Translated
from the
Hebrew original

ADGAR INVESTMENTS & DEVELOPMENT LTD

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010

DRAFT: 6.7.2011

ADGAR INVESTMENTS AND DEVELOPMENT LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010

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AUDITOR'S REPORT

To the Shareholders of

ADGAR INVESTMENTS & DEVELOPMENT LTD

Regarding the Audit of Components of Internal Control over Financial Reporting

Pursuant to Section 9b(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of Adgar Investments & Development Ltd as of December 31, 2010. Control components were determined as explained in the following paragraph. The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of the components of internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

The components of internal control over financial reporting audited by us were determined in conformity with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting" ("Auditing Standard 104"). These components consist of: (1) entity level controls, including financial reporting preparation and close process controls and information technology general controls; (2) controls over processes pertaining to investment property; (3) controls over processes pertaining to loans from banks and debentures (collectively, "the audited control components").

We conducted our audit in accordance with Auditing Standard 104. That Standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance about whether these control components have been effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of the audited control components based on the assessed risk. Our audit of these control components also included performing such other procedures as we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and, therefore, our opinion addresses solely the audited control components. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones and, accordingly, our opinion does not take into account any such possible effects. We believe that our audit provides a reasonable basis for our opinion within the context described above.

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Because of its inherent limitations, internal control over financial reporting as a whole, and specifically the components therein, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company effectively maintained, in all material respects, the audited control components as of December 31, 2010.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010. our report dated March 15, 2011 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
March 17, 2011

KOST FORER GABBAY & KASIERER
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AUDITOR'S REPORT

To the Shareholders of

ADGAR INVESTMENTS & DEVELOPMENT LTD

We have audited the accompanying consolidated balance sheets of Adgar Investments & Development Ltd ("the Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2010, 2009 and 2008. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 64% and 43% of total consolidated assets as of December 31, 2010 and 2009, respectively, and whose revenues constitute approximately 69% and 52% of total consolidated revenues for the years ended December 31, 2010 and 2009. The financial statements of that company were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for that company, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2010 and 2009, and the results of their operations, changes in their equity and cash flows for each of the years ended December 31, 2010, 2009 and 2008, in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting", the Company's components of internal control over financial reporting as of December 31, 2010 and our report dated March 15, 2011 expressed an unqualified opinion on the effective existence of those components.

Tel-Aviv, Israel
March 17, 2011

KOST FORER GABBAY & KASIERER
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CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2010	December 31, 2009
		NIS in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	114,304	39,640
Short-term investments	5	47,314	-
Trade receivables	6	15,172	20,353
Deposit	7	40,463	24,953
Other accounts receivable	8	76,091	79,362
Income taxes receivable		7,504	2,000
Financial derivatives	9	-	3,110
		300,848	169,418
Assets classified as held for sale	11	-	54,944
		300,848	224,362
NON-CURRENT ASSETS:			
Loans	10	7,292	9,761
Financial derivatives	9	985	-
Property, plant and equipment, net	12	14,524	14,120
Investment property	13	2,853,099	2,762,910
Investment property under construction	14	78,471	152,608
Intangible assets, net	15	403	672
Deferred taxes	28	10,547	21,033
		2,965,321	2,961,104
		3,266,169	3,185,466

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

CONSOLIDATED BALANCE SHEETS

	Note	December 31, 2010	December 31, 2009
		NIS in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans	17	331,588	835,263
Trade payables	18	11,942	24,672
Income taxes payable		7,761	6,079
Other accounts payable	19	41,209	35,500
Current maturities of debentures	20	130,248	60,306
Financial derivatives	9	9,827	12,173
		532,575	973,993
LONG-TERM LIABILITIES:			
Loans from banks and other credit providers	21	1,336,437	989,898
Debentures	20	568,140	464,815
Financial derivatives	9	13,826	13,990
Employee benefit liabilities, net	22	10	14
Deferred taxes	28	69,758	57,071
		1,988,171	1,525,788
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:	25		
Share capital		155,768	152,268
Share premium		256,643	239,557
Other capital reserves		(18,338)	(19,907)
Receipts on account of options		-	3,955
Foreign currency translation adjustments of foreign operations		(97,841)	(49,829)
Retained earnings		449,191	356,915
		745,423	682,959
Non-controlling interests		-	2,726
Total equity		745,423	685,685
		3,266,169	3,185,466

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

March 17, 2011			
Date of approval of the financial statements	Doron Schneidman Chairman of the Board	Roy Gadish Chief executive officer	Daniel Stern Deputy Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Note	Year ended December 31, 2010	2009	2008
		NIS in thousands (except per share amounts)		
REVENUES:				
Revenues from rental of properties		186,290	189,608	176,835
Increase (decrease) in value of investment property and investment property under construction, net		138,794	(220,108)	23,736
		325,084	(30,500)	200,571
EXPENSES:				
Maintenance of properties, net		15,611	16,230	9,935
General and administrative	27a	33,665	22,728	21,985
		49,276	38,958	31,920
Income (loss) before financing		275,808	(69,458)	168,651
Finance income	27b	4,349	7,043	4,154
Finance expenses	27b	(160,886)	(128,414)	(148,660)
Finance expenses, net		(156,537)	(121,371)	(144,506)
Income (loss) before capital gain (loss)		119,271	(190,829)	24,145
Capital gain (loss)		41	-	(9)
Income (loss) before taxes on income		119,312	(190,829)	24,136
Taxes on income (tax benefit)	28	26,747	(41,211)	3,276
Net income (loss)		92,565	(149,618)	20,860
Attributable to:				
Equity holders of the Company		92,276	(149,533)	20,158
Non-controlling interests		289	(85)	702
		92,565	(149,618)	20,860
Net earnings (loss) per share attributable to equity holders of the Company (in NIS):	29			
Basic net earnings (loss)		0.84	(1.38)	0.19
Diluted net earnings (loss)		0.84	(1.38)	0.19

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,		
	2010	2009	2008
	NIS in thousands		
Net income (loss)	92,565	(149,618)	20,860
Other comprehensive income (loss):			
Loss from cash flow hedges, net	(172)	(9,791)	(10,116)
Revaluation after classification of property, plant and equipment to investment property	910	-	-
Adjustments resulting from translation of financial statements of foreign operations	(47,970)	69,098	(137,077)
Other comprehensive income (loss), net	(47,232)	59,307	(147,193)
Total comprehensive income (loss)	45,333	(90,311)	(126,333)
Total comprehensive income (loss) attributable to:			
Equity holders of the Company	45,002	(90,577)	(124,895)
Non-controlling interests	331	266	(1,438)
	45,333	(90,311)	(126,333)

The accompanying notes are an integral part of the 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 shareholders**	**Total equity**
	NIS In thousands								
Balance as of January 1, 2008	151,341	237,563	1,994	3,955	16,361	539,290	950,504	17,823	968,327
Total comprehensive Income (loss)	-	-	(10,116)	-	(134,937)	20,158	(124,895)	(1,438)	(126,333)
Contribution from non-controlling interests	-	-	-	-	-	-	-	328	328
Exercise of share options	927	1,994	(1,994)	-	-	-	927	-	927
Dividend paid to equity holders of the Company	-	-	-	-	-	(45,000)	(45,000)	-	(45,000)
Distribution to non-controlling shareholders	-	-	-	-	-	-	-	(14,484)	(14,484)
Balance as of December 31, 2008	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)
Contribution from non-controlling interests	-	-	-	-	-	-	-	546	546
Dividend paid to equity holders of the Company	-	-	-	-	-	(8,000)	(8,000)	-	(8,000)
Distribution to non-controlling shareholders	-	-	-	-	-	-	-	(315)	(315)
Balance as of December 31, 2009	152,268	239,557	(19,907)	3,955	(49,829)	356,915	682,959	2,726	685,685
Total comprehensive income	-	-	738	-	(48,012)	92,276	45,002	331	45,333
Share-based payment	-	-	831	-			831	-	831
Exercise of share options	3,500	17,086	-	(3,955)	-	-	16,631	-	16,631
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	(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 consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2010	2009	2008
	NIS in thousands		
Cash flows from operating activities:			
Net income (loss)	92,565	(149,618)	20,860
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Adjustments to the profit or loss items:			
Decrease (increase) in value of investment property and investment property under construction, net	(138,794)	220,108	(23,736)
Finance expenses, net	156,537	121,371	144,506
Capital loss (gain)	(41)	-	9
Depreciation and amortization	2,211	2,707	2,990
Taxes on income (tax benefit)	26,747	(41,211)	3,276
Change in employee benefit liabilities, net	(4)	(1,301)	675
Cost of share-based payment	831	-	-
	47,487	301,674	127,720
Changes in asset and liability items:			
Decrease (increase) in trade receivables	4,554	3,304	(5,988)
Decrease (increase) in other accounts receivable	(8,792)	778	24,608
Increase (decrease) in trade payable	3,133	3,480	(2,396)
Increase (decrease) in other accounts payable	473	(4,004)	(6,830)
	(632)	3,558	9,394
Cash paid and received during the year for:			
Interest paid	(116,162)	(112,250)	(96,845)
Interest received	3,498	1,040	4,248
Taxes paid	(6,706)	(2,829)	(10,174)
Taxes received	162	2,342	-
	(119,208)	(111,697)	(102,771)
Net cash provided by operating activities	20,212	43,917	55,203

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2010	2009	2008
	NIS in thousands		
Cash flows from investing activities:			
Proceeds from sale of investment property	94,260	220,630	161,095
Purchase of available-for-sale financial assets	(35,903)	-	-
Purchase of investment property	(62,500)	(67,582)	(296,800)
Purchase of property under construction	(2,631)	(164,385)	(228,128)
Purchase of property, plant and equipment	(1,981)	(831)	(1,004)
Purchase of intangible assets	(214)	(118)	(987)
Proceeds from sale of property, plant and equipment	192	3,806	282
Grant of loan to non-controlling interests, net	3,071	(1,848)	(2,243)
Net cash used in investing activities	(5,706)	(10,328)	(367,785)
Cash flows from financing activities:			
Receipt (repayment) of short-term credit from banks	(43,938)	(97,065)	20,356
Loans from related companies and the parent company, net	-	19,093	(28,000)
Receipt of long-term loans	117,968	235,197	471,433
Repayment of long-term loans	(176,460)	(225,914)	(198,318)
Grant of deposit for interest	(6,180)	-	-
Proceeds from disposal of financial derivatives	3,180	38,497	-
Repayment of convertible debentures	-	-	(4)
Dividend paid to equity holders of the Company	-	(3,075)	(45,000)
Dividend paid to non-controlling interests	(3,057)	(315)	(14,484)
Issue of shares to non-controlling interests	-	546	328
Exercise of share options	16,631	-	927
Repayment of debentures	(44,505)	(43,918)	(42,379)
Early repayment of debentures	(119)	-	-
Issue of debentures net of issue expenses	197,855	-	49,118
Net cash provided by (used in) financing activities	61,375	(76,954)	213,977
Increase (decrease) in cash and cash equivalents	75,881	(43,365)	(98,605)
Translation differences for cash balances in foreign investees	(1,217)	(2,410)	30,788
Cash and cash equivalents at beginning of year	39,640	85,415	153,232
Cash and cash equivalents at end of year	114,304	39,640	85,415

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2010	2009	2008
	NIS in thousands		
(a) Significant non-cash transactions:			
Purchase of property, plant and equipment and investment property against trade payables	7,319	27,607	7,916
Proceeds from sale of investment property against other accounts receivable	8,846	11,099	16,900
Proceeds from sale of investment property against available-for-sale financial assets	10,715	-	-

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

NOTE 1:- GENERAL

a. General:

The Group operates in the income-producing real estate market. Its principal activity consists of holding investment property, mainly for use as office premises in Israel and abroad (see also Note 3, operating segments, below). The Company is a public company whose shares are listed for trade on the Tel-Aviv Stock Exchange.

Until December 17, 2009, the Company was held by Zur Shamir Holdings Ltd. ("Zur Shamir" or "the ultimate parent company") at a rate of 61.57%. As of December 31, 2010 and December 31, 2009, the Company is held by Direct I.D.I Holdings Ltd. ("Direct Holdings" or "the parent company") at a rate of about 56.74% and 50.01%, respectively, and by Zur Shamir at a rate of 11.21%.

As for the Company's acquisition from Zur Shamir by Direct Holdings, a subsidiary of Zur Shamir, see f below. The remaining shares are held by the public. The shares held by Zur Shamir and Direct Holdings are listed for trade on the Tel-Aviv Stock Exchange.

The Company was incorporated in the State of Israel and its headquarters are located at 35 Efal St., Petach-Tikva.

b. Definitions:

In these financial statements:

The Company	-	Adgar Investments & Development Ltd.
The parent company or Direct Holdings	-	Direct I.D.I Holdings Ltd. (see f below).
The ultimate parent company or the former parent company	-	Zur Shamir Holdings Ltd.
The Group	-	the Company and its subsidiaries as detailed in the accompanying list.
Subsidiaries	-	companies over which the Company exercises control (as defined in IAS 27) and whose accounts are consolidated with those of the Company.
Jointly controlled entities	-	companies owned by various entities that have a contractual arrangement for joint control, and whose accounts are consolidated with those of the Company using the proportionate consolidation method.

NOTE 1:- GENERAL (Cont.)

