)	(2,620)	(2,664)	(172)
Revaluation due to reclassification from fixed assets to investment property	593	910	593	910	910
Foreign currency translation adjustments of foreign operations	8,388	(26,459)	(11,325)	(6,835)	(47,970)
Other comprehensive income (loss), net	14,177	(31,380)	(13,352)	(8,589)	(47,232)
Total comprehensive income	67,042	12,697	30,360	27,142	45,333
Total comprehensive income attributable to:					
Equity holders of the Company	67,042	12,355	30,360	26,872	45,002
Non-controlling interests	-	342	-	270	331
	67,042	12,697	30,360	27,142	45,333

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	Foreign currency translation adjustments of foreign operations	Retained earnings	Total
	Unaudited					
	NIS in thousands					
Balance as of January 1, 2011 (audited)	155,768	256,643	(18,338)	(97,841)	449,191	745,423
Total comprehensive income	-	-	5,789	8,388	52,865	67,042
Share-based payment	-	-	3,834	-	-	3,834
Dividend paid	-	-	-	-	(15,000)	(15,000)
Balance as of June 30, 2011	155,768	256,643	(8,715)	(89,453)	487,056	801,299

	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 operations	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited								
	NIS in thousands								
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)	-	-	(4,921)	-	(26,500)	43,776	12,355	342	12,697
Exercise of options	3,500	17,086	-	(3,955)	-	-	16,631	-	16,631
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(2,788)	(2,788)
Balance as of June 30, 2010	155,768	256,643	(24,828)	-	(76,329)	400,691	711,945	280	712,225

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	Foreign currency translation adjustments of foreign operations	Retained earnings	Total
	Unaudited					
	NIS in thousands					
Balance as of April 1, 2011	155,768	256,643	(8,605)	(78,128)	458,344	784,022
Total comprehensive income (loss)	-	-	(2,027)	(11,325)	43,712	30,360
Share-based payment	-	-	1,917	-	-	1,917
Dividend paid	-	-	-	-	(15,000)	(15,000)
Balance as of June 30, 2011	155,768	256,643	(8,715)	(89,453)	487,056	801,299

	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 operations	Retained earnings	Total	Non-controlling interests	Total equity
	Unaudited								
	NIS in thousands								
Balance as of April 1, 2010	152,268	239,557	(23,074)	3,955	(69,475)	365,211	668,442	1,662	670,104
Total comprehensive income (loss)	-	-	(1,754)	-	(6,854)	35,480	26,872	270	27,142
Exercise of options	3,500	17,086	-	(3,955)	-	-	16,631	-	16,631
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(1,652)	(1,652)
Balance as of June 30, 2010	155,768	256,643	(24,828)	-	(76,329)	400,691	711,945	280	712,225

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 operations	Retained earnings	Total	Non-controlling interests	Total equity
	Audited								
	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 options	3,500	17,086	-	(3,955)	-	-	16,631	-	16,631
Dividend paid to 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

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
	2011	2010	2011	2010	2010
	Unaudited				Audited
	NIS in thousands				
Cash flows from operating activities:					
Net income	52,865	44,077	43,712	35,731	92,565
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Adjustments to the profit or loss items:					
Appreciation of investment property and investment property under construction, net	(94,091)	(62,224)	(72,089)	(62,224)	(138,794)
Financial expenses, net	87,556	74,732	47,159	49,351	156,537
Capital loss (gain)	19	-	-	-	(41)
Depreciation and amortization	3,763	1,046	2,252	553	2,211
Taxes on income	17,598	14,203	13,509	10,575	26,747
Change in employee benefit liabilities, net	-	75	-	-	(4)
Share-based payment	3,834	-	1,917	-	831
	18,679	27,832	(7,252)	(1,745)	47,487
Changes in asset and liability items:					
Decrease (increase) in customers	1,245	(4,762)	2,591	(1,661)	4,554
Decrease (increase) in other accounts receivable	(1,361)	12,343	60	18,627	(8,792)
Increase (decrease) in liabilities to suppliers and service providers	2,053	6,297	(882)	(1,986)	3,133
Increase (decrease) in other accounts payable	5,169	46	2,380	(9,521)	473
	7,106	13,924	4,149	5,459	(632)
Cash paid and received during the period for:					
Interest paid	(64,236)	(56,840)	(28,979)	(18,878)	(116,162)
Interest received	4,137	1,143	2,095	833	3,498
Taxes paid	(10,894)	(6,141)	(1,160)	(46)	(6,706)
Taxes received	150	134	150	-	162
	(70,843)	(61,704)	(27,894)	(18,091)	(119,208)
Net cash provided by operating activities	7,807	24,129	12,715	21,354	20,212

