

Gav-Yam Land Corporation Ltd.

**Condensed Consolidated Interim
Financial Statements**

June 30, 2021

(Unaudited)



Review Report to the Shareholders of Gav-Yam Land Corporation Ltd.

Introduction

We have reviewed the accompanying financial information of Gav-Yam Land Corporation Ltd. and its subsidiaries (hereinafter – “the Company”) which comprising the condensed consolidated statement of financial position as of June 30, 2021 and the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six and three-months period then ended. The Company's board of directors and management are responsible for the preparation and presentation of this interim financial information for this interim period in accordance with IAS 34 “Interim Financial Reporting”. In addition, they are responsible for the preparation of this interim financial information for this interim period in accordance with chapter 4 of the provisions of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain consolidated companies, whose assets included in consolidation constitute approximately 6% of total consolidated assets as of June 30, 2021, and whose revenues included in consolidation constitutes approximately 2% of total consolidated revenues for the six and three-months period then ended. In addition, we did not review the condensed interim financial information of certain investee companies accounted for using the equity method, the company's interest in which is NIS 33,472 thousands as of June 30, 2021, and the company's share in its profits of NIS 762 thousands and NIS 337 thousands for six and three-months period then ended, respectively. The condensed interim financial information for this interim period of the above subsidiaries and associated companies were reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to amounts included for those companies, is based on the review reports of the other auditors.

Scope of Review

We conducted our review in accordance with (Israel) Review Standard No. 2410, issued by the Israeli Institute of Certified Public Accountants regards "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing principles generally accepted in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of the other auditors, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements do not present fairly, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

In addition to the previous paragraph, based on our review and the review reports of the other auditors, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements do not present, in all material respects, in accordance with chapter 4 of the provisions of the Securities Regulations)Periodic and immediate reports (1970).

Haifa, Israel
July 26, 2021

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited

Condensed Consolidated Interim Statement of Financial Position

	<u>June 30</u> <u>2021</u> <u>(Unaudited)</u> <u>NIS thousands</u>	<u>June 30</u> <u>2020</u> <u>(Unaudited)</u> <u>NIS thousands</u>	<u>December 31</u> <u>2020</u> <u>(Audited)</u> <u>NIS thousands</u>
Assets			
Cash and cash equivalents	418,041	1,217,407	1,715,381
Short-term investments and deposits	1,107,712	357,340	823,674
Trade receivables	6,507	4,918	4,480
Other receivables	69,850	92,768	104,631
Assets held for sale	140,158	-	-
Current tax assets	1,039	165	427
Total current assets	<u>1,743,307</u>	<u>1,672,598</u>	<u>2,648,593</u>
Long-term receivables	53,817	55,922	48,371
Investments and loans in equity-accounted investees	209,359	150,339	194,442
Fixed assets, net	54,392	47,922	48,852
Intangible assets, net	980	4,266	4,149
Assets in respect of the right to use	1,513	998	972
Inventory of real estate	-	134,857	134,807
Investment property under construction	734,166	380,905	549,401
Investment property	8,162,570	7,586,417	7,670,094
Total non-current assets	<u>9,216,797</u>	<u>8,361,627</u>	<u>8,651,088</u>
Total assets	<u><u>10,960,104</u></u>	<u><u>10,034,225</u></u>	<u><u>11,299,681</u></u>

Eldad Fresher
Chairman of the Board of
Directors

Avi Jacobovitz
CEO

Mark Zack
CFO

Approval date of the financial statements: July 26, 2021

Condensed Consolidated Interim Statement of Financial Position

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

	June 30	June 30	December 31
	2021	2020	2020
	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands
Liabilities			
Loans and borrowings	606,257	616,962	722,557
Other payables	131,172	175,963	157,431
Current tax liabilities	10,379	11,618	15,977
Liabilities in respect of assets held for sale	10,550	-	-
Liabilities in respect of short-term construction services	115,633	49,299	146,566
Total current liabilities	873,991	853,842	1,042,531
Debentures	4,872,478	4,427,322	5,440,699
Liabilities for construction services	146,036	232,504	127,689
Employee benefits, net	982	754	982
Lease obligation	53,326	269	53,206
Deferred taxes	1,136,606	993,806	1,018,589
Total non-current liabilities	6,209,428	5,654,655	6,641,165
Total liabilities	7,083,419	6,508,497	7,683,696
Capital			
Share capital	169,578	169,577	169,578
Capital reserves	307,123	303,842	304,868
Retained earnings	2,500,209	2,164,833	2,300,008
Total equity attributable to the Company's owners	2,976,910	2,638,252	2,774,454
Non-controlling interests	899,775	887,476	841,531
Total capital	3,876,685	3,525,728	3,615,985
Total liabilities and capital	10,960,104	10,034,225	11,299,681