Controlling shareholders and interested parties	-	as defined in the Securities Regulations (Annual Financial Statements), 2010.
Related parties	-	as defined in IAS 24.
Israeli CPI	-	the Consumer Price Index published by the Israeli Central Bureau of Statistics.

c. On May 26, 2008, the Company published a shelf prospectus on the basis of the Company's financial statements as of December 31, 2009. According to the shelf prospectus, the Company may offer to the public in the shelf prospectus the Company's securities (shares, debentures, convertible debentures, share options, bond options). After the reporting date, in January 2011, the Company issued NIS 200 million par value on the basis of the shelf prospectus, see Note 31.

d. The Company has a working capital deficiency (including assets classified as held for sale) of approximately NIS 232 million as of December 31, 2010. As an income-producing real estate company, which finances the majority of its investments through credit from financial institutions, including short-term credit, the Company often records working capital deficiency. This deficit is not expected to impair the Company's business operations since the banks usually refinance the credit granted by them for the short-term.

e. In April 2010, Midroog lowered the rating of the Company's debentures from A3 to Baa1. In December 2010, Midroog ratified the rating of Baa1 for the Company's debentures (series G) which the Company had issued after the reporting date (see Note 31) and ratified the rating of Baa1 for the outstanding debentures (series D, E and F).

On August 5, 2010, Maalot (Standard and Poor's) approved the ilBBB rating granted to the Company's debentures and modified the rating outlook to stable.

f. On September 17, 2009, Zur Shamir signed an agreement to sell 50.001% of the Company's issued and outstanding share capital to Direct Holdings.

In return for the sold shares, Direct Holdings paid the former parent company approximately NIS 302 million. The consideration was determined based on a valuation prepared for Direct Holdings and following negotiations held between the parties in view of the valuation.

According to the agreement, the former parent company undertook to cancel the management agreement that had been signed between it and the Company and repay all its debts to the Company.

On December 17, 2009, the transaction was closed and the management agreement was cancelled on March 17, 2010.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation of the financial statements:

1. Measurement basis:

The Company's financial statements have been prepared on a cost basis, except for short-term investments, investment property, investment property under construction, liability for share-based payment, derivatives and certain financial instruments that have been measured at fair value.

The Company has elected to present the statement of income comprehensive income using the function of expense method.

2. Basis of preparation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These Standards comprise:

a) International Financial Reporting Standards (IFRS).
b) International Accounting Standards (IAS).
c) Interpretations issued by the IFRIC and by the SIC.

Furthermore, the financial statements have been prepared in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

3. Consistent accounting policies:

The accounting policies adopted in the financial statements are consistent with those of all periods presented.

4. Changes in accounting policies in view of the adoption of new standards:

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 expanded such that it also includes activities and assets that are not conducted as a business as long as it is capable of being operated as a business.

- For each business combination, an acquirer can choose to measure non-controlling interests, and consequently the goodwill, either at full fair value or at the proportionate share of the fair value of the net identifiable assets of the acquiree on the acquisition date.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- 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 provisional amounts in the measurement period, are not recognized as goodwill adjustments.

- Direct acquisition costs attributed to a business combination are recognized in profit or loss as incurred and not as part of the acquisition cost.

- Subsequent recognition of a deferred tax asset for acquired temporary differences which did not meet the recognition criteria at acquisition date is recorded in profit or loss and not as an adjustment to goodwill.

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

- A transaction, whether sale or purchase, with non-controlling interests 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 and derecognized 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 has been added to the equity attributable to the equity holders of the Company.

- Cash flows from transactions with non-controlling interests are classified in the statement of cash flows as financing activities (and are no longer classified as investing activities).

The Standards have been adopted prospectively from January 1, 2010. The amendment to the Standards had no effect on the Company.

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

a) 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 are classified as held for sale and the relevant provisions of IFRS 5 are applicable.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) Another 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 are 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 Standards have been adopted prospectively from January 1, 2010. The amendment to the Standards had no effect on the Company.

IAS 7 - Statement of Cash Flows:

According to the amendment to IAS 7, only cash flows that are recognized as an asset may be classified as cash flows from investing activities. The amendment was applied retrospectively commencing from January 1, 2010.

b. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements:

1. Judgments:

In the process of applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the financial statements:

Reliable measurement of fair value of investment property under construction:

In order to review whether the fair value of investment property under construction may be reliably measured, the Group considers, inter alia, the following relevant criteria:

1. Location of the property under development in a location where the market is well-developed and liquid.
2. Price quotes from recent transactions or previous valuations of acquisition or sale of properties in similar condition and location.
3. Signing construction agreements with performing contractors.
4. Obtaining construction permits.
5. Percentage of area designated for leasing which has been leased in advance to tenants.
6. Reliable estimate of construction cost.
7. Reliable estimate of the value of the completed property.

When a review of the aforementioned elements indicates that the fair value of investment property under construction may be reliably measured, the property is presented at fair value, in line with Group policy concerning investment property. When reliable measurement is not possible, investment property under construction is measured at cost, net of impairment loss - if any.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

2. Estimates and assumptions:

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the adoption of the accounting policy and the reported amounts of assets, liabilities, income and expenses. The basis of the estimates and assumptions is reviewed regularly. The changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the reporting date and the critical estimates computed by the Group to which a material adjustment will change the carrying amounts of assets and liabilities for the next financial year are discussed below.

- Investment property and investment property under construction:

  Investment property and investment property under construction are presented at fair value at reporting date. Changes in fair value are recognized on the statement of income. Fair value is determined by independent valuation specialists based on economic valuations that involve valuation techniques and assumptions as to estimates of expected future cash flows from the property and estimate of the suitable discount rate for these cash flows. Fair value is sometimes measured with reference to recent real estate transactions with similar characteristics and location to the valued asset. For further information, see Notes 13 and 14 and (i) below.

- Legal claims:

  In estimating the chances of the legal claims filed against the Company and its investees, the companies relied on the opinion of their legal counsel. The estimates are based on their best professional judgment, taking into account the stage of proceedings and historical legal experience in the different issues. Since the outcome of the claims will be determined in courts, the actual results could differ from these estimates. For further information, see Note 24d.

- Deferred tax assets:

  Deferred tax assets are recognized for unused carryforward tax losses and temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with tax planning strategies. Further details are given in Note 28.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- Determining the fair value of unquoted financial instruments:

  The fair value of unquoted financial instruments is determined based on valuation methods, partly based on valuating the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics in the market.

- Impairment of financial investments:

  If there is objective evidence of an impairment loss in respect of loans and receivables at amortized cost or that the value of available-for-sale financial assets was impaired and there is a respective impairment, the loss is carried to the statement of income, see m below. In each reporting date, the Group examines whether there is an objective evidence as above.

- Determining the fair value of share-based payment transactions:

  The fair value of share-based payment transactions is determined using an option-pricing model. The model's assumptions consist of the share price, exercise price, expected volatility, expected life, expected dividend and risk-free interest rate.

c. Consolidated financial statements:

The consolidated financial statements include the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. When reviewing control, the impact of potential voting rights exercisable as of the reporting date is accounted for. The consolidation of the financial statements commences on the date on which control is obtained until the date that such control ceases.

Significant intra-group balances and transactions and gains or losses resulting from intra-group transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests with respect to subsidiaries represent the non-controlling shareholders' proportionate interest in the comprehensive income (loss) of the subsidiaries and fair value of the net assets upon the acquisition of the subsidiaries. These are presented separately under the Company's equity.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Commencing from January 1, 2010, the acquisition of non-controlling interests by the Group is recorded as an increase in equity and calculated as the difference between the consideration paid by the Group and the proportionate amount of non-controlling interests acquired and derecognized at the date of acquisition (when non-controlling interests also include a share of other comprehensive income, the Company reattributes the cumulative amounts recognized in other comprehensive income between the equity holders of the Company and the non-controlling interests). When this difference is negative, a decrease in equity is recognized for the amount of this difference.

Until December 31, 2009, goodwill and gain/loss was recognized in transactions with controlling shareholders' as the case may be.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The accounting policy in the financial statements of the subsidiaries was applied consistently and uniformly with the policy applied in the financial statements of the Company.

d. Functional currency and foreign currency:

1. Functional currency and presentation currency:

The presentation currency of the financial statements is NIS.

The functional currency which is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is separately determined for each Group entity. The functional currency of the Company is the NIS.

When a Group entity's functional currency differs from the Company's functional currency, that entity represents a foreign operation whose financial statements are translated so that they can be included in the consolidated financial statements as follows:

a) Assets and liabilities for each reporting date are translated at the closing rate at that reporting date.

b) Income and expenses for each period presented in the statement of income (including comparative data) are translated at average exchange rates for the presented periods; however, if exchange rates fluctuate significantly, income and expenses are translated at the exchange rates at the date of the transactions.

c) Share capital, capital reserves and other changes in capital are translated at the exchange rate prevailing at the date of incurrence.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d) Retained earnings are translated based on the opening balance translated at the exchange rate at that date and other relevant transactions (such as dividend) during the period are translated as described in b) and c) above.

e) All resulting translation differences are recognized as a separate component of other comprehensive income (loss) in equity "foreign currency translation adjustments of foreign operations".

Commencing from January 1, 2010, upon the partial disposal of a foreign operation that is a subsidiary which disposal results in the retention of control in the subsidiary, the relative portion of the cumulative amount recognized in other comprehensive income is reattributed to non-controlling interests. Also as of January 1, 2010, upon the loss of control of a former subsidiary which is a foreign operation, the Group classifies the entire amount recognized in other comprehensive income to the statement of income and attributes it to the equity holders of the Company.

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in that foreign operation and are accounted for as part of the investment and the exchange differences arising on these loans (net of their tax effect) are recognized in the same component of equity as discussed in e) above.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded on initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences, other than those capitalized to qualifying assets or carried to equity in hedging transactions, are recognized in profit or loss. Non-monetary assets and liabilities measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

3. CPI-linked monetary items:

Monetary assets and liabilities linked to the changes in the Israeli Consumer Price Index ("Israeli CPI") are adjusted at the relevant index at the end of each reporting period according to the terms of the agreement. Linkage differences arising from the adjustment, as above, other than those capitalized to qualifying assets or carried to equity in hedge transactions, are recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

4. Below are data of exchange rates and changes in the Israeli CPI:

	Representative exchange rate of			
	U.S. dollar	Canadian dollar	Euro	Israeli CPI for December
		N I S		Points *)
As of				
December 31, 2010	3.549	3.555	4.738	211.7
December 31, 2009	3.775	3.603	5.442	206.2
December 31, 2008	3.802	3.113	5.297	198.4
Change in rates in the year ended		%		
December 31, 2010	(6.0)	(1.3)	(12.9)	2.7
December 31, 2009	(0.7)	15.7	2.7	3.9
December 31, 2008	(1.1)	(20.6)	(6.4)	3.8

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

e. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

f. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the company management, is doubtful. Impaired debts are derecognized when they are assessed as uncollectible.

g. Financial instruments:

Financial assets:

Financial assets within the scope of IAS 39 are recognized initially at fair value with the addition of directly attributable transaction costs, other than investments presented at fair value with changes in fair value through profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following groups:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Available-for-sale financial assets

1. Financial assets at fair value through profit or loss:

   Financial assets at fair value through profit or loss include financial assets for trading and financial assets designated upon initial recognition as at fair value through profit and loss.

   Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term, if they form part of a portfolio of identified financial instruments that are managed together to short-term profit-taking or if they are a derivative not held for hedging purposes. Gains or losses on investments held for trading are recognized in profit or loss.

2. Loans and receivables:

   The Group has loans and receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortized cost using the effective interest method taking into account directly attributable transaction costs. Short-term receivables (such as trade and other receivables) are measured based on their terms, normally at face value. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the systematic amortization process. As for recognition of interest income, see r.

3. Available-for-sale financial assets:

   Available-for-sale financial assets that are financial assets (non-derivative) that are designated as available-for-sale or are not classified in any of the above two preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except for exchange differences that relate to monetary debt instruments that are recognized as finance income or expense in profit or loss, are recognized directly in equity as other comprehensive income (loss) in the reserve for available-for-sale financial assets. When the investment is disposed of or in case of impairment, the other comprehensive income (loss) is recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

4. Fair value:

   The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to market prices at the end of the reporting period. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow or other valuation models.

5. Offsetting financial instruments:

   Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial liabilities:

1. Financial liabilities measured at amortized cost:

   Loans and borrowings are initially recognized at fair value less directly attributable transaction costs (such as loan raising costs). After initial recognition, loans, including debentures, are measured based on their terms at amortized cost using the effective interest method taking into account directly attributable transaction costs. Short-term borrowings (such as trade and other payables) are measured based on their terms, normally at face value. Gains and losses are recognized in profit or loss when the financial liability is derecognized as well as through the systematic amortization process.

2. Financial liabilities at fair value through profit or loss:

   Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

   Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on liabilities held for trading are recognized in profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Financial guarantee contracts:

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of the agreement.

Financial guarantee contracts are initially recognized at fair value, taking into account transaction costs that are directly attributable to the issuance of the guarantee. After initial recognition, the liability is measured at the higher of the amount initially recognized (less, if appropriate, cumulative amortization over the period of the guarantee) and the estimate of any obligation to be recorded at the end of the reporting period as determined in accordance with IAS 37.

Derecognition of financial instruments:

Financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the Company transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset nor transfers control of the asset, a new asset is recognized to the extent of the Company's continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay.

Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged,cancelled or expires. A financial liability is extinguished when the debtor (the Group):

- discharges the liability by paying in cash, other financial assets, goods or services; or
- is legally released from the liability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Where an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amount of the above liabilities is recognized in profit or loss. If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange.

h. Derivative financial instruments designated as hedges:

The Group occasionally enters into contracts for derivative financial instruments such as forward currency contracts and interest rate swaps to hedge risks associated with foreign exchange rates and interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value.

Any gains or losses arising from changes in the fair values of derivatives that do not qualify for hedge accounting are recorded immediately in profit or loss.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

Cash flow hedges:

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity as other comprehensive income (loss), while any ineffective portion is recognized immediately in profit or loss.

Amounts recognized as other comprehensive income (loss) are reclassified to profit or loss when the hedged transaction affects profit or loss.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are reclassified to profit or loss. If the hedging instrument expires or is sold, terminated or exercised, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Hedges of a net investment in foreign operation:

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge (exchange differences) are recognized in other comprehensive income (loss) while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative amount of any such gains or losses recognized directly in equity is reclassified to profit or loss.

i. Investment property and investment property under construction:

An investment property is property (land or a building or both) held by the owner (lessor under an operating lease) or by the lessee under a finance lease to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services, for administrative purposes or for sale in the ordinary course of business.

