Translated from the Hebrew original

ADGAR INVESTMENTS & DEVELOPMENT LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2011

UNAUDITED

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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 September 30, 2011 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine 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 subsidiaries, whose assets constitute approximately 65% of total consolidated assets as of September 30, 2011, and whose revenues constitute approximately 73% and 72% of total consolidated revenues for the nine 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
November 20, 2011

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

CONSOLIDATED BALANCE SHEETS

	September 30,		December 31,
	2011	2010	2010
	Unaudited		Audited
	NIS in thousands		
CURRENT ASSETS:			
Cash and cash equivalents	124,803	150,192	114,304
Short-term investments	81,534	17,403	47,314
Trade receivables	9,755	30,008	15,172
Deposit	40,952	80,476	40,463
Debtors and receivables	8,867	-	76,091
Current taxes receivable	8,034	906	7,504
Financial derivatives	-	2,958	-
	273,945	281,943	300,848
Assets designated for realization	8,071	54,000	-
	282,016	335,943	300,848
NON-CURRENT ASSETS:			
Loans	7,826	12,314	7,292
Financial derivatives	299	-	985
Fixed assets, net	15,759	14,673	14,524
Investment property	3,091,325	2,746,106	2,853,099
Investment property under construction	78,760	154,614	78,471
Intangible assets, net	205	504	403
Deferred taxes	10,260	9,314	10,547
	3,204,434	2,937,525	2,965,321
	3,486,450	3,273,468	3,266,169

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

CONSOLIDATED BALANCE SHEETS

	September 30, 2011	September 30, 2010	December 31, 2010
	Unaudited		Audited
	NIS in thousands		
CURRENT LIABILITIES:			
Credit from banking institutions and current maturities of long-term loans	292,057	680,399	331,588
Liabilities to suppliers and service providers	12,051	18,832	11,942
Taxes payable	80	753	7,761
Creditors and payables	55,028	39,242	41,209
Current maturities of debentures	127,608	126,489	130,248
Financial derivatives	9,236	9,868	9,827
	496,060	875,583	532,575
NON-CURRENT LIABILITIES:			
Loans from banking institutions and other credit providers	1,403,874	1,030,934	1,336,437
Debentures	667,702	563,997	568,140
Financial derivatives	20,996	19,643	13,826
Employee benefit liabilities, net	10	89	10
Deferred taxes	85,765	58,237	69,758
	2,178,347	1,672,900	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	(16,877)	(23,546)	(18,338)
Foreign currency translation adjustments of foreign operations	(64,266)	(81,077)	(97,841)
Retained earnings	480,775	416,922	449,191
	812,043	724,710	745,423
Non-controlling interests	-	275	-
TOTAL EQUITY	812,043	724,985	745,423
	3,486,450	3,273,468	3,266,169

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

November 20, 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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2011	2010	2011	2010	2010
	Unaudited				Audited
	NIS in thousands [except for net earnings (loss) per share data]				
Revenues:					
Revenues from rental of properties	141,431	140,901	47,204	47,474	186,290
Appreciation of investment property and investment property under construction, net	94,091	85,328	-	23,104	138,794
	235,522	226,229	47,204	70,578	325,084
Expenses:					
Maintenance of properties, net	17,490	10,750	5,560	3,041	15,611
General and administrative	25,920	22,243	7,570	7,313	33,665
	43,410	32,993	13,130	10,354	49,276
Income before financing	192,112	193,236	34,074	60,224	275,808
Financial income	2,372	2,318	233	1,029	4,349
Financial expenses	(131,401)	(118,064)	(41,706)	(42,043)	(160,886)
Financial expenses, net	(129,029)	(115,746)	(41,473)	(41,014)	(156,537)
Income (loss) before capital gain	63,083	77,490	(7,399)	19,210	119,271
Capital gain (loss)	(19)	41	-	41	41
Income (loss) before taxes on income	63,064	77,531	(7,399)	19,251	119,312
Taxes on income (tax benefit)	16,480	17,223	(1,118)	3,020	26,747
Net income (loss)	46,584	60,308	(6,281)	16,231	92,565
Attributable to:					
Equity holders of the Company	46,584	60,007	(6,281)	16,231	92,276
Non-controlling interests	-	301	-	-	289
	46,584	60,308	(6,281)	16,231	92,565
Net earnings (loss) per share attributable to equity holders of the Company (NIS):					
Basic and diluted net earnings (loss)	0.42	0.55	(0.06)	0.14	0.84