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

NIS in thousands	For the six months ended June 30 2011	For the six months ended June 30 2010	For the three months ended June 30 2011	For the three months ended June 30 2010	For the year ended December 31 2010
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Cash flows from investing activities:					
Investment in deposit, net	(1,787)	-	-	-	-
Proceeds from sale of investment property	7,315	59,898	3,891	59,197	94,260
VAT refund for investment property	70,925	-	-	-	-
Purchase of available-for-sale financial assets	(92,734)	-	(16,034)	-	(35,903)
Sale of available-for-sale financial assets	8,283	-	6,570	-	-
Purchase of investment property	(18,638)	(44,071)	(9,482)	(27,670)	(62,500)
Acquisition of subsidiary (see Note 5b)	(16,719)	-	-	-	-
Purchase of investment property under construction	(46)	(1,781)	(40)	(1,639)	(2,631)
Purchase of fixed assets	(194)	(789)	-	(789)	(1,981)
Purchase of intangible assets	(21)	(212)	(21)	(200)	(214)
Proceeds from sale of fixed assets	136	240	136	219	192
Repayment (grant of loan) to non-controlling interests, net	-	(1,412)	-	(1,204)	3,071
Net cash provided by (used in) investing activities	(43,480)	11,873	(14,980)	27,914	(5,706)
Cash flows from financing activities:					
Repayment of short-term credit from banks, net	(65,120)	(76,734)	(19,177)	(43,970)	(43,938)
Receipt of long-term loans	69,758	73,818	18,333	22,088	117,968
Repayment of long-term loans	(45,846)	(86,939)	(25,633)	(73,258)	(176,460)
Grant of deposit on interest	(5,800)	(6,030)	-	(6,030)	(6,180)
Proceeds from sale of financial derivatives	-	-	-	-	3,180
Dividend paid to non-controlling interests	-	(2,788)	-	(1,652)	(3,057)
Dividend paid	(15,000)	-	(15,000)	-	-
Exercise of options into shares	-	16,631	-	16,631	16,631
Repayment of bonds	(69,027)	-	-	-	(44,505)
Early repayment of bonds	(4,200)	-	-	-	(119)
Issuance of bonds net of issuance expenses	196,603	197,855	-	197,855	197,855
Net cash provided by (used in) financing activities	61,368	115,813	(41,477)	111,664	61,375
Increase (decrease) in cash and cash equivalents	25,695	151,815	(43,742)	160,932	75,881
Translation differences for cash balances in foreign investees					
Balance of cash and cash equivalents at beginning of period	161	601	(1,280)	164	(1,217)
Balance of cash and cash equivalents at end of period	114,304	39,640	185,182	30,960	39,640
	140,160	192,056	140,160	192,056	114,304

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
	2011	2010	2011	2010	2010
	Unaudited				Audited
	NIS in thousands				
(a) Significant activities not involving cash flows:					
Purchase of fixed assets and investment property against suppliers and service providers and trade payables	8,785	23,540	6,943	14,424	7,319
Proceeds from sale of investment property against other accounts receivable	-	(1,154)	-	(758)	8,846
Proceeds from sale of investment property against available-for-sale financial assets	-	-	-	-	10,715

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 June 30, 2011 and for the six and three months then ended ("interim consolidated financial statements"). These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2010 and for the year then ended and accompanying notes ("annual financial statements").

b. As of June 30, 2011, the Company has a working capital deficiency of approximately NIS 146 million. 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.

c. As for the issuance of debentures (series G), see Note 5a'.

d. The rating of bonds:

On August 7, 2011, Maalot (Standard & Poor's) ratified the ilBBB rating of the Company's bonds (Series G) and bonds (Series E), a stable rating outlook.