Investment property is measured initially at cost, including costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment property are included in profit or loss when they arise. Investment property is not systematically depreciated

The fair value model is also applied to property under construction for future use as investment property when fair value can be reliably measured. However, when the fair value of the investment property is not reliably determinable, the property is measured at cost less, if appropriate, any impairment losses, until the earlier of the date when fair value becomes reliably determinable or construction is completed.

A transfer of a property from property, plant and equipment to investment property is made when there is a change in use, evidenced by end of owner occupation. Transfer of a property from investment property to property, plant and equipment is made when there is a change in use, evidenced by the commencement of owner occupation.

The difference between the fair value and the cost of a property transferred from inventories to investment property is treated as a revaluation according to IAS 16 and is recognized in a revaluation reserve.

Investment property is derecognized on disposal or when the investment property ceases to be used and no future economic benefits are expected from its disposal.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Group determines the fair value of investment property on the basis of valuations by independent valuers who hold recognized and relevant professional qualifications (except for several immaterial properties which have been determined based on valuations performed by the Company).

The fair value of investment property as of December 31, 2010 and 2009 was mainly based on appraisals performed for those dates by foreign and local appraisers as follows: CB Richard Ellis, CVBA Stadim SCRL, Cushman & Wakefield and Eng. Joseph Zarnitzky.

j. Property, plant and equipment:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%	Mainly %
Buildings	2	2
Motor vehicles	15	15
Office furniture and equipment	6 - 15	5
Computers and software	25 - 33	33
Leasehold improvements	10	10

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including the extension option held by the Group and intended to be exercised) and the expected life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. As for testing the impairment of property, plant and equipment, see n below.

k. Borrowing costs in respect of qualifying assets:

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, comprising of tangible and intangible non-financial assets, and inventories that require a substantial period of time to bring them to a saleable condition.

The capitalization of borrowing costs commences when expenditures for the asset are being incurred, borrowing costs are being incurred and the activities to prepare the asset are in progress and ceases when substantially all the activities to prepare the qualifying asset for its intended use or sale are complete. The amount of borrowing costs capitalized in the reported period includes specific borrowing costs and general borrowing costs based on a weighted capitalization rate.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Following the first time adoption of IAS 40 (Revised), according to which investment property under construction or under development is accounted for as investment property, the Company ceased capitalizing borrowing costs in respect of investment property under construction and under development since it is the Company's policy to present investment property at fair value. However, the Company chose to present the borrowing costs that are attributable to said assets as if they had been capitalized to the qualifying asset prior to measuring it at fair value.

l. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are included at fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses.

According to management's assessment, intangible assets have a finite useful life. The assets are amortized over their useful life using the straight-line method and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively as changes in accounting estimates.

1. Software:

   The Company's assets include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it, is classified as property, plant and equipment. In contrast, software that adds functionality to the hardware is classified as an intangible asset.

2. Amortization:

   Amortization is carried to the statement of income on a straight-line basis over the estimated useful life of the intangible assets, except for goodwill, from the date in which the assets are available for use.

   The estimated useful life for the current period and for comparative periods is as follows:

   Software - amortized on a straight-line basis over 3-6 years.

   The estimates of the amortization method and useful life are reviewed at least at the end of each reporting year.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Impairment of non-financial assets:

The Group evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount.

n. Non-current assets and/or assets held for sale and discontinued operations:

Non-currents assets or a disposal group are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the assets must be available for immediate sale in their present condition, the Company must be committed to sell, there must be an active program to locate a buyer and it is highly probable that a sale will be completed within one year from the date of classification. These assets are not depreciated and are presented separately as current assets in the statement of financial position, at the lower of their carrying amount and fair value less costs to sell. If the carrying amount is higher than the fair value less costs to sell, an impairment loss is recognized for the assets (or disposal group) to the extent of the difference. Liabilities associated with these assets are presented separately in the statement of financial position in a similar manner. Also, only related other comprehensive income (loss) is presented separately in the statement of changes in equity.

Investment property measured using the fair value model (see i above) and classified as a non-current asset held for sale, as above, continues to be measured using this model but is presented separately in the statement of financial position under assets held for sale.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

o. Taxes on income:

Taxes on income in the statement of income comprise current and deferred taxes. Current or deferred taxes are recognized in the statement of income except to the extent that the tax arises from items which are recognized directly in equity.

1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes. Deferred taxes related to items attributed to equity are also recognized directly into equity.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the taxes are reversed in profit or loss or equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized in equity.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Also, temporary differences (such as carryforward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability has become probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability.

All deferred tax assets and deferred tax liabilities are presented in the statement of financial position as non-current assets and non-current liabilities, respectively. Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Share-based payment transactions:

The Group's employees are entitled to remuneration in the form of equity-settled share-based payment transactions and certain employees are entitled to cash-settled payment transactions based on the increase in the Group companies' share price.

Equity-settled transactions:

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using a standard option pricing model, additional details are given in Note 26. In estimating fair value, the vesting conditions (consisting of service conditions and performance conditions other than market conditions) are not taken into account. As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments.

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period which the performance and/or service conditions are to be satisfied, ending on the date on which the relevant employees become entitled to the award. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

q. Employee benefit liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

   Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits:

   The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Group has defined contribution plans pursuant to Section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed simultaneously with receiving the employee's services and no additional provision is required in the financial statements.

The Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employee-employer relation is measured using the projected unit credit method.

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits presented in the statement of financial position presents the present value of the defined benefit obligation less the fair value of the plan assets, less past service costs and any unrecognized actuarial gains and losses.

Actuarial gains and losses are recognized in profit or loss in the period in which they occur.

r. Revenue recognition:

1. Revenues from rental of properties:

   Rental income is recognized on a straight-line basis over the lease term. Rental income with fixed increases in rental fees over the term of the contract is recognized as revenues on a straight-line basis as an integral part of total rental income over the lease period but only when there is certainty as to the collection of the future rent increases.

2. Revenues from sale of investment property:

   Revenues from the sale of investment property are recognized when the principal risks and rewards of ownership have been passed to the buyer. Revenues are not recognized when there are significant uncertainties regarding the collection of the consideration or the related costs or if there is continuing managerial involvement of the Company with respect to the investment properties delivered.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

3. Net investment gains (losses) and finance income:

Gains (losses) from net investments and finance income include interest income in respect of invested amounts, revenues from dividends, changes in the fair value of financial assets at fair value through profit or loss, gains (losses) from exchange rate differences and gains (losses) from sale of investments and are calculated as the difference between the net proceeds from the sale and the original cost or the amortized cost and recognized upon the sale event. Interest income is recognized on a cumulative basis using the effective interest method. Revenues from dividends are recognized when the Company establishes the right to receive payment.

4. Reporting revenues either using gross basis or net basis:

In cases where the Group operates as a broker or agent without retaining the risks and rewards associated with the transaction, its revenues are presented on a net basis. However, in cases where the Group operates as a main supplier and retains the risks and rewards associated with the transaction, its revenues are presented on a gross basis.

s. Earnings (loss) per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period. Basic earnings per share only include shares that were actually outstanding during the period. Potential Ordinary shares are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share from continuing operations. Further, potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company.

t. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Following are the types of provisions included in the financial statements:

Legal claims

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

u. Presentation of statement of comprehensive income:

The Company has elected to present comprehensive income using two statements: a statement of income and a statement of comprehensive income in which all the items recognized in other comprehensive income are presented, excluding net income which is brought forward from the statement of income.

v. Operating segments:

An operating segment is a component of the Group that meets the following three criteria:

1. is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to intragroup transactions;

2. whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and

3. for which separate financial information is available.

w. The operating cycle:

The operating cycle of the Group is one year.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Disclosure of new IFRSs in the period prior to their adoption:

IFRS 7 - Financial Instruments: Disclosure:

The amendments to IFRS 7 deal with the following issues:

1. Clarification of the Standard's disclosure requirements. In this context, emphasis is placed on the interaction between the quantitative disclosures and the qualitative disclosures about the nature and extent of risks arising from financial instruments. The Standard also reduces the disclosure requirements for collateral held by the Company and revises the disclosure requirements for credit risk. The amendment should be applied retrospectively commencing from the financial statements for periods beginning on January 1, 2011. Earlier application is permitted.

2. New disclosure requirements about transferred financial assets including disclosures regarding unusual transfer activity near the end of a reporting period. The objective of the amendment is to assist users of financial statements to assess the risks to which the Company may remain exposed from transfers of financial assets and the effect of these risks on the Company's financial position. The amendment is designed to enhance the reporting transparency of transactions involving asset transfers, specifically securitization of financial assets. The amendment should be applied prospectively commencing from the financial statements for periods beginning on January 1, 2012. Earlier application is permitted.

The relevant disclosures will be included in the Company's financial statements.

IFRS 9 - Financial Instruments:

In November 2009, the IASB issued IFRS 9, "Financial Instruments", the first part of Phase 1 of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

According to IFRS 9, all financial assets (including hybrid contracts with financial asset hosts) should be measured at fair value upon initial recognition. In subsequent periods, debt instruments should be measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Notwithstanding the aforesaid, upon initial recognition, the Company may designate a debt instrument that meets both of the abovementioned conditions as measured at fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen.

Subsequent measurement of all other debt instruments and financial assets should be at fair value.

The Standard is effective commencing from January 1, 2013. Earlier application is permitted. Upon initial application, the Standard should be applied retrospectively, except as specified in the Standard.

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

IAS 12 - Income Taxes:

The amendment to IAS 12 applies to investment property measured at fair value. According to the amendment, the deferred tax asset/liability in respect of such property should be measured based on the presumption that the carrying amount of the property will be recovered in full through sale (and not through use). However, if the investment property is depreciable and is held within a business model with the objective of recovering substantially all of the underlying economic benefits through use and not sale, the sale presumption is rebutted and the Company should apply the regular guidelines of IAS 12 (namely, deferred taxes are measured based on the expected recovery of the property as determined by management - through sale or use).

The amendment supersedes the provisions of SIC 21 that require separation of the land component and the building component of investment property measured at fair value in order to calculate the deferred tax.

The amendment should be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2012. Earlier application is permitted.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

IAS 24 - Related Party Disclosures:

The amendment to IAS 24 clarifies the definition of a related party in order to simplify the identification of such relationships and to eliminate inconsistencies in its application. In addition, Government-related companies are provided a partial exemption of disclosure requirements for transactions with the Government and other Government-related companies. The amendment should be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2011. Earlier application is permitted.

The relevant disclosures will be included in the Company's financial statements.

IAS 32 - Financial Instruments: Presentation - Classification of Rights Issues:

The amendment to IAS 32 provides that rights, options or warrants to acquire a fixed number of the Company's equity instruments for a fixed amount of any currency are classified as equity instruments if the Company offers the rights, options or warrants pro rata to all of its existing owners of the same class of its non-derivative equity instruments.

The amendment should be applied retrospectively commencing from the financial statements for annual periods beginning on January 1, 2011. Earlier application is permitted.

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

NOTE 3:- OPERATING SEGMENTS

a. General:

1. The Group operates in the real estate market. The Group has no other area of activity. Its main activity is holding income-producing properties, mainly for use as office premises in Israel and abroad. 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 the Company's management examines its activities based on these segments.

3. The segment assets include all the operational assets which are used by the segment and are mainly composed of investment property and investment property under construction, cash and cash equivalents, trade receivables and other accounts receivable. The liabilities of the segment include all the operational liabilities that result from operational transactions of the segment and are mainly composed of liabilities to banks and others and other accounts payable. The assets and liabilities of the segment do not include income tax assets and liabilities.

NOTE 3:- OPERATING SEGMENTS (Cont.)

b. Operating segment information:

Operating results:

	Year ended December 31, 2010				
	Israel	Belgium	Poland	Canada	Total
	NIS in thousands				
Revenues:					
Revenues from rental of properties	47,564	10,024	28,208	100,494	186,290
Decrease in value of investment property and provision for impairment of 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
Finance income					4,349
Finance expenses					(160,886)
					(156,537)
Income before capital gain					119,271
Capital gain					41
Income before taxes on income					119,312
Taxes on income					26,747
Net income					92,565
Depreciation and amortization	1,388	47	226	550	2,211
Capital investments	4,274	4,408	37,079	21,351	67,112

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2009				
	Israel	Belgium	Poland	Canada	Total
	NIS in thousands				
Revenues:					
Revenues from rental of properties	57,271	12,084	21,673	98,580	189,608
Decrease in value of investment property and provision for impairment of 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)
Finance income					7,043
Finance expenses					(128,414)
					(121,371)
Loss before taxes on income					(190,829)
Tax benefit					(41,211)
Loss					(149,618)
Depreciation and amortization	2,120	50	32	505	2,707
Capital investments	4,247	6,238	184,764	37,667	232,916

NOTE 3:- OPERATING SEGMENTS (Cont.)

	Year ended December 31, 2008				
	Israel	Belgium	Poland	Canada	Total
	NIS in thousands				
Revenues:					
Revenues from rental of properties	65,230	11,372	15,258	84,975	176,835
Increase (decrease) in value of investment property and provision for impairment of investment property under construction, net	57,528	(2,084)	3,012	(34,720)	23,736
Total revenues	122,758	9,288	18,270	50,255	200,571
Segment results	106,733	4,847	16,013	41,058	168,651
Finance income					4,154
Finance expenses					(148,660)
					(144,506)
Income before other expenses					24,145
Capital loss					(9)
Income before taxes on income					24,136
Taxes on income					3,276
Net income					20,860
Depreciation and amortization	2,392	52	52	494	2,990
Capital investments	16,092	44,711	197,758	268,358	526,919

Assets used by the segments:

	December 31,	
	2010	2009
	NIS in thousands	
Israel	911,785	894,638
Belgium	240,678	280,359
Poland	602,255	618,463
Canada	1,493,400	1,368,973
Unallocated assets	18,051	23,033
	3,266,169	3,185,466

NOTE 3:- OPERATING SEGMENTS (Cont.)