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2011	2010	2011	2010	2010
	Unaudited				Audited
	NIS in thousands				
Net income (loss)	46,584	60,308	(6,281)	16,231	92,565
Other comprehensive income (loss):					
Gain (loss) from cash flow hedges, net	(5,012)	(4,549)	(10,208)	1,282	(172)
Revaluation due to reclassification from fixed assets to investment property	593	910	-	-	910
Foreign currency translation adjustments of foreign operations	33,575	(31,212)	25,187	(4,753)	(47,970)
Other comprehensive income (loss), net	29,156	(34,851)	14,979	(3,471)	(47,232)
Total comprehensive income	75,740	25,457	8,698	12,760	45,333
Total comprehensive income attributable to:					
Equity holders of the Company	75,740	25,120	8,698	12,765	45,002
Non-controlling interests	-	337	-	(5)	331
	75,740	25,457	8,698	12,760	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
	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 (loss)	-	-	(4,419)	33,575	46,584	75,740
Share-based payment	-	-	5,880	-	-	5,880
Dividend paid	-	-	-	-	(15,000)	(15,000)
Balance as of September 30, 2011 (unaudited)	155,768	256,643	(16,877)	(64,266)	480,775	812,043

	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
	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)	-	-	(3,639)	-	(31,248)	60,007	25,120	337	25,457
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 September 30, 2010 (unaudited)	155,768	256,643	(23,546)	-	(81,077)	416,922	724,710	275	724,985

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 July 1, 2011	155,768	256,643	(8,715)	(89,453)	487,056	801,299
Total comprehensive income (loss)	-	-	(10,208)	25,187	(6,281)	8,698
Share-based payment	-	-	2,046	-	-	2,046
Balance as of September 30, 2011	155,768	256,643	(16,877)	(64,266)	480,775	812,043

	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 July 1, 2010	155,768	256,643	(24,828)	-	(76,329)	400,691	711,945	280	712,225
Total comprehensive income (loss)	-	-	1,282	-	(4,748)	16,231	12,765	(5)	12,760
Balance as of September 30, 2010	155,768	256,643	(23,546)	-	(81,077)	416,922	724,710	275	724,985

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 nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2011	2010	2011	2010	2010
	Unaudited				Audited
	NIS in thousands				
Cash flows from operating activities:					
Net income (loss)	46,584	60,308	(6,281)	16,231	92,565
Adjustments needed to present cash flows from operating activities:					
Adjustments to the profit or loss items:					
Appreciation of investment property and investment property under construction, net	(94,091)	(85,328)	-	(23,104)	(138,794)
Financial expenses, net	129,029	115,746	41,473	41,014	156,537
Capital loss (gain)	19	(41)		(41)	(41)
Depreciation and amortization	5,978	1,738	2,215	692	2,211
Taxes on income	16,480	17,223	(1,118)	3,020	26,747
Change in employee benefit liabilities, net	-	75	-	-	(4)
Share-based payment	5,880	-	2,046	-	831
	63,295	49,413	44,616	21,581	47,487
Changes in asset and liability items:					
Decrease in customers	5,650	2,519	4,405	7,281	4,554
Decrease (increase) in other accounts receivable	1,379	(11,857)	2,740	(24,200)	(8,792)
Increase (decrease) in liabilities to suppliers and service providers	(1,021)	6,043	(3,074)	(254)	3,133
Increase (decrease) in other accounts payable	3,979	4,197	(1,190)	4,151	473
	9,987	902	2,881	(13,022)	(632)
Cash paid and received during the period for:					
Interest paid	(98,354)	(84,017)	(34,118)	(27,177)	(116,162)
Interest received	4,837	2,368	700	1,225	3,498
Taxes paid	(11,052)	(6,245)	(158)	(104)	(6,706)
Taxes received	150	162	-	28	162
	(104,419)	(87,732)	(33,576)	(26,028)	(119,208)
Net cash provided by (used in) operating activities	15,447	22,891	7,640	(1,238)	20,212