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.)

a. Basis of preparation of the interim consolidated financial statements: (Cont.)

IFRS 3 (Revised) - Business Combinations

The amendments to IFRS 3 (Revised) address the following issues:

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 their proportionate share in the recognized amounts of the acquiree's identifiable net assets. According to the amendment, this possibility is only available for components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share (pro rata) of the acquiree's net assets in the event of liquidation (usually shares). In contrast, for other components of non-controlling interests (such as options that represent equity instruments of the acquiree) no such choice is available, and they are measured at fair value on the acquisition date, unless another measurement basis is required by IFRS such as IFRS 2.

The amendment is applied retrospectively from the date of original adoption of IFRS 3 (Revised).

IAS 1 - Presentation of Financial Statements

According to the amendment to IAS 1, the changes between the opening and the closing balances of each component of other comprehensive income may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. Accordingly, the Company has elected to present said disclosure in the notes.

The amendment is applied retrospectively from January 1, 2011.

IAS 34 - Interim Financial Reporting

According 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 and changes in the classification of financial assets.

The amendment is applied retrospectively from January 1, 2011.

The application of the amendment had no material affect on the Company's financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Disclosures of new IFRS Standards during the period prior to their implementation

In May 2011, the IASB issued four new Standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "*Joint Arrangements*", IFRS 12, "Disclosure of Interests in Other Entities" ("the new Standards") and IFRS 13, "Fair Value Measurement", and amended two existing Standards, IAS 27R (Revised 2011), "Separate Financial Statements", and IAS 28R (Revised 2011), "Investments in Associates and Joint Ventures".

The new Standards are to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. However, if the Company chooses earlier application, it must adopt all the new Standards as a package (excluding the disclosure requirements of IFRS 12 which may be adopted separately). The Standards prescribe transition provisions with certain modifications upon initial adoption.

The main provisions of the Standards and their expected effects on the Company are as follows:

<u>IFRS 10 - Consolidated Financial Statements</u>:

IFRS 10 supersedes IAS 27 regarding the accounting treatment of consolidated financial statements and includes the accounting treatment for the consolidation of structured entities previously accounted for under SIC 12, "Consolidation - Special Purpose Entities".

IFRS 10 does not prescribe changes to the consolidation procedures but rather modifies the definition of control for the purpose of consolidation and introduces a single consolidation model. According to IFRS 10, in order for an investor to control an investee, the investor must have power over the investee and exposure, or rights, to variable returns from the investee. Power is defined as the ability to influence and direct the investee's activities that significantly affect the investor's return.

According to IFRS 10, when assessing the existence of control, potential voting rights should be considered only if they are substantive, as opposed to the provisions of IAS 27 prior to its amendment which required consideration of potential voting rights only if they could be exercised immediately while disregarding management's intentions and financial ability to exercise such rights.

IFRS 10 also prescribes that an investor may have control even if it holds less than a majority of the investee's voting rights (de facto control), as opposed to the provisions of the existing IAS 27 which permits a choice between two consolidation models - the de facto control model and the legal control model.

IFRS 10 is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter.

The Company is evaluating the possible impact of the adoption of IFRS 10 but is presently unable to assess the effects, if any, on its financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Disclosures of new IFRS Standards during the period prior to their implementation (Cont.)

IAS 27 Revised - Separate Financial Statements:

IAS 27 Revised (hereunder IAS 27R) supersedes IAS 27 and only addresses separate financial statements. The existing guidance for separate financial statements has remained unchanged in IAS 27R.