Liabilities used by the segments:

	December 31, 2010	December 31, 2009
	NIS in thousands	
Israel	1,217,311	1,168,167
Belgium	130,891	172,454
Poland	335,905	373,213
Canada	759,120	722,797
Unallocated liabilities	77,519	63,150
	2,520,746	2,499,781

NOTE 4:- CASH AND CASH EQUIVALENTS

	Effective interest 31.12.10	December 31, 2010	December 31, 2009
	%	NIS in thousands	
Cash on hand and in bank in NIS	-	5,063	1,763
Cash on hand and in bank in foreign currency	-	59	39
Short-term deposits in NIS	1.5 - 1.9	21,070	13,024
Short-term deposits in foreign currency *)	0.2 - 1.6	88,112	24,814
		114,304	39,640

*) The composition of short-term deposits in foreign currency:

	2010	2009
Canadian dollar	74,332	16,816
Euro	13,780	7,998
	88,112	24,814

NOTE 5:- SHORT-TERM INVESTMENTS

Financial instruments classified as held for sale through profit or loss:

	December 31,	
	2010	2009
	NIS in thousands	
Shares *)	13,430	-
Debentures and Government loans	33,884	-
	47,314	-

*) A restriction on sale was imposed on shares with value of NIS 11,329 thousand pursuant to the provisions of section 15c to the Securities Law, and the Securities Regulations (in May 2011 the restriction on shares with value of NIS 5,972 thousand will be removed and in August 2011 on the remaining shares).

NOTE 6:- TRADE RECEIVABLES

a. Composed as follows:

	December 31,	
	2010	2009
	NIS in thousands	
In respect of real estate trade receivables	17,527	23,470
Less - allowance for doubtful accounts (see b below)	(2,355)	(3,117)
	15,172	20,353

The trade receivables are non-interest bearing. As for linkage terms, see Note 23d. The average customer credit term is about 45 days.

NOTE 6:- TRADE RECEIVABLES (Cont.)

b. The movement in the allowance for doubtful accounts is as follows:

	NIS in thousands
Balance at January 1, 2009	2,836
Charge for the year	1,044
Derecognition of bad debts	(900)
Reversal of collected doubtful accounts	(144)
Adjustments resulting from translation of financial statements of foreign operations	281
Balance at December 31, 2009	3,117
Charge for the year	1,037
Derecognition of bad debts	(1,283)
Reversal of collected doubtful accounts	(387)
Adjustments resulting from translation of financial statements of foreign operations	(129)
Balance at December 31, 2010	2,355

c. An analysis of past due but not impaired trade receivables (allowance for doubtful accounts), trade receivables, net, with reference to reporting date:

	Neither past due nor aging	Past due trade receivables with aging of				
		< 30 days	30 – 60 days	60 – 90 days	Over 90 days	Total
	NIS in thousands					
December 31, 2010	3,377	2,398	1,073	1,173	7,151	15,172
December 31, 2009	9,292	6,892	425	303	3,441	20,353

NOTE 7:- DEPOSIT

	December 31, 2010	December 31, 2009
	NIS in thousands	
Trust deposit	40,463	24,953

The deposit was placed in a trust account in respect of transactions for the sale of investment property and semi-annual interest on debentures (series F) which has been deposited in a trust account pursuant to the terms of the issuance. As for linkage terms, see Note 23d.

NOTE 8:- OTHER ACCOUNTS RECEIVABLE

	December 31, 2010	December 31, 2009
	NIS in thousands	
Prepaid expenses	1,953	3,901
Related companies	1,443	355
Government authorities	*) 70,991	73,774
Other receivables	1,704	1,332
	76,091	79,362

*) Mainly in respect of the VAT authorities in Poland. After the reporting date, the Company received a refund of NIS 68.8 million from the VAT authorities in Poland.

NOTE 9:- FINANCIAL DERIVATIVES

The following is information about linkage basis swaps, interest rate swaps and options to fix interest:

Composition:

Type of transaction	Linkage basis	Par value NIS in thousands 31.12.10	Par value NIS in thousands 31.12.09	Average life (years)	Fair value NIS in thousands 31.12.10	Fair value NIS in thousands 31.12.09
Linkage basis swaps:						
	Index (1)	-	100,000		-	3,110
Interest rate swaps:						
	C$ (2)	-	10,974	-	-	(91)
	Euro (3)	86,862	107,745	2.00	(7,682)	(9,285)
	Euro (3)	112,762	130,600	1.20	(6,941)	(8,088)
	Euro (3)	89,072	102,304	1.90	(8,341)	(8,699)
	Euro (3)	92,604		2.00	296	
Total. net		381,300	351,623		(22,668)	(26,163)
		381,300	451,623		(22,668)	(23,053)

(1) The Group has transactions to swap the linkage basis on the Israeli CPI. The fair value of the transactions is based on discounted cash flows. The Group did not account for this transaction as hedge.

(2) The Group has a transaction to fix the interest on the Canadian dollar. The fair value of the transaction is based on discounted cash flows. The Group did not account for this transaction as hedge.

(3) Subsidiaries have transactions to fix the interest on the Euro. The fair value of the transactions is based on discounted cash flows. The subsidiary accounted for this transaction as hedge.

NOTE 9:- FINANCIAL DERIVATIVES (Cont.)

The following is composition of the financial derivatives as presented in the Company's balance sheets:

	December 31, 2010	December 31, 2009
	NIS in thousands	
In current assets	-	3,110
In non-current assets	985	-
In current liabilities	(9,827)	(12,173)
In non-current liabilities	(13,826)	(13,990)
	(22,668)	(23,053)

NOTE 10:- LOANS

	Effective annual interest	December 31, 2010	December 31, 2009
	%	NIS in thousands	
Presented as non-current assets:			
Linked to the Canadian dollar	8	7,292	9,761

The loans were granted to partners in subsidiaries and are partly secured by a pledge on the subsidiaries' shares which are held by the non-controlling shareholders and partly by a pledge on the non-controlling interest in the a plot of land.

NOTE 11:- ASSETS CLASSIFIED AS HELD FOR SALE

In 2009, a subsidiary decided to dispose of an office building of AD-AM. As of December 31, 2009, the building was classified in the balance sheet in the group of assets held for sale. The office building was sold in April 2010, see Note 13c(1) below.

NOTE 12:- PROPERTY, PLANT AND EQUIPMENT, NET

Composition and movement:

2010:

	Company's offices	Motor vehicles	Office furniture, equipment and computers	Total
	NIS in thousands			
Cost:				
Balance at January 1, 2010	10,079	1,577	13,729	25,385
Adjustments resulting from translation of financial statements of foreign operations	(609)	-	(122)	(731)
Transfer from investment property	2,997	-	-	2,997
Transfer to investment property	(2,026)	-	-	(2,026)
Additions during the year	846	878	257	1,981
Disposals during the year	-	(455)	-	(455)
Balance at December 31, 2010	11,287	2,000	13,864	27,151
Accumulated depreciation:				
Balance at January 1, 2010	769	597	9,899	11,265
Adjustments resulting from translation of financial statements of foreign operations	(25)	-	(37)	(62)
Additions during the year	563	255	910	1,728
Disposals during the year	-	(304)	-	(304)
Balance at December 31, 2010	1,307	548	10,772	12,627
Depreciated cost at December 31, 2010	9,980	1,452	3,092	14,524

NOTE 12:- PROPERTY, PLANT AND EQUIPMENT (Cont.)

2009:

	Company's offices	Motor vehicles	Office furniture, equipment and computers	Total
	NIS in thousands			
Cost:				
Balance at January 1, 2009	11,878	1,577	16,100	29,555
Adjustments resulting from translation of financial statements of foreign operations	496	-	201	697
Additions during the year	663	-	168	831
Disposals during the year	(2,958)	-	(2,740)	(5,698)
Balance at December 31, 2009	10,079	1,577	13,729	25,385
Accumulated depreciation:				
Balance at January 1, 2009	633	359	9,857	10,849
Adjustments resulting from translation of financial statements of foreign operations	55	-	119	174
Additions during the year	311	238	1,585	2,134
Disposals during the year	(230)	-	(1,662)	(1,892)
Balance at December 31, 2009	769	597	9,899	11,265
Depreciated cost at December 31, 2009	9,310	980	3,830	14,120

NOTE 13:- INVESTMENT PROPERTY

a. Composition and movement:

	2010	2009
	NIS in thousands	
Balance at January 1,	2,762,910	2,771,920
Additions during the year:		
Purchases	55,181	70,763
Adjustments resulting from translation of financial statements of foreign operations	(123,042)	196,909
Transfer from property, plant and equipment to investment property	2,026	-
Capital reserve for classification of property, plant and equipment to investment property	910	-
Classification from investment property under construction	74,962	111,663
Fair value adjustment	140,469	(103,358)
Total additions	150,506	275,977
Disposals during the year:		
Disposals	(57,320)	(230,043)
Transfer to assets held for sale	-	(54,944)
Transfer to property, plant and equipment	(2,997)	-
Total disposals	(60,317)	(284,987)
Balance at December 31,	2,853,099	2,762,910

b. Investment property is stated at fair value, which has been determined based on valuations principally performed by independent outside appraisers with reputable professional expertise and vast experience as to the location and type of the valued property (except for several immaterial properties which have been determined based on valuations performed by the Company). The fair value was measured with reference to recent real estate transactions with similar characteristics and location to the property owned by the Company and based on the expected future cash flows from the property. The assessment takes into consideration the structured risk of the cash flows. In computing the fair value, the appraisers used capitalization rates of 6.5% to 8.25%. The capitalization rates mainly depend on the asset's type and location.

Investment property is mainly comprised of office buildings leased to third parties and of land held for the construction of rental properties to be used to earn rentals.

NOTE 13:- INVESTMENT PROPERTY (Cont.)

c. Agreements for the sale of investment properties:

1. In April 2010, the Company's subsidiary, 92.5% owned, sold an office building in Montreal, Canada for the net consideration of approximately NIS 58.7 million. As a result of the sale, the Company repaid a loan of NIS 38.3 million.

   As a result of the sale, the Company booked a loss of approximately NIS 1,220 thousand.

2. On October 31, 2010, the Company sold to Reit 1 Ltd. the office building at Hanechoshet St, Ramat Hachayal, Tel-Aviv for the total consideration of approximately NIS 54 million. Part of the consideration, approximately NIS 44.3 million, was paid in cash and the remaining amount by a private placement of 1,500,000 Ordinary shares of Reit 1 Ltd. The determination of the economic value of the shares allocated in the above transaction takes into account that these securities are restricted for trade by virtue of the Securities Law.

   As a result of the sale, the Company booked a gain of approximately NIS 275 thousand.

d. Composition of fair value of investment property:

	December 31,	
	2010	2009
	NIS in thousands	
Freehold	2,279,879	2,117,188
Perpetual leasehold	573,220	645,722
Total in the consolidated balance sheet	2,853,099	2,762,910

e. As for charges, see Note 24a.

NOTE 14:- INVESTMENT PROPERTY UNDER CONSTRUCTION

a. Composition and movement:

	NIS in thousands
Balance at January 1, 2009	243,382
Additions	133,597
Adjustments resulting from translation of financial statements of foreign operations	4,042
Reclassification to investment property	(111,663)
Write down of investment property under construction	(116,750)
Balance at December 31, 2009	152,608
Additions	2,631
Adjustments resulting from translation of financial statements of foreign operations	(131)
Reclassification to investment property	(74,962)
Write down of investment property under construction	(1,675)
Balance at December 31, 2010	78,471

Investment property under construction consists of investment property projects which are classified as investment properties once construction is completed.

b. Composition of fair value of investment property under construction:

	December 31,	
	2010	2009
	NIS in thousands	
Freehold	78,471	152,608
Including capitalized borrowing costs	8,896	13,752

c. As for charges, see Note 24a.

NOTE 15:- INTANGIBLE ASSETS, NET

Computer software:

	NIS in thousands
Cost:	
Balance at December 31, 2009	2,819
Additions	214
Balance at December 31, 2010	3,033
Accumulated amortization:	
Balance at December 31, 2009	2,147
Amortization	483
Balance at December 31, 2010	2,630
Amortized cost at December 31, 2010	403
Amortized cost at December 31, 2009	672

NOTE 16:- INVESTMENTS IN SUBSIDIARIES

a. Additional information of subsidiaries held directly by the Company:

	Country of incorporation	Company's equity and voting rights	Loans	Total investment in investee	Total
		%	NIS in thousands		
2010					
Adgar International Holdings Ltd.	Israel	100%	*) 390,424	237,962	628,386
Adgar Trust Canada	Canada	100%	-	275,051	275,051
A.B.C. (Yad Eliyahu) Management and Maintenance Ltd.	Israel	100%	-	442	442
A.B.C. (Yad Eliyahu) Management of Parking Lots Ltd.	Israel	100%	831	(502)	329
			391,255	512,953	904,208

*) The balance is linked to the Canadian dollar and bears annual interest of 5.5%.

NOTE 16:- INVESTMENTS IN INVESTEES - SUBSIDIARIES (Cont.)

	Country of incorporation	Company's equity and voting rights	Loans	Total investment in investee	Total
		%	NIS in thousands		
2009					
Adgar International Holdings Ltd.	Israel	100%	*) 411,175	255,989	667,164
Adgar Trust Canada	Canada	100%	-	166,237	166,237
A.B.C. (Yad Eliyahu) Management and Maintenance Ltd.	Israel	100%	-	232	232
A.B.C. (Yad Eliyahu) Management of Parking Lots Ltd.	Israel	100%	863	(161)	702
			412,038	422,297	834,335

*) The balance is linked to the Canadian dollar and bears annual interest of 5.5%.