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2011	2010	2011	2010	2010
	Unaudited				Audited
	NIS in thousands				
Cash flows from investing activities:					
Investment in deposit, net	-	-	1,787	-	-
Proceeds from sale of investment property	7,315	63,764	-	3,866	94,260
VAT refund for investment property	70,925	-	-	-	-
Purchase of short term investments	(93,068)	-	(334)	-	(35,903)
Sale of short term investments	55,036	-	46,753	-	-
Purchase of investment property	(28,709)	(47,583)	(10,071)	(3,512)	(62,500)
Acquisition of subsidiary (see Note 5b)	(16,719)	-	-	-	-
Purchase of investment property under construction	(289)	(2,069)	(243)	(288)	(2,631)
Purchase of fixed assets	(316)	(1,788)	(122)	(999)	(1,981)
Purchase of intangible assets	(53)	(212)	(32)	-	(214)
Proceeds from sale of fixed assets	136	432	-	192	192
Repayment (grant of loan) to non-controlling interests, net	-	(2,085)	-	(673)	3,071
Net cash provided by (used in) investing activities	(5,742)	10,459	37,738	(1,414)	(5,706)
Cash flows from financing activities:					
Receipt (repayment) of short-term credit from banks, net	(67,293)	(53,637)	(2,173)	23,097	(43,938)
Receipt of long-term loans	69,758	76,281	-	2,463	117,968
Repayment of long-term loans	(57,211)	(105,754)	(11,365)	(18,815)	(176,460)
Grant of deposit on interest	(7,056)	(6,030)	(1,256)	-	(6,180)
Proceeds from sale of financial derivatives	-	-	-	-	3,180
Dividend paid to non-controlling interests	-	(2,788)	-	-	(3,057)
Dividend paid	(15,000)	-	-	-	-
Exercise of options into shares	-	16,631	-	-	16,631
Repayment of bonds	(113,701)	(44,505)	(44,674)	(44,505)	(44,505)
Early repayment of bonds	(7,920)	-	(3,720)	-	(119)
Issuance of bonds net of issuance expenses	196,603	197,855	-	-	197,855
Net cash provided by (used in) financing activities	(1,820)	78,053	(63,188)	(37,760)	61,375
Increase (decrease) in cash and cash equivalents	7,885	111,403	(17,810)	(40,412)	75,881
Translation differences for cash balances in foreign investees	2,614	(851)	2,453	(1,452)	(1,217)
Balance of cash and cash equivalents at beginning of period	114,304	39,640	140,160	192,056	39,640
Balance of cash and cash equivalents at end of period	124,803	150,192	124,803	150,192	114,304

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the nine months ended September 30		For the three months ended September 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	9,186	10,554	401	(12,986)	7,319
Proceeds from sale of investment property against other accounts receivable	-	(1,217)	-	(63)	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 September 30, 2011 and for the nine 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 September 30, 2011, the Company has a working capital deficiency of approximately NIS 214 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. The Company’s management estimates that this deficiency is not expected to impair its 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' below.

d. The rating of bonds:

On December 2, 2010 and on December 29, 2010 Midroog ratified the Baa1 rating of the new series of bonds the Company issued, (Series G), and ratified Baa1 for series of bonds in cycle: bonds (Series D), bonds (Series E) and bonds (Series F).

On August 7, 2011, Maalot (Standard & Poor's) ratified the ilBBB rating of the Company's bonds (Series D) 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:

IFRS 10 - Consolidated Financial Statements:

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.

IFRS 12 - Disclosure of Interests in Other Entities:

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 CPI	Representative exchange rate		
		U.S. $	C$	€
As of	**Points *)**		**NIS**	
September 30, 2011	216.2	3.712	3.642	5.044
September 30, 2010	210.1	3.665	3.564	4.987
December 31, 2010	211.7	3.549	3.555	4.7379
Change during the period			**%**	
September 2011 (9 months)	2.17	4.6	2.4	6.5
September 2011 (3 months)	-	8.7	3.1	2.0
September 2010 (9 months)	1.9	(2.9)	(1.1)	(8.4)
September 2010 (3 months)	1.2	(5.4)	(3.4)	4.8
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 the segments of activity since management examines its activities based on these segments.

b. Operating segment information

1.

	Nine months ended September 30, 2011				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Revenues from rental of properties	31,242	7,384	30,530	72,275	141,431
Appreciation (impairment) of investment property	(2,872)	3,272	14,894	78,797	94,091
	28,370	10,656	45,424	151,072	235,522
Segment results	12,584	6,349	37,946	135,233	192,112
Financial income					2,372
Financial expenses					(131,401)
Financial expenses, net					(129,029)
Income before capital loss					63,083
Capital loss					(19)
Income before taxes on income					63,064

2.