IFRS 11 - Joint Arrangements:

IFRS 11 supersedes IAS 31 regarding the accounting treatment of interests in joint ventures and SIC 13 regarding the interpretation of the accounting treatment of non-monetary investments by entities under joint control.

IFRS 11 defines joint arrangements as contractual arrangements over which two or more parties have joint control.

IFRS 11 distinguishes between two types of joint arrangements:

- Joint ventures in which the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires joint ventures to be accounted for solely by using the equity method, as opposed to the provisions of IAS 31 which allowed the Company to make an accounting policy choice whether to apply proportionate consolidation or the equity method for entities under joint control.

- Joint operations in which the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. IFRS 11 requires the joint operator to recognize a joint operation's assets, liabilities, revenues and expenses in proportion to its relative share of the joint operation as determined in the joint arrangement, similar to the current accounting treatment for proportionate consolidation.

IFRS 11 is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter.

The Company is evaluating the possible impact of the adoption of IFRS 11 but is presently unable to assess the effects, if any, on its financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Disclosures of new IFRS Standards during the period prior to their implementation (Cont.)

IAS 28 Revised - Investments in Associates and joint ventures:

IAS 28 Revised (hereunder IAS 28R) supersedes IAS 28. The principal changes in IAS 28R compared to IAS 28 relate to the application of the equity method of accounting for investments in joint ventures, as a result of the issuance of IFRS 11, and the guidance for transition from proportionate consolidation to the equity method of accounting for these investments. IAS 28R also prescribes that in the event of disposal of an investment in an associate or joint venture, including a portion thereof, the portion that meets the criteria to be classified as held for sale is accounted for in accordance with IFRS 5. Any remaining portion is accounted for using the equity method until the time of actual disposal. In addition, an investment in an associate that becomes an investment in a joint venture, or vice versa, will continue to be accounted for at equity and the remaining investment will not be remeasured.

IAS 28R is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. Earlier application is permitted; however, if the Company opts for earlier application of IAS 28R, it must also apply IFRS 10, IFRS 11, IFRS 12 and IFRS 27R (Revised 2011) collectively.

The Company is evaluating the possible impact of the adoption of IAS 28R but is presently unable to assess the effects, if any, on its financial statements.

<u>IFRS 12 - Disclosure of Interests in Other Entities</u>:

IFRS 12 prescribes disclosure requirements for the Company's investees, including subsidiaries, joint arrangements, associates and structured entities. IFRS 12 expands the disclosure requirements to include the judgments and assumptions used by management in determining the existence of control, joint control or significant influence over investees, and in determining the type of joint arrangement. IFRS 12 also provides disclosure requirements for material investees.

The required disclosures will be included in the Company's financial statements upon initial adoption of IFRS 12.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Disclosures of new IFRS Standards during the period prior to their implementation (Cont.)

IFRS 13 - Fair Value Measurement:

IFRS 13 establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also specifies the characteristics of market participants and determines that fair value is based on the assumptions that would have been used by market participants. According to IFRS 13, fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

IFRS 13 requires an entity to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. IFRS 13 also includes a fair value hierarchy based on the inputs used to determine fair value as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - unobservable inputs (valuation techniques that do not make use of observable inputs).

IFRS 13 also prescribes certain specific disclosure requirements.

The new disclosures, and the measurement of assets and liabilities pursuant to IFRS 13, are to be applied prospectively for periods commencing after the Standard's effective date, in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. The new disclosures will not be required for comparative data.

The appropriate disclosures will be included in the Company's financial statements upon initial adoption of IFRS 13.

The Company is evaluating the possible impact of the adoption of IFRS 13 but is presently unable to assess the effects, if any, on its financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Disclosures of new IFRS Standards during the period prior to their implementation (Cont.)