NOTE 17:- CREDIT FROM BANKS AND CURRENT MATURITIES OF LONG-TERM LOANS

a. Composition:

	Weighted interest rate 31.12.10	December 31, 2010				December 31, 2009			
		In or linked to foreign currency	Linked to the Israeli CPI	Unlinked	Total	In or linked to foreign currency	Linked to the Israeli CPI	Unlinked	Total
	%	NIS in thousands							
Short-term credit from banks	3.3-4	103,011	-	13,902	116,913	125,505	-	40,914	166,419
Current maturities of long-term loans		151,474	28,744	34,457	214,675	230,795	381,716	56,333	668,844
		254,485	28,744	48,359	331,588	356,300	381,716	97,247	835,263

b. As for charges, see Note 24a and b.

NOTE 18:- TRADE PAYABLES

	December 31, 2010	December 31, 2009
	NIS in thousands	
Open debts	11,942	24,672

The trade payables are non-interest bearing. The average of supplier credit terms is current + 30 days.

NOTE 19:- OTHER ACCOUNTS PAYABLE

	December 31, 2010	December 31, 2009
	NIS in thousands	
Prepaid rental income and maintenance fees	5,657	3,335
Provision for grants to officers and employees (Note 30e)	5,528	1,000
Employees and payroll accruals	694	361
Value Added Tax	3,236	3,356
Government authorities	-	2,689
Accrued expenses	15,845	14,644
Rent liability (Note 24b(6))	635	650
Tenants' deposits	9,252	7,847
Other payables	362	1,618
	41,209	35,500

NOTE 20:- DEBENTURES

a. Issuance of debentures (series D):

1. In the framework of an issuance prospectus of August 2004, NIS 150,000 thousand par value of debentures (series D) were issued, which were offered at 100% of their par value, registered, repayable in seven equal installments on August 31 of each of the years 2007 through 2013 (inclusive), bearing annual interest at the rate of 6.35%, payable on August 31 of each of the years from 2005 until repayment of the debentures (series D). The debentures and the interest thereon are linked to the Israeli CPI published in respect of July 2004.

   The consideration for the issuance, net of issuance expenses in the amount of NIS 4,850 thousand, amounted to NIS 145,150 thousand.

NOTE 20:- DEBENTURES (Cont.)

2. In September 2005, the Company issued, in a private placement, NIS 40,000 thousand par value of debentures (series D) in the framework of expansion of the existing series D. The debenture conditions are in accordance with the debentures (series D) issued in 2004. The consideration for the issuance, net of issuance expenses, amounted to NIS 42,500 thousand.

3. In March 2006, in the context of another expansion of the existing debentures (series D), the Company issued NIS 80,000 thousand par value of debentures (series D) in consideration for NIS 87,300 thousand (less issuance expenses). The debenture conditions are in accordance with the debentures (series D) issued in 2004.

4. Buyback plan:

   In November 2010, the Company's Board decided to authorize the Company's management to execute, from time to time, a buyback of debentures (series D) in a monetary scope of up to NIS 50 million.

   In the reporting period, the Company executed a buyback of debentures (series D) totaling approximately NIS 101 thousand par value in consideration of approximately NIS 125 thousand.

   After the reporting date, the Company repurchased about NIS 3,286 thousand par value of debentures (series D) in consideration of approximately NIS 4,700 thousand.

b. Issuance of debentures (series E):

1. In March and in May 2007, Clal Finance Batucha Brokerage Ltd. ("Clal Finance") was issued NIS 250,000 thousand par value of debentures (series E), including the possibility for Clal Finance to distribute the debentures (series E) to institutional investors. The debentures are repayable in five equal annual installments, from March 12, 2011 until March 12, 2015, bearing annual interest at the rate of 4.70%, linked to the Israeli CPI (base index in respect of January 2007), and payable annually. The Company committed to list the debentures for trading on the stock exchange until September 15, 2007. Until the date of listing for trading the interest was 5.25%. Net consideration amounted to NIS 248 million. The debentures were listed for trading as from June 2007.

2. In March 2008, the Company issued in a private placement to institutional investors NIS 50,400 thousand par value of debentures (series E) as expansion of the existing series. Consideration for the issuance (less issuance expenses) amounted to NIS 49 million.

   The debenture conditions are in accordance with the debentures (series E) issued in 2007.

NOTE 20:- DEBENTURES (Cont.)

c. Issuance of debentures (series F):

On May 4, 2010, based on the Company's shelf prospectus of May 27, 2008, and a shelf offering report of May 2, 2010, the Company issued NIS 200 million par value of registered debentures (series F) of NIS 1 par value each in return for their par value. The debentures are repayable in four equal annual installments payable on May 1 in 2014 through 2017 (inclusive), linked to the Israeli CPI (base index of March 2010), bearing annual interest of 6.1% payable semi-annually starting from November 1, 2010 through May 1, 2017 (effective annual interest of 6.3%).

The issuance proceeds, less issuance expenses of approximately NIS 2 million, totaled approximately NIS 198 million, net.

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

(a) Shareholders' equity will not be lower than NIS 500 million.

(b) The ratio of shareholders' equity to total balance sheet less cash and deposits will not be less than 20%.

If the Company fails to meet one or both of the abovementioned covenants, the interest payable by the Company to the holders of the debentures (series F) will increase by an annual rate of 0.5%.

Furthermore, if the rating of the debentures (series F) is updated to be lower than Baa1 or an equivalent rating, the interest payable by the Company to the holders of the debentures (series F) will increase by an annual rate of 0.25%. Also, if the ratio of the Company's shareholders' equity to total balance sheet (less cash and deposits) drops below 12%, the deviation will represent cause for placing the entire unsettled balance of the debentures for immediate repayment.

As of December 31, 2010, the Company is meeting all the above financial covenants.

NOTE 20:- DEBENTURES (Cont.)

d. As for the issuance of NIS 200,000,000 par value of debentures (series G) after the reporting date, see Note 31a.

e. Par value:

December 31, 2010		December 31, 2009	
Carrying amount	Par value	Carrying amount	Par value
NIS in thousands	In thousands	NIS in thousands	In thousands
698,388	616,013	525,121	454,686

f. Composition of the debentures:

	December 31,	
	2010	2009
	NIS in thousands	
Debentures	684,252	511,382
Premium and discount on debentures, net	248	610
Expenses for issuance of debentures	(3,988)	(3,292)
Interest payable	17,876	16,421
	698,388	525,121
Less - current maturities	130,248	60,306
	568,140	464,815

g. Following are the maturity dates of the debentures as of December 31, 2010:

	NIS in thousands
First year	130,248
Second year	112,450
Third year	112,666
Fourth year	119,454
Fifth year and thereafter	223,570
	698,388

h. As for the fair value of the debentures, see Note 23c.

NOTE 21:- LOANS FROM BANKS AND OTHERS

a. Composition:

	Effective annual interest	December 31, 2010	December 31, 2009
	%	NIS in thousands	
From banks:			
Unlinked	(1)	230,126	107,392
Linked to the Israeli CPI	4.6 - 5.7	243,176	422,446
Linked to the Euro	(2)	402,180	452,014
Linked to the U.S. dollar	(3)	3,890	4,832
Linked to the Canadian dollar	3 - 6	651,085	646,022
Linked to the Canadian dollar	(4)	20,655	26,036
		1,551,112	1,658,742
Less - current maturities (see Note 17)		214,675	668,844
		1,336,437	989,898

(1) Variable interest, at reporting date the interest rates are 4% to 5.3%.
(2) Variable interest, at reporting date the interest rates are 2% to 2.3%.
(3) Variable interest, at reporting date the interest rate is 2.6%.
(4) Variable interest, at reporting date the interest rates are 3.5% to 4.4%.

b. Maturity dates of loans from banks as of December 31, 2010:

	NIS in thousands
First year	214,675
Second year	249,910
Third year	102,351
Fourth year	289,009
Fifth year and thereafter	695,167
	1,551,112

NOTE 21:- LOANS FROM BANKS AND OTHERS (Cont.)

c. Financial covenants:

1. In the context of credit received by the Company from a bank, the Company committed that its equity will not be less than NIS 500 million and not less than 20% of its total balance sheet. Also, it was determined that the debit balance to the bank in respect of acquisition of investment property in Tel-Aviv will not exceed the lower of 80% of the updated value of this asset according to an expert valuation and/or the acquisition agreement. The valuation will be prepared by an appraiser approved by the bank. Also, the Company committed that as long as all construction rights for the project were not utilized, and until all units are rented, the Company, in the event of sale of one of the assets subordinated to the bank, will transfer the consideration, up to the amount of the appraiser's valuation as approved by the bank, for repayment of the loan in respect of that asset, and the balance will be utilized for repayment of the balance of the loan in respect of the investment property in Tel-Aviv. Non-fulfillment of these conditions constitutes reason for cancellation of the credit facility and request for immediate repayment.

   As of December 31, 2010 and as of the date of approval of the financial statements, the Company fulfills the financial covenants.

2. In the context of credit received by the Company from a bank, the Company committed that its equity will not be less than NIS 300 million (linked from March 2009) and the ratio of its equity to its liabilities will not be lower than 25%.

   As of December 31, 2010 and as of the date of approval of the financial statements, the Company fulfills the financial covenants.

3. In the context of credit received by the Company from a bank, the Company committed that its equity will not be less than 20% of its total balance sheet and that the ratio between income from property rental and finance expenses will not be less than 1.25.

   The bank and the Company agreed that the Company's compliance with the ratio between income from property rental and finance expenses in December 2010 will not be examined.

   As of December 31, 2010 and as of the date of approval of the financial statements, the Company fulfills the financial covenants.

NOTE 21:- LOANS FROM BANKS AND OTHERS (Cont.)

After the reporting date, in March 2011, the financial covenants were modified. According to the agreement with the bank, the Company has committed to maintain a debt to equity ratio not exceeding 0.8 and a debt to net operating ratio (NOI) not exceeding 14.5 in 2011 (2012 - 14, 2013 - 13.5, 2014 - 13 and 2015 - 12.5).

4. In the context of credit received from a bank, a subsidiary in Poland committed that the ratio of income from the rental of the properties for which the financing had been obtained to the loan's current repayment (principal and interest) will not be lower than 1.2 and that the ratio of the outstanding bank debt to the updated value of the assets will not exceed 70%.

   As of December 31, 2010 and as of the date of approval of the financial statements, the subsidiary fulfills the financial covenants.

5. In the context of obtaining loans from banks in respect of properties in Poland, a subsidiary in Poland committed that the ratio of income from the rental of each property to the loan's current repayment (principal and interest) will not be lower than 1.2 and that the ratio of the outstanding bank debt to the updated value of the properties will not exceed 75% for one property and 85% for the other.

   As of December 31, 2010 and as of the date of approval of the financial statements, the subsidiary fulfills the financial covenants.

6. According to a loan agreement for financing the construction of a building of the subsidiary in Belgium, the company committed that its equity will not be less than 20% of total balance sheet.

   As of December 31, 2010 and as of the date of approval of the financial statements, the subsidiary fulfills the financial covenants.

7. In the context of obtaining short-term credit from a bank, a subsidiary in Canada committed to maintain various debt ratios with respect to certain assets in Canada.

   As of December 31, 2010 and as of the date of approval of the financial statements, the subsidiary fulfills the financial covenants.

d. As for charges, see Note 24a.

NOTE 22:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement. The computation of the Company's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation. The Group has a defined benefit plan which does not meet the terms of Section 14 to the Severance Pay Law, 1963.

NOTE 23:- FINANCIAL INSTRUMENTS

a. Financial risk factors:

The Group's activities expose it to various financial risks such as market risk (foreign currency risk, fair value in respect of interest rate risk and price risk), credit risk, liquidity risk and cash flow in respect of interest rate risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Group's financial performance. The Group utilizes derivatives in order to hedge certain exposures to risks.

Risk management is performed based on the policies approved by the board of directors. The board of directors establishes overall risk management principles as well as specific policies with respect to certain exposures to risks such as foreign currency risk, interest rate risk, credit risk and the use of derivative and non-derivative financial instruments and investments of excess funds.

1. Foreign currency risk:

The Company has a policy of reducing its currency exposure by adjusting the currency of foreign linked financing to the currency of the income from the acquired property. Furthermore, some of the credit obtained by the Company to finance foreign operations is also in the functional currency. Nevertheless, there is currency exposure caused by the financing granted to the Company through capital and credit in NIS.

2. Credit risk:

The Group has no significant concentrations of credit risk. The tenants are usually required to place guarantees to secure payments.

The Company maintains cash and cash equivalents in various financial institutions. As of December 31, 2010, cash and cash equivalents which are invested with high quality financial corporations totaled NIS 114,304 thousand.

NOTE 23:- FINANCIAL INSTRUMENTS (Cont.)

3. Interest risk:

   The Company has financial assets and liabilities bearing fixed or variable interest. When interest rates fluctuate in the financial markets where the Group operates, the Group is exposed to changes in the fair value of financial instruments.

   In order to minimize this exposure, the Company enters into hedges against changes in interest rates.

4. Liquidity risk:

   The Company has fixed assets such as investment property and property, plant and equipment. The realization of these assets involves finding a buyer, holding negotiations and depends on market conditions. Accordingly, the process of selling these fixed assets may take a considerable amount of time.

   In addition to assets, the Company has liabilities to banks which in certain cases might demand early repayment of the liabilities. Nevertheless, the scope of bank credit usually does not exceed 70% on the date of granting the credit and therefore the exposure to early repayment is not high.

   In view of the above, the Company has an unutilized credit line of approximately NIS 45 million and cash deposited in banks as well as investments in securities.

5. Israeli CPI risk:

   The Group has borrowed from banks and issued debentures that are linked to the changes in the Israeli CPI. The amount of the financial instruments that are linked to the Israeli CPI and for which the Group is exposed to changes in the Israeli CPI amounts to approximately NIS 941,564 thousand as of December 31, 2010.