	Nine months ended September 30, 2010				
	Israel	Belgium	Poland	Canada	Total
	Unaudited				
	NIS in thousands				
Revenues from rental of properties	36,132	7,583	19,940	77,246	140,901
Appreciation (impairment) of investment property and investment property under construction, net	(205)	(809)	26,859	59,483	85,328
	35,927	6,774	46,799	136,729	226,229
Segment results	25,167	3,156	37,459	127,454	193,236
Finance expenses					(118,064)
Finance income					2,318
Finance expenses, net					(115,746)
Capital gain					41
Income before taxes on income					77,531

NOTE 4:- OPERATING SEGMENTS (Cont.)

b. Operating segment information: (Cont.)

3.

	Israel	Belgium	Poland	Canada	Total
	Three months ended September 30, 2011				
	Unaudited				
	NIS in thousands				
Revenues from rental of properties	10,257	2,671	9,088	25,188	47,204
Segment results	5,322	1,333	6,868	20,551	34,074
Financial income					233
Financial expenses					(41,706)
Financial expenses, net					(41,473)
Loss before taxes on income					(7,399)

4.

	Israel	Belgium	Poland	Canada	Total
	Three months ended September 30, 2010				
	Unaudited				
	NIS in thousands				
Revenues from lease of properties	12,056	2,372	7,092	25,954	47,474
Appreciation (impairment) of investment property and investment property under construction, net	-	-	23,104	-	23,104
Revenues from rental of properties	12,056	2,372	30,196	25,954	70,578
Segment results	8,710	1,691	26,582	23,241	60,224
Financial expenses					(42,043)
Financial income					1,029
Financial expenses, net					(41,014)
Capital gain					41
Income before taxes on income					19,251

NOTE 4:- OPERATING SEGMENTS (Cont.)

5.

	Israel	Belgium	Poland	Canada	Total
	Year ended December 31, 2010				
	Audited				
	NIS in thousands				
Revenues from lease 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 5:- SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)

d. In September 2011 the Company signed a preliminary agreement for the sale of the AARTSELAAR building in Belgium in consideration for about NIS 8 million. The transaction is subject to a number of suspending conditions. The transaction is expected to be completed during the first quarter of the year 2012.

As a result of the sale the Company does not expect a significant profit/loss, since the asset was reported at fair value.

e. Buy-back of bonds

Following the decision of the Company’s Board of Directors from November 2010, regarding the buy-back plan of the Company's bonds (Series D), in the amount of up to NIS 50 million, the Company acquired during the reported peiord 6,571,226 nominal value bonds (Series D) of the Company in return for about NIS 8 million. The Company did not record any material loss in respect of the aforementioned acquisitions.

NOTE 6:- EVENTS AFTER THE BALANCE SHEET DATE

a. After the balance sheet date, on November 14, 2011, the Company granted 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 were allotted according to the Company's option plan for the year 2010 (see Note 26b' to the financial statements for the year 2010).

b. At the beginning of November 2011, the law memorandum for Social Economic Change (Legislative Amendments) (Taxes), 2011 (hereunder – the law memorandum), was published. In the framework of the law memorandum it was proposed, among others, to cancel, beginning from the year 2012, the outline of the reduction of the corporate tax rates. In the framework of the law memorandum it was also proposed to increase the corporate tax rate to 25% in the year 2012. In light of the proposed increase of the corporate tax rate to 25% in the year 2012, the tax rate on capital gains, in real terms, and the betterment tax, in real terms, will be increased respectively.

The deferred tax balances included in the financial statements as at September 30, 2011 are calculated according to the tax rates in force as at the date of the financial statements and do not take into consideration the effects that could result from the law memorandum. The said effects will be included in the financial statements which will be published beginning from the date in which the law is passed.

The Company estimates that following the memorandum law, on the basis of the deferred tax balances as at September 30, 2011, the effect on the equity, the net income and the other comprehensive income will be a decrease of about NIS 7.5 million in the net profit and a decrease of about NIS 8 million in the comprehensive income and the equity, an amount which might decrease or increase depending on the approval of the law memorandum by the Knesset (the Israeli Parliamnet).

NOTE 6:- EVENTS AFTER THE BALANCE SHEET DATE

c. After the balance sheet date, on November 20, 2011, in accordance with the Company's dividend policy for the years 2011 - 2012, the Company's Board of Directors approved a dividend distribution in the sum of NIS 15 million which is expected to be paid on December 29, 2011. The dividend forms about Agora 13.4 (one Agora is 1/100 of the NIS) per share.

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