IAS 19 Revised - Employee Benefits:

In June 2011, the IASB issued IAS 19 Revised (hereunder IAS 19R). The principal amendments included in IAS 19R are:

- Actuarial gains and losses will only be recognized in other comprehensive income and not carried to profit or loss.
- The "corridor" approach which allowed the deferral of actuarial gains or losses has been eliminated.
- The return on the plan assets is recognized in profit or loss based on a discount rate used to measure the employee benefit liabilities, regardless of the actual composition of the investment portfolio.
- The distinction between short-term employee benefits and long-term employee benefits will be based on the expected settlement date and not on the date on which the employee first becomes entitled to the benefits.
- The cost of past services arising from changes in the plan will be recognized immediately.

IAS 19R is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter. Earlier application is permitted.

The Company estimates that IAS 19R is not expected to have a material impact on its financial statements.

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

	Israeli	Representative exchange rate		
	CPI	U.S. $	C$	€
As of	**Points *)**		NIS	
June 30, 2011	216.3	3.415	3.533	4.944
June 30, 2010	207.6	3.875	3.689	4.7575
December 31, 2010	211.7	3.549	3.555	4.7379
Change during the period		%		
June 2011 (6 months)	2.2	(3.7)	(0.6)	4.3
June 2011 (3 months)	1.6	(1.8)	(1.7)	(0.1)
June 2010 (6 months)	0.7	2.6	2.4	(12.6)
June 2010 (3 months)	1.5	4.4	1.0	(4.7)
December 2010 (12 months)	2.6	(6.0)	(1.3)	(12.9)

*) 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:

1.

	Six months ended June 30, 2011				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Revenues from rental of properties	20,985	4,713	21,442	47,087	94,227
Appreciation (impairment) of investment property	(2,872)	3,272	14,894	78,797	94,091
	18,113	7,985	36,336	125,884	188,318
Segment results	7,262	5,016	31,078	114,682	158,038
Financial income					2,139
Financial expenses					(89,695)
Financial expenses, net					(87,556)
Income before capital loss					70,482
Capital loss					(19)
Income before taxes on income					70,463

2.

	Six months ended June 30, 2010				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Revenues from rental of properties	24,076	5,211	12,848	51,292	93,427
Appreciation (impairment) of investment property and investment property under construction, net	(205)	(809)	3,755	59,483	62,224
	23,871	4,402	16,603	110,775	155,651
Segment results	16,457	1,465	10,877	104,213	133,012
Financial income					1,289
Financial expenses					(76,021)
Financial expenses, net					(74,732)
Income before taxes on income					58,280

NOTE 4:- OPERATING SEGMENTS (Cont.)

b. Operating segment information: (Cont.)

b. Operating segment information:

3.

	Three months ended June 30, 2011				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Revenues from rental of properties	10,309	2,232	12,494	23,552	48,587
Appreciation (impairment) of investment property	2,128	3,272	(12,108)	78,797	72,089
	12,437	5,504	386	102,349	120,676
Segment results	6,488	3,919	(2,166)	96,139	104,380
Financial income					1,434
Financial expenses					(48,593)
Financial expenses, net					(47,159)
Income before taxes on income					57,221

4.

	Three months ended June 30, 2010				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Revenues from rental of properties	11,847	2,363	6,502	26,081	46,793
Appreciation (impairment) of investment property and investment property under construction, net	(205)	(809)	3,755	59,483	62,224
Revenues from rental of properties	11,642	1,554	10,257	85,564	109,017
Segment results	4,463	(202)	9,178	82,218	95,657
Financial income					979
Financial expenses					(50,330)
Financial expenses, net					(49,351)
Income before taxes on income					46,306

NOTE 4:- OPERATING SEGMENTS (Cont.)

5.

	Year ended December 31, 2010				
	Israel	Belgium	Poland	Canada	Total
	Audited				
	NIS in thousands				
Revenues from rental of properties	47,564	10,024	28,208	100,494	186,290
Appreciation (impairment) of investment property and investment property under construction, net	(1,780)	(8,593)	27,156	122,011	138,794
Total revenues	45,784	1,431	55,364	222,505	325,084
Segment results	29,389	(3,931)	43,459	206,891	275,808
Financial income					4,349
Financial expenses					(160,886)
Financial expenses, net					(156,537)
Income before capital gain					119,271
Capital gain					41
Income before taxes on income					119,312

NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

a. On January 13, 2011, the Company issued NIS 200,000,000 par value of registered debentures (series G) of NIS 1 par value each that are linked, principal and interest, to the Israeli CPI and bear annual interest of 5.6%. The interest is payable from July 1, 2011 through January 1, 2020 in two installments in each calendar year and the principal is repayable in six annual installments on January 1 of each of the years 2015 through 2020 (inclusive).