   In order to minimize this exposure, the Company generally enters into hedges against changes in the Israeli CPI.

NOTE 23:- FINANCIAL INSTRUMENTS (Cont.)

b. Concentration of liquidity risk:

The table below presents the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

December 31, 2010:

	First year	Second year	Third year	Fourth year	Fifth year and thereafter	Total	Carrying amount
	NIS in thousands						
Loans from banks	395,134	302,500	147,423	322,029	762,339	1,929,425	1,668,025
Trade payables	11,942	-	-	-	-	11,942	11,942
Other accounts payable	35,552	-	-	-	-	35,552	35,552
Taxes payable	7,761	-	-	-	-	7,761	7,761
Debentures	150,846	144,766	138,687	137,648	240,734	812,681	698,388
Financial derivatives	9,827	7,789	3,783	2,085	169	23,653	23,653
	611,062	455,055	289,893	461,762	1,003,242	2,821,014	2,445,321

December 31, 2009:

	First year	Second year	Third year	Fourth year	Fifth year and thereafter	Total	Carrying amount
	NIS in thousands						
Loans from banks	901,571	201,516	126,052	113,280	738,836	2,081,255	1,825,161
Trade payables	24,672	-	-	-	-	24,672	24,672
Other accounts payable	32,165	-	-	-	-	32,165	35,500
Debentures	70,912	135,064	129,123	123,183	143,331	601,613	525,121
Financial derivatives	12,173	6,204	3,823	1,954	2,009	26,163	26,163
	1,041,493	342,784	258,998	238,417	884,176	2,765,868	2,436,617

NOTE 23:- FINANCIAL INSTRUMENTS (Cont.)

c. Fair value:

The following table demonstrates the carrying amount and fair value of the groups of financial instruments that are presented in the financial statements not at fair value:

	Carrying amount		Fair value	
	December 31,		December 31,	
	2010	2009	2010	2009
	NIS in thousands			
Financial liabilities:				
Long-term loan with fixed interest (1)	894,261	1,068,468	940,517	1,085,996
Debentures (including interest payable) (2)	698,388	525,121	734,301	508,606
Total	1,592,649	1,593,589	1,674,818	1,594,602

(1) The fair value of long-term loan received with fixed interest is based on the computation of the present value of cash flows using interest rate currently available for loans with similar terms (2009 - the same).

(2) The fair value is based on price quotations in an active market at the reporting date.

The carrying amounts of cash and cash equivalents, trade receivables, other accounts receivable, long-term loans granted, credit from banks and others, trade payables and other accounts payable approximate their fair value.

NOTE 23:- FINANCIAL INSTRUMENTS (Cont.)

d. Interest and currency risks:

The following tables present the carrying amount of groups of financial instruments according to interest and currency risks:

	December 31, 2010					
	€	C$	U.S.$	Linked to the CPI	Unlinked	Total
	NIS in thousands					
Assets:						
Cash and cash equivalents	13,809	74,354	8	-	26,133	114,304
Short-term investments	-	-	-	2,119	45,195	47,314
Trade receivables	2,958	3,912	-	8,302	-	15,172
Deposit	-	-	-	-	40,463	40,463
Other accounts receivable	72,464	1,576	-	-	98	74,138
Income taxes receivable	175	-	-	7,329	-	7,504
Loans	-	7,292	-	-	-	7,292
Financial derivatives	985	-	-	-	-	985
	90,391	87,134	8	17,750	111,889	307,172
Liabilities:						
Short-term credit	27,195	75,816	-	-	13,902	116,913
Long-term credit and loans from banks and others:						
Fixed interest	-	651,085	-	243,176	-	894,261
Variable interest	402,180	20,655	3,890	-	230,126	656,851
Total credit	429,375	747,556	3,890	243,176	244,028	1,668,025
Trade payables	7,241	2,111	-	-	2,590	11,942
Income taxes payable	44	7,678	-	-	39	7,761
Other accounts payable	5,074	25,910	-	-	4,568	35,552
Financial derivatives	23,653	-	-	-	-	23,653
Debentures	-	-	-	698,388	-	698,388
Employee benefit liabilities, net	-	-	-	-	10	10
	465,387	783,255	3,890	941,564	251,235	2,445,331

NOTE 23:- FINANCIAL INSTRUMENTS (Cont.)

	December 31, 2009					
	€	C$	U.S.$	Linked to the CPI	Unlinked	Total
	NIS in thousands					
Assets:						
Cash and cash equivalents	8,008	16,845	-	-	14,787	39,640
Trade receivables	4,279	6,802	-	9,272	-	20,353
Deposit	-	51	-	-	24,902	24,953
Other accounts receivable	73,700	1,733	-	-	28	75,461
Loans	-	9,761	-	-	-	9,761
Financial derivatives	-	-	-	3,110	-	3,110
	85,987	35,192	-	12,382	39,717	173,278
Liabilities:						
Short-term credit	38,386	87,119	-	-	40,914	166,419
Long-term credit and loans from banks and others:						
Fixed interest	-	646,022	-	422,446	-	1,068,468
Variable interest	452,014	26,036	4,832	-	107,392	590,274
Total credit	490,400	759,177	4,832	422,446	148,306	1,825,161
Trade payables	19,468	2,415	-	-	2,789	24,672
Other accounts payable	8,084	17,979	-	-	6,102	32,165
Financial derivatives	26,072	91	-	-	-	26,163
Debentures	-	-	-	525,121	-	525,121
	544,024	779,662	4,832	947,567	157,197	2,433,282

e. Derivatives and hedging:

See details in Note 9.

NOTE 23:- FINANCIAL INSTRUMENTS (Cont.)

f. Sensitivity tests relating to changes in market factors:

	Sensitivity test to changes in interest rates			
	Change in equity		Gain (loss) from the change	
Year	Increase of 1% in interest	Decrease of 1% in interest	Increase of 1% in interest	Decrease of 1% in interest
	NIS in thousands			
2010	3,891	(3,891)	(5,408)	5,408
2009	(5,880)	5,880	(8,723)	8,723

	Sensitivity test to changes in Canadian $ exchange rates			
	Change in equity		Gain (loss) from the change	
	Increase of 5% in rate	Decrease of 5% in rate	Increase of 5% in rate	Decrease of 5% in rate
	NIS in thousands			
2010	33,162	(33,162)	5,609	(5,609)
2009	22,199	(22,199)	(546)	546

	Sensitivity test to changes in Israeli CPI			
	Change in equity		Gain (loss) from the change	
	Increase of 1% in CPI	Decrease of 1% in CPI	Increase of 1% in CPI	Decrease of 1% in CPI
	NIS in thousands			
2010	(5,408)	5,408	(5,408)	5,408
2009	(8,862)	8,862	(8,862)	8,862

	Sensitivity test to changes in Euro exchange rates			
	Change in equity		Gain (loss) from the change	
	Increase of 5% in rate	Decrease of 5% in rate	Increase of 5% in rate	Decrease of 5% in rate
	NIS in thousands			
2010	15,315	(15,315)	212	(212)
2009	12,752	(12,752)	(7,251)	7,251

NOTE 23:- FINANCIAL INSTRUMENTS (Cont.)

	Sensitivity test to changes in the market price of listed securities			
	Change in equity		Gain (loss) from the change	
Year	Increase of 5% in price	Decrease of 5% in price	Increase of 5% in price	Decrease of 5% in price
	NIS in thousands			
2010	2,366	(2,366)	2,366	(2,366)

The Company has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the profit or loss and/or change in equity (before tax) in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the operating currency and assuming that all the other variables are constant.

1. Financial derivatives sensitivity tests are performed based on discounted cash flows model.

2. The sensitivity test for long-term loans with variable interest was only performed on the interest's fixed component.

3. The annual interest used to calculate the fair value of loans and debentures approximates the interest the Company received or might have received for similar term loans at reporting date.

Calculation of fair value:

The fair value of marketable assets, which represent the majority of assets, was measured according to their market value. The fair value of non-marketable assets was measured using standard fair value models based on discounted cash flows.

The Company performed a sensitivity analysis for assets that are sensitive to risk factors examining the extreme case scenarios presented in the above tables. The examination of the changes in the interest curves revealed several extreme changes on the curve. The extreme scenario tested based on a corresponding change in the curve was chosen so that it would minimally reflect an identical change to that observed in the extreme points that went up/down that day.

NOTE 23:- FINANCIAL INSTRUMENTS (Cont.)

g. The Company's capital management:

The Company's acts to maintain capital ratios that contribute to its financial stability so that they will support the Company's business activity.

h. Classification of financial instruments by fair value hierarchy:

The financial instruments presented in the balance sheet at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

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

Level 2 - inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

December 31, 2010:

Financial assets measured at fair value:

	Level 1	**Level 2**	**Level 3**
	NIS in thousands		
Short-term investments	47,314	-	-
Derivatives - hedged	-	985	-

Financial liabilities measured at fair value:

	Level 1	**Level 2**	**Level 3**
	NIS in thousands		
Derivatives - non-hedged	-	23,653	-

During 2010, there were no transfers between Level 1 and Level 2 fair value measurements and there were no transfers into and out of Level 3 fair value measurements.

NOTE 23:- FINANCIAL INSTRUMENTS (Cont.)

December 31, 2009:

Financial assets measured at fair value:

	Level 1	Level 2	Level 3
		NIS in thousands	
Derivatives - non-hedged	-	3,110	-

Financial liabilities measured at fair value:

	Level 1	Level 2	Level 3
		NIS in thousands	
Derivatives - non-hedged	-	26,079	-
Derivatives - hedged	-	91	-

NOTE 24:- CHARGES, GUARANTEES, COMMITMENTS AND OUTSTANDING CLAIMS

a. Charges:

1. To secure the Company's liabilities to banks totaling NIS 1,668 million, the Company and subsidiaries recorded fixed and floating charges in an unlimited amount on assets and insurance rights. In addition, the Company and subsidiaries recorded a first degree mortgage on real estate assets in favor of banks

2. As for financial covenants undertaken by the Company, see Notes 20c and 21c above.

b. Guarantees:

1. The Company deposited with the Petach Tikva municipality bank guarantees in the amount of NIS 1,608 thousand to secure various financial liabilities.

2. The Company deposited guarantees in the total of NIS 316 thousand (CPI-linked) in favor of a trustee in the framework of acquisition of real estate rights in Israel.

3. The Company is a guarantor to part of the loans received by its subsidiaries in Belgium and in Poland. Most of the guarantees relate to financing bank credit for projects initiated in the said countries. The Company is a guarantor in a limited amount to secure operating cash flows for the said projects.

NOTE 24:- CHARGES, GUARANTEES, COMMITMENTS AND OUTSTANDING CLAIMS (Cont.)

4. The ultimate parent company is a guarantor to the Company's credit facility from banks which, as of December 31, 2010, totals approximately NIS 21 million.

5. In August 2009, the Company signed an agreement to sell 50% of the "Adgar Tower" in Petach-Tikva, Israel to members of the Clal Insurance Group ("Clal") in consideration of approximately NIS 163 million.

   The Company undertook toward Clal to comply with guaranteed annual income, linked to the Israeli CPI, for Clal's share in the tower for a period of 90 months from the date of closing as follows: (1) in the first 30-month period - NIS 13.15 million per annum (NIS 32.88 million on a cumulative basis for this period); (2) in the second 30-month period - NIS 12.75 million per annum (NIS 31.87 million on a cumulative basis for this period); (3) in the third 30-month period - NIS 12.34 million per annum (NIS 30.86 million on a cumulative basis for this period). If the actual cumulative income in the hands of the buyers (less the buyers' share in the expenses) in each of the periods falls below the guaranteed cumulative income, the Company shall pay the buyers the difference.

   In respect of the guaranteed income, the Company provided the buyers a bank guarantee of NIS 11.5 million linked to the Israeli CPI. The guarantee will decrease to NIS 8.5 million at the end of 2.5 years and to NIS 5.5 million at the end of 5 years. At the end of 7.5 years, the bank guarantee will be recovered to the Company. In respect of the guaranteed income, the Company recorded a provision of approximately NIS 635 thousand as of December 31, 2010.

c. Commitments:

1. Until March 17, 2010, the Company had an agreement with Zur Shamir Holdings Ltd. ("the ultimate parent company") to receive management and consulting services. According to the agreement, the ultimate parent company provided the Company with management and consulting services as detailed in the agreement in consideration for management fees. The management fees were determined at a basic amount of approximately NIS 4.2 million, linked to the Israeli CPI plus 1% of the balance of the credit facilities that the ultimate parent company guaranteed. Following the acquisition of control in the Company by Direct Holdings (a company controlled by Zur Shamir Holdings Ltd.), the management agreement between the parties was cancelled on March 17, 2011.

NOTE 24:- CHARGES, GUARANTEES, COMMITMENTS AND OUTSTANDING CLAIMS (Cont.)

2. In the context of the construction work of office buildings and performing extensive renovations, the Company usually engages with a chief contractor for each project: sometimes the agreements are turnkey agreements (where the chief contractor performs all the works involving construction, including the main systems and the finish work) and sometimes they are agreements for shell level construction where the Company enters into separate agreements for installing systems and finish work.

3. The parent company and the Company, including all their respective subsidiaries, committed to an agreement on October 4, 1995, that was approved by the general meeting of the Company, to give each other at any time deposits in a total amount not exceeding NIS 20 million, linked to the Israeli CPI of August 1995 (as of December 31, 2010, the amount is NIS 34 million). The deposits are for a short term, in that the receiver is required to repay any deposit within 3 banking business days from day of demand and the recipient has the right to early repayment within 3 business days, without repayment commission. In a decision of the Company's board of directors from January 4, 2004, that was also approved by the ultimate parent company's board of directors, it was decided that the framework of the total amount of deposits will not exceed the amount determined in the above agreement and that the interest the deposits will bear will be determined according to the Prime interest on loans for the above amounts.

   Each company is a guarantor to deposits that the other company makes in the accounts of its subsidiaries.

   As of December 31, 2010, the former parent company settled its entire liabilities toward the Company.

4. Agreements were signed between the Company, the ultimate parent company and other companies controlled by the ultimate parent company for the lease of office spaces in the a building, constructed by the Company in Kiryat Arie, Petach Tikva, to the lessees . The agreements were signed with each lessee separately and each lessee with overall leased area of about 14.5 thousand sq.m. as well as storage spaces and parking places for a period of 10 years. The lease fees in the first 40 months of lease were $ 11.5 per sq.m., in the next 40 months of lease - $ 12.5 per sq.m. and in the last 40 months of lease - $ 14 per sq.m. The lease fees are linked to the Israeli CPI.

   Following the sale of 50% of the building to members of the Clal Group, 50% of said agreements were assigned to the buyers.

NOTE 24:- CHARGES, GUARANTEES, COMMITMENTS AND OUTSTANDING CLAIMS (Cont.)

5. The Group has real estate rights based on an operating lease contract with the Israel Lands Administration. The Group has entered into commercial lease agreements with respect to the real estate comprising rental buildings and land as described in Note 13. The Company accounted for these rights as investment property. The rights were measured at their fair value and, accordingly, the entire investment property was measured at fair value.

d. Outstanding claims:

Certain legal proceedings are pending against the Group companies in the ordinary course of their business. The Company estimates that the amounts to which it is exposed in respect of these claims have no material impact on its operating results and has provided for them in the financial statements.

NOTE 25:- EQUITY

a. Composition of share capital:

	December 31, 2010		December 31, 2009	
	Authorized	Issued and outstanding	Authorized	Issued and outstanding
	Number of shares in thousands			
Ordinary shares of NIS 1 par value each	240,000	112,110	240,000	108,611

The rights attributed to shares are voting rights at the general meeting, right to dividends, rights upon liquidation of the Company and right to nominate the directors in the Company. The shares are quoted on the Tel-Aviv Stock Exchange.

NOTE 25:- EQUITY (Cont.)

b. Movement in share capital:

Issued and outstanding share capital:

	Number of shares	NIS par value
Balance at January 1, 2008	107,683,242	107,683,242
Conversion of employee options into shares	927,323	927,323
Balance at December 31, 2008 and 2009	108,610,565	108,610,565
Conversion of employee options into shares	3,500,000	3,500,000
Balance at December 31, 2010	112,110,565	112,110,565

2008:

Exercise of options (series 6) into shares:

On October 2, 2008, 2,446,667 options (series 6) were converted into 927,323 Ordinary shares of the Company in consideration of approximately NIS 927 thousand.

2010:

During December 2005, NIS 3,500 thousand of options (series 8) were issued in consideration of NIS 1,523 thousand. The options are exercisable into Ordinary shares of NIS 1 par value each against the payment of the exercise price of NIS 5.5 per option, linked to the Israeli CPI. The options are exercisable until June 30, 2010. An option that is not exercised until the end of the exercise period will expire and the option holder will have no right whatsoever. During 2009, the Company reached an agreement with the option holders whereby the exercise price will be nominal at NIS 5.2432 (subject to adjustments). In June 2010, the parent company acquired the options and exercised the options into 3,500,000 Ordinary shares of NIS 1 par value each in consideration of NIS 16,631 thousand.

NOTE 25:- EQUITY (Cont.)

c. Distribution of dividends:

2009:

On March 25, 2009, the Company decided to distribute a dividend in accordance with its policy in an amount of NIS 8 million representing about 40% of the net income attributable to equity holders of the Company for 2008 and representing NIS 0.74 per share. The dividend was paid on May 11, 2009.

d. Other capital reserves:

Composition - attributable to the equity holders of the Company:

	Cash flow hedge reserve, net	Reserve for share-based payment transactions	Revaluation reserve after classification of property, plant and equipment to investment property	Total
	NIS in thousands			
Balance at January 1, 2009	(10,116)	-	-	(10,116)
Cash flow hedge reserve, net	(9,791)	-	-	(9,791)
Balance at December 31, 2009	(19,907)	-	-	(19,907)
Cash flow hedge reserve, net	(172)	-	-	(172)
Revaluation reserve after classification of property, plant and equipment to investment property	-	-	910	910
Capital reserve for share-based payment	-	831	-	831
Balance at December 31, 2010	(20,079)	831	910	(18,338)

Cash flow hedge reserve, net:

The reserve is used to record gains and losses (less related tax effect) from effective hedging of cash flows.

NOTE 25:- EQUITY (Cont.)

Capital reserve for share-based payment transactions:

The reserve is used to record the fair value of the grant of equity options to employees and officers over the vesting period.

Revaluation reserve of property, plant and equipment:

The reserve is used to record the difference between the fair value and cost of property transferred from property, plant and equipment to investment property.

e. Non-controlling interests:

Composition of non-controlling interests in the balance sheet:

	December 31,	
	2010	2009
	NIS in thousands	
Share in equity	-	2,726

2010:

In the reported year, a distribution was distributed to non-controlling shareholders by subsidiaries in a total of NIS 3,057 thousand.

2009:

In the reported year, a distribution was distributed to non-controlling shareholders by subsidiaries in a total of NIS 315 thousand.

NOTE 26:- SHARE-BASED PAYMENT

a. The expense recognized in the Company and its subsidiaries' financial statements for services received from employees and Board members is shown in the following table:

	Year ended December 31, 2010
	NIS in thousands
Equity-settled share-based payment plan	831

NOTE 26:- SHARE-BASED PAYMENT (Cont.)

b. On November 21, 2010, the Company's Board decided to grant ten employees in Adgar (including five officers) and four directors in Adgar 6,370,000 options that are exercisable into 6,370,000 Ordinary shares of NIS 1 par value each. The options represent about 5.7% of Adgar's issued capital.

The grants were made at no consideration in the context of an employees' and officers' remuneration plan adopted by Adgar as of that date. The vesting terms underlying the exercise of the options will be conferred to the optionees in such a manner that 33% of the options will be exercisable starting from one anniversary of the allocation date; 8.3% of the options will be granted at the end of each quarter, provided that the relevant optionee is still employed by Adgar during the vesting period. The options can be exercised during a five-year period from the date of grant. The option's exercise price is NIS 6, unlinked. The options are subject to certain adjustments in the event of restructuring, voluntary liquidation, capital restructuring, rights issue and dividends. The options are not listed for trade on a stock exchange.

The fair value of the options totaled approximately NIS 12,058 thousand. The fair value of the bonus on the grant date was NIS 1.89 per stock option. The calculation was based on the binomial model using volatility of 57.3% and risk-free interest of 3.68%.

The options, excluding options allocated to the Company's CEO and the CEO of a subsidiary of the Company, were allocated to a trustee pursuant to the provisions of Section 102 of the Income Tax Ordinance (under the capital track). The stock options, including the shares exercised therefrom, will be subject to capping provisions pursuant to Section 102 of the Income Tax Ordinance. In addition, the shares arising from the exercise of the options granted to the optionees will be subject to sale limitations pursuant to the provisions of Section 15c to the Israeli Securities Law, 1968. As for directors, the stated above is subject to the approval of Adgar's general meeting of shareholders.

c. The weighted average remaining contractual life of the share options as of December 31, 2010 is 4.9 years.

NOTE 27:- ADDITIONAL DETAILS REGARDING THE STATEMENTS OF INCOME

a. General and administrative expenses:

	Year ended December 31,		
	2010	**2009**	**2008**
	NIS in thousands		
Selling and marketing	1,319	806	894
Wages, salaries and related expenses	14,067	7,111	6,639
Legal,audit and professional services	10,257	5,073	3,755
Maintenance, taxes and insurance	720	514	488
Economic tests and identification of projects	1,112	834	1,215
Depreciation and amortization	2,211	2,707	2,990
Management fees to the ultimate parent company (see Note 24c(1))	1,056	4,937	4,868
Others	2,923	746	1,136
	33,665	22,728	21,985

b. Finance expenses, net:

	Year ended December 31,		
	2010	**2009**	**2008**
	NIS in thousands		
Income:			
From cash and cash equivalents	2,556	1,105	3,348
Gain from securities	930	-	-
In respect of loans to related companies	-	910	600
Exchange rate differences	-	4,347	-
Other	863	681	206
	4,349	7,043	4,154
Expenses:			
In respect of long-term liabilities	139,119	149,793	119,511
In respect of short-term credit, net	4,431	6,063	14,410
Exchange rate differences	8,299	-	9,534
Derivative financial instruments	7,932	(27,461)	5,204
Other	1,105	19	1
	160,886	128,414	148,660
	156,537	121,371	144,506

NOTE 28:- TAXES ON INCOME

a. Tax laws applicable to the Group companies:

1. Companies in Israel:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, the results for tax purposes are adjusted for the changes in the Israeli CPI. The Company and Israeli investees are taxed in accordance with this law.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Starting 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. The amendment to the law includes, inter alia, the elimination of the inflationary additions and deductions and the additional deduction for depreciation starting 2008.

Non-application of International Financial Reporting Standards (IFRS) for tax purposes:

Following the aforesaid in 1, on February 4, 2010, a law was published in the records for Amendment No. 174 to the Income Tax Ordinance - Temporary Order for the 2007, 2008 and 2009 Tax Years ("the Amendment to the Ordinance"). Under the Amendment to the Ordinance, Israeli Accounting Standard No. 29 regarding the adoption of IFRS will not apply for the purpose of determining the taxable income for the above years, even if IFRS were applied in the preparation of the financial statements. At this time, the Israel Insurance Companies Association and the tax authorities have yet to discuss the matter. The implication of the Amendment to the Ordinance on the Company is immaterial.

2. Foreign subsidiaries:

Subsidiaries which were incorporated outside Israel are taxed according to the tax laws in their countries of residence.

Current profits:

These profits will not be subject to Israeli tax as long as they are not distributed in Israel. As for Poland, the Company believes that the activities of the Polish company are business oriented but it is possible that the company would be subject to Israeli tax under the CFC tax regime if a counter claim is made. The CFC tax regime prescribes that the undistributed passive income of a "foreign controlled company" will be viewed as if it had been distributed to Israeli residents who are also the controlling shareholders therein as "notional dividends". Such dividends are taxable at a rate of 25%. Concurrently, a "notional credit" will be granted against the tax imposed on the controlling shareholder in respect of the notional dividend.

NOTE 28:- TAXES ON INCOME (Cont.)

Capital gains:

In Poland and in Belgium, capital gain from the sale of an income producing property will be subject to corporate tax.

In principle, capital gains from the sale of shares of a Belgium company that holds real estate will be tax exempt in the country of origin.

The Company considers its real estate activities in Europe to be business oriented and, therefore, no tax should be imposed under the CFC tax regime in Israel. Should this position not be adopted by the Tax Authorities, then the passive income of foreign subsidiaries which have not been taxed abroad or which have been taxed at a rate not exceeding 20% will be exposed to Israeli tax under the Israeli CFC tax regime.

The distribution of earnings to Israel will be taxed in Israel; however, if tax had been paid under the CFC tax regime, no additional tax will be paid in Israel upon actual distribution.

Capital gains from the sale of real estate in Canada will be taxable in the hands of the trustees at a rate of about 19.5%. The Company is of the opinion that the trustees are transparent for tax purposes in Israel and their earnings will, therefore, be taxable in Israel and credited for taxes paid in Canada.

As for an arrangement with the Israeli Tax Authorities regarding capital gains in respect of foreign assets, see c(2) below.

b. Tax rates applicable to the income of the Group companies:

1. Companies in Israel:

The rate of the Israeli corporate tax is as follows: 2007 - 29%, 2008 - 27%, 2009 - 26%, 2010 - 25%. Tax at a reduced rate of 25% applies on capital gains arising after January 1, 2003, instead of the regular tax rate. In July 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

2. Foreign subsidiaries:

The principal tax rates applicable to the subsidiaries whose place of incorporation is outside Israel are: Belgium - tax at the rate of 33.99%, Poland - tax at the rate of 19% and Canada - tax at the rate of 39%.

NOTE 28:- TAXES ON INCOME (Cont.)

c. Tax assessments and special tax ruling:

1. Tax assessments:

The Company received final tax assessments or assessments that are deemed as final through 2005. Subsidiaries have not received final tax assessments since their incorporation. Subsidiaries in Israel have received final tax assessments or assessments deemed final through 2006 in accordance to the directives prescribed by the Income Tax Ordinance.

2. Special tax ruling:

In March 2005, a wholly owned subsidiary signed a special tax ruling with the Income Tax and Land Taxation Commission whose principles are:

a) The subsidiary will pay tax at the rate of 5% on the difference between the cost of its major properties in Europe ("the settled properties") and their agreed value at December 31, 2002. This tax amount was translated into NIS at the relevant exchange rates on December 31, 2002 and from this date and thereafter the actual payment will bear interest and linkage under the law.

b) Upon a future sale of properties of the settled properties, the tax paid in respect thereof will be deemed final tax, unless the selling price net of selling expenses exceeds the value as agreed on December 31, 2002 (the amounts computed in the relevant currency). Such case is subject to an additional tax, as applicable at that time under the law.

c) The aggregate tax payment on the settled properties is approximately NIS 7.1 million. As of December 31, 2010, the outstanding tax amounts to NIS 1.8 million after part of the settled properties were sold.

d) The Company and the subsidiary will not be liable to any additional tax besides that mentioned above, including on distribution of dividends to Israel in respect of profits which originated from the settled properties.

e) It is clarified that the ruling does not apply to future capital gains, as far as accrued, in respect of sale of the properties of the company in Canada. According to existing law, the gains are expected to be liable to tax in Israel at the rate of 18% and credited for the taxes paid in Canada.