In the context of the issuance, the following financial covenants were determined for the Company:

1. Its shareholders' equity will not be less than NIS 500 million.

2. The ratio between shareholders' equity and total balance sheet of the Company less cash and deposits will not be less than 20%.

If the Company exceeds any of the covenants stated above, the interest rate payable by the Company to the holders of debentures (series G) will increase by 0.5%, annually (1% if it exceeds both covenants). Likewise, if the ratio between shareholders' equity and the Company's total balance sheet (less cash and deposits) will be less than 12%, the exceed will constitute reason for immediate repayment of the entire unsettled balance of the debentures.

NOTE 5:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

a. (Cont.)

If the rating of the bonds (series G) will be updated and the rating for the bonds (series G) will be lower than Baa1, or a corresponding rating, the interest payable by the Company to the holders of bonds (series G) will increase by an annual rate of 0.25%. Any rating lower than BA2, also forms a cause for immediate repayment

As of the date of approval of the financial statements, the Company fulfills all the financial covenants listed above.

b. On March 30, 2011, a subsidiary acquired a company in Poland in return for the total amount of approximately 14.6 million Zloty (approximately NIS 18 million). The main assets of the acquired company are rights in real estate at the value of approximately 32 million Zloty (approximately NIS 39.6 million) on the date of acquisition. On the other hand, the company has a bank loan in the amount of approximately 19.2 million Zloty (approximately NIS 23 million).

The real estate includes a building for lease on an area of about 4,000 square meters on the area of about 8 dunams. The building is leased to an individual tenant for a period of 14 years from the date of acquisition, as mentioned, with an annual income of approximately 2.5 million Zloty (approximately NIS 3.1 million).

c. On May 19, 2011, the Company's Board of Directors approved a decision regarding a dividend distribution policy for the years 2011 and 2012. In the framework of the dividend policy, during the year 2011 the Company will pay its equity holders a dividend in the sum of approximately NIS 30 million (which constitutes approximately 27 Agorot per each NIS 1 nominal value of the shares) and half of it, approximately NIS 15 million was paid on June 30, 2011, and another approximately NIS 15 million will be paid on December 31, 2011 or close to this date.

During the year 2012 the Company will pay its equity holders a minimum annual dividend in the sum of approximately NIS 35 million (which constitutes approximately 31 Agorot per each NIS 1 nominal value share) and half of it, approximately NIS 17.5 million, will be paid on June 30, 2012 or close to this date, and the sum of up to approximately NIS 17.5 million will be paid on December 31, 2012 or close to it.

The distribution will be subject to examinations as prescribed by law, and that the distribution will not significantly affect the Company's cash flows.

The Company's Board of Directors will be entitled, at any given time, and pursuant to legal provisions, to change the aforementioned dividend policy, to change the amounts that will be distributed as dividends, or to decide not to distribute any dividends.

NOTE 6:- EVENTS AFTER THE BALANCE SHEET DATE

After the balance sheet date, on August 18, 2011, the Company's Board of Directors approved the grant of 300,000 nominal value option warrants, exercisable into 300,000 ordinary shares of NIS 1 nominal value each, to two of the Company's external Directors. The options constitute approximately 0.27% of the Company's issued capital and will be allotted according to the Company's option plan for the year 2010 (see Note 26b' to the financial statements for the year 2010). The grant of the options is subject to the approval of the Company's general assembly.

- - - - - - - - - - - -

F:\W2000\w2000\52032\m\11\EC6-IFRS.docx