NOTE 28:- TAXES ON INCOME (Cont.)

d. Losses carried forward for tax purposes:

Carryforward tax losses of the Company total approximately NIS 265,686 thousand as of December 31, 2010 (previous year - NIS 192,235 thousand). Deferred tax assets of approximately NIS 47,822 thousand relating to these balances were recorded in the financial statements (previous year - NIS 41,298 thousand).

e. Composition:

	Year ended December 31,		
	2010	**2009**	**2008**
	NIS in thousands		
Current taxes	2,466	5,394	3,577
Deferred taxes	24,281	(46,605)	(301)
	26,747	(41,211)	3,276

f. Below is the reconciliation between the theoretical tax assuming that all business result was taxed at the tax rate applicable to the Company and the actual tax expenses:

	Year ended December 31,		
	2010	**2009**	**2008**
	NIS in thousands		
Balance of income (loss) before taxes on income	119,312	(190,829)	24,136
Statutory tax rate applicable to the Company	25%	26%	27%
Tax amount based on the statutory tax rate	29,828	(49,616)	6,517
Income (expenses) taxed at other tax rates and timing differences for which no deferred taxes were created for foreign companies			
Tax (tax saving) in respect of:	(1,717)	11,296	(2,265)
Change in tax rate in Israel	(2,956)	(2,936)	-
Non-deductible expenses less exempt income	24	45	240
Creation of deferred taxes in respect of losses for which no deferred taxes were created in previous years	-	-	(1,323)
Reverse of deferred taxes in respect of carryforward losses created in previous years	1,573	-	-
Taxes in respect of previous years	-	-	107
Other	(5)	-	-
	26,747	(41,211)	3,276
Effective tax rate	22%	22%	14%

NOTE 28:- TAXES ON INCOME (Cont.)

g. Composition and movement of deferred taxes:

	In respect of balance sheet items				
	Investment property presented at fair value	Provisions for employee rights	Losses for tax purposes	Others	Total
	NIS in thousands				
Balance as of January 1, 2008	(130,193)	7,110	28,692	(6,803)	(101,194)
Adjustments relating to foreign subsidiaries	13,678	-	(1,613)	(1,758)	10,307
Charged to capital reserve	-	-	21,575	-	21,575
Charged to the statement of income	(49,979)	(4,383)	41,429	13,234	301
Balance as of December 31, 2008	(166,494)	2,727	90,083	4,673	(69,011)
Adjustments relating to foreign subsidiaries	(3,472)	-	158	122	(3,192)
Charged to capital reserve	-	-	(10,440)	-	(10,440)
Charged to the statement of income	77,355	(2,692)	(38,503)	10,445	46,605
Balance as of December 31, 2009	(92,611)	35	41,298	15,240	(36,038)
Adjustments relating to foreign subsidiaries	1,970	-	(1,679)	(1,854)	(1,563)
Charged to capital reserve	-	-	2,671	-	2,671
Charged to the statement of income	(44,609)	3	21,688	(1,363)	(24,281)
Balance as of December 31, 2010	(135,250)	38	63,978	12,023	(59,211)

The deferred taxes are presented in the balance sheet as follows:

	December 31,	
	2010	2009
	NIS in thousands	
In non-current assets	10,547	21,033
In long-term liabilities	(69,758)	(57,071)
	(59,211)	(36,038)

NOTE 29:- EARNINGS PER SHARE

Details of the net income attributable to equity holders of the Company and the par value of the share capital used in the computation of net earnings per share and the adjustments to the data to determine fully diluted earnings:

	Year ended December 31,					
	2010		2009		2008	
	Weighted number of shares	Net income	Weighted number of shares	Loss	Weighted number of shares	Net income
	In thousands	NIS in thousands	In thousands	NIS in thousands	In thousands	NIS in thousands
Number of shares and income, net used in the computation of basic and diluted net earnings	110,438	92,276	108,611	(149,533)	108,285	20,158

NOTE 30:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

a. The following balances with related parties are included in the balance sheet items:

	December 31,	
	2010	2009
	NIS in thousands	
Current assets:		
Trade receivables	642	134
Other accounts receivable	1,443	355
Non-current assets:		
Loans	7,232	9,761
Current liabilities:		
Trade payables	751	717
Other accounts payable	-	952

NOTE 30:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

b. Income (expenses):

	Year ended December 31,		
	2010	2009	2008
	NIS in thousands		
Rental income	6,703	12,110	14,361
Interest income	-	910	601
Directors' fees	(670)	(793)	(348)
Share-based payment to directors	(78)	-	-
Number of directors	6	5	6
Chairman of the Board:			
Salary, grants and related expenses to the Chairman of the Board	(623)	(605)	(586)
Salary, grants and related expenses to the CEO:			
Salary to the CEO	(1,491)	(1,109)	(1,074)
Share-based payment	(196)	-	-
Management fees to former parent company	(1,056)	(4,937)	(4,868)

c. Indemnification and insurance of officers:

1. The Company's articles of association allow for insurance and indemnification of directors and officers as prescribed under the law. In addition, the Company has resolved an indemnification policy and decided to insure the officers' liability, all as stipulated under the law and subject to additional limitations. The subsidiaries also have an indemnification policy, as mentioned above, for officers, under the law.

2. The Company issued indemnification letters to its directors and officers who held or hold positions from February 28, 1993, and who do not hold 25% or more of the Company's shares.

   The indemnification letters are for any monetary liability, including litigation expenses, pursuant to a ruling, provided that they acted in good faith and for the benefit of the Company.

3. The amount paid for indemnification and insurance of officers in the Company:

	Year ended December 31,		
	2010	2009	2008
	NIS in thousands		
For directors and officers insurance	80	32	41

NOTE 30:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

d. Benefits to senior officers:

	Year ended December 31,		
	2010	2009	2008
	NIS in thousands		
Short-term benefits	2,114	1,714	1,660
Share-based payment	196	-	-
	2,310	1,714	1,660

e. Grant plan to the Company's Chairman and CEO:

In January 2007, the general meeting, the Board and the audit committee approved a grant plan to the Company's CEO (who also acts as a member of the Board) and the Chairman comprising two sub-plans as follows:

1. The 2007 and thereafter plan:

   a) The plan will be in effect from 2007 until 2011.

   b) The grant rates according to the 2007 and thereafter plan will be as follows:

      1) If the rate of return on equity in a given year is less than 5%, no grant will be paid in respect of that year.

      2) If the rate of return on equity is between 5% and 7%, the Chairman will be entitled to 1% of annual income and the CEO to 2% of annual income.

      3) If the rate of return on equity exceeds 7%, the Chairman will be entitled to 1.5% of annual income and the CEO to 3% of annual income, subject to the limitation specified in subsection 5 below.

      4) In the event of a loss in a given year, the loss ill be carried forward to the following year for the computation of the income in respect of the grant in the following year according to the computation detailed above. The loss will be carried forward until a positive income year.

NOTE 30:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

5) The amount of the grant in any given year will not exceed the grant computed according to the maximum income for calculating grants or the maximum grant amount, whichever is lower. If the full grant computed as a result of the maximum income limitation for calculating grants is not paid, the excess income will be carried forward to the following year for calculating the grants in that year (it should be clarified that if the return on equity in the following year, after the addition of the excess income from the given year, is less than 5%, no grant will be paid in that year and the excess income will not be carried forward). If the entire grant computed as a result of the maximum grant amount limitation is not paid, the excess grant amount will be paid in the following year subject to a rate of return on equity of at least 5% in that year and subject to the other limitations stipulated in the 2007 and thereafter plan (it should be clarified that if the rate of return on equity in the following year is less than 5%, the amount of the excess grant will not be paid or carried forward).

2. The 2006 grant plan:

a) Following the presentation of the Company's financial statements as of December 31, 2006 in accordance with International Financial Reporting Standards ("IFRS"), an increase has been recorded in retained earnings as of that date. However, in accordance with the regulations referring to the transition to IFRS, the entire increase was not carried to the profit or loss in 2006 but rather was presented as restatement to the opening balance of retained earnings as of January 1, 2005. The increase in retained earnings is mainly a result of recording income producing properties at fair value. Consequently, upon the actual sale of the properties, any capital gain recorded in the year of sale will be materially lower than the capital gain that would have been recorded according to previously accepted accounting principles before the transition to IFRS. According to the 2006 grant plan, the Chairman shall receive a one-time grant ("the one-time grant") at a rate of 1.5% and the CEO - 3% of the difference between the retained earnings in the Company's financial statements as of December 31, 2006 (prepared according to IFRS) and the retained earnings included in the Company's financial statements as of December 31, 2005 (prepared according to previously accepted accounting principles) less any dividends distributed in 2006. It should be noted that the amount of the 2006 grant is in addition to the grant amounts to be awarded to the Chairman and the CEO in respect of the 2007 and thereafter plan, as stated in paragraph 1 above.

NOTE 30:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

b) As for the payment of the one-time grant as above, the following restrictions will apply:

1) The grant will be paid in three equal installments (nominal, unlinked and/or free of exchange rate differences and/or interest) after the publication of the financial statements for 2006, 2007 and 2008.

2) If, on December 31 of each of the years 2006, 2007 and 2008, they (the Chairman and/or the CEO) shall no longer act as Chairman and/or CEO, they will not be entitled to the portion of the grant that should have been paid to them following the publication of the financial statements for that year.

3) If in any of the years 2006, 2007 or 2008, the amount of the income in the financial statements is less than NIS 15 million, the grant that would have been paid following the publication of the financial statements for that year will not be paid at all.

4) For the purposes of this section, "income" refers to the net annual income according to the financial statements in any of the abovementioned years after deduction of non-controlling interest.

c) In March 2007, the Company's Board approved to fully apply the grant plan also to the former Deputy Chief Financial Officer, Mr. Ronen Nakar. He is entitled to a grant at the rate of 1.7% (in case of a reduced grant if the rate of return on equity is in the range of between 5% and 7%, the grant will be at the rate of 1.133%). In July 2010, with the termination of his tenure as Deputy Chief Financial Officer, his grant plan was cancelled.

f. The ultimate parent company guarantees the Company's credit facility from banks, which amounts to approximately NIS 21 million as of December 31, 2010, see also Note 24c above.

g. As for the commitment between the Company and the parent company to grant each other deposits, see Note 24c(3) above.

h. As for the Company's agreements with related companies to lease office spaces in a building the Company owns, see Note 24c(4) above.

i. As for a management and consultation agreement between the Company and the parent company, which was cancelled in 2010, see Note 24c(1) above.

NOTE 30:- BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

j. In June 2003, the Company and Beta Investments and Development Ltd. (formerly: D.S. Wood Tiling Ltd.), a company wholly controlled by the Chairman, Mr. Doron Schneidman, signed an agreement to provide chairmanship services to the Company. As consideration for the management services, an amount of NIS 46,021 is paid on a monthly basis plus VAT and indexation to the Israeli CPI of October 2002.

k. In June 2003, the Company and Native Gadish Ltd, a company wholly controlled by the CEO, Mr. Roy Gadish, signed an agreement to receive management services to the Company. As consideration for the management services, an amount of NIS 73,769 is paid on a monthly basis plus VAT and indexation to the Israeli CPI of October 2002. In April 2006, the general meeting approved to update the monthly payment for the management services to the amount of NIS 85,000 plus VAT and indexation to the Israeli CPI of February 2006.

NOTE 31:- EVENTS AFTER THE REPORTING DATE

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. Equity will not be less than NIS 500 million.

2. The ratio between 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).

Further, if the rating for debentures (series G) is updated such that the rating determined for the debentures (series F) will be lower than the rating of Baa1 or a corresponding rating, the interest rate payable by the Company to the holders of debentures (series F) will increase by 0.25%, annually. Likewise, if the ratio between equity and total balance sheet of the Company (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.

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

APPENDIX TO CONSOLIDATED FINANCIAL STATEMENTS

Ownership and control rate by the holding company as of December 31, 2010

Holding company	Subsidiary	Ownership	Control
Adgar Investments & Development Ltd.			
	Adgar International Holdings Ltd.	100%	100%
	Adgar Trust	100%	100%
	A.B.C. (Yad Eliyahu) Management and Maintenance Ltd.	100%	100%
	A.B.C. (Yad Eliyahu) Management of Parking Lots Ltd.	100%	100%
Adgar International Holdings Ltd.			
	Adgar Investment and Development Belgium NV	100%	100%
Adgar Investment and Development Belgium NV			
	Adgar Plantin NV	100%	100%
	Adgar Investment and Development Poland NV	100%	100%
	Adgar Plantin Parking NV	100%	100%
Adgar Investment and Development Poland NV			
	Adgar Postepu Sp.z.o.o.	100%	100%
	Adgar Poland Holdings Sp.z.o.o.	100%	100%
Adgar Poland Holdings Sp.z.o.o.			
	Adgar Poland BTC NV Conference Centre Sp.k	100%	100%
	Adgar Poland Maintenance Services Sp.z.o.o.	50%	50%
Adgar Postepu Sp.z.o.o			
	Adgar Poland Holding Sp.z.o.o.	100%	100%
	Adgar Poland Maintenance Services Sp.z.o.o.	50%	50%
Adgar Trust			
	1881 Yonge Street LP	100%	100%
	1 Richmond Street West LP	100%	100%
	800 Bay StreetLP	100%	100%
	55 York Street LP	100%	100%
	110 Eglinton Avenue East LP	100%	100%
	Adgar Management LP	100%	100%
	120 Bloor Street East L.P.	100%	100%
	365 Bay Street L.P.	100%	100%
	75 Eglinton Avenue East L.P.	100%	100%
	42 Fraser Avenue LP	100%	100%
	1867 Yonge Street LP	100%	100%
	173 Dufferin Street LP	100%	100%
	40 Eglington Avenue East	100%	100%
	350 Burnham Thorpe Road West L.P.	100%	100%
	170 University Avenues L.P.	100%	100%
	37/39 Mowat Avenue L.P.	50%	50%

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