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

Condensed Consolidated Interim Statement of Income

	Six-months ended June 30		Three months ended June 30		Year ended December 31
	2021 (Unaudited) NIS thousands	2020 (Unaudited) NIS thousands	2021 (Unaudited) NIS thousands	2020 (Unaudited) NIS thousands	2020 (Audited) NIS thousands
(Other than net earnings per share)					
Revenue					
Rental income	269,450	266,970	135,333	132,709	533,924
Increase in fair value of investment property	573,031	23,357	374,767	(2,120)	109,020
Management fees	4,869	5,559	2,443	2,657	11,793
Others	14,370	26,616	9,381	20,577	32,686
	861,720	322,502	521,924	153,823	687,423
Expenses					
Property maintenance	17,425	15,305	9,236	6,454	32,789
Selling and marketing	4,345	4,330	2,181	1,941	7,929
General and administrative	18,058	17,084	9,575	9,117	33,027
Others	16,345	25,813	8,180	20,316	38,276
	56,173	62,532	29,172	37,828	112,021
Operating profit	805,547	259,970	492,752	115,995	575,402
Financing income (expenses)	4,602	(16,709)	2,865	4,428	(13,071)
Financing expenses	(119,547)	(56,554)	(76,636)	(32,066)	(142,569)
Financing expenses, net	(114,945)	(73,263)	(73,771)	(27,638)	(155,640)
Share in profits of equity accounted investees	18,462	4,487	15,706	2,330	14,609
Profit before taxes on income	709,064	191,194	434,687	90,687	434,371
Taxes on income	150,699	49,812	87,553	22,458	103,752
Net profit for the period	558,365	141,382	347,134	68,229	330,619
Attributable to:					
Owners of the Company	460,201	124,773	263,480	63,551	260,141
Non-controlling interests	98,164	16,609	83,654	4,678	70,478
Net profit for the period	558,365	141,382	347,134	68,229	330,619
Earnings per share attributable to owners of the Company					
Basic earnings per share in NIS	215.31	58.39	123.27	29.74	1.22
Diluted earnings per share in NIS	211.18	58.23	117.93	29.66	1.21

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

Condensed Consolidated Interim Statement of Comprehensive Income

	Six-months ended June 30		Three months ended June 30		Year ended December 31
	2021 (Unaudited) NIS thousands	2020 (Unaudited) NIS thousands	2021 (Unaudited) NIS thousands	2020 (Unaudited) NIS thousands	2020 (Audited) NIS thousands
	(Other than net earnings per share)				
Net profit for the period	558,365	141,382	347,134	68,229	330,619
Items of other comprehensive income not to be transferred to profit or loss					
Actuarial losses from a defined benefit plan	-	-	-	-	(269)
Tax benefits for items of other comprehensive income	-	-	-	-	62
Other comprehensive income for the period, net of tax	-	-	-	-	(207)
Total comprehensive income for the period	558,365	141,382	347,134	68,229	330,412
Attributable to:					
Owners of the Company	460,201	124,773	263,480	63,551	259,948
Non-controlling interests	98,164	16,609	83,654	4,678	70,464
Total comprehensive income for the period	558,365	141,382	347,134	68,229	330,412

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

Condensed Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Reserve from transaction with non-controlling interests and with the controlling shareholder	Revaluation reserve	Stock-based payment fund	Retained earnings	Total	Non-controlling interests	Total equity
	NIS thousands								
Six months ended June 30, 2021 (Unaudited)									
Balance as at January 1, 2021	169,578	259,136	9,730	29,462	6,540	2,300,008	2,774,454	841,531	3,615,985
Net profit for the period	-	-	-	-	-	460,201	460,201	98,164	558,365
Dividends to non-controlling interests conferring control in a subsidiary	-	-	-	-	-	-	-	(39,920)	(39,920)
Share-based payment	-	-	-	-	2,255	-	2,255	-	2,255
Dividend to Company shareholders	-	-	-	-	-	(260,000)	(260,000)	-	(260,000)
Balance as at June 30, 2021	169,578	259,136	9,730	29,462	8,795	2,500,209	2,976,910	899,775	3,876,685
Six months ended June 30, 2020 (Unaudited)									
Balance as at January 1, 2020	169,577	257,994	9,730	29,462	3,328	2,240,060	2,710,151	885,837	3,595,988
Net profit for the period	-	-	-	-	-	124,773	124,773	16,609	141,382
Dividends to non-controlling interests conferring control in a subsidiary	-	-	-	-	-	-	-	(14,970)	(14,970)
Share-based payment	-	-	-	-	3,328	-	3,328	-	3,328
Dividend to Company shareholders	-	-	-	-	-	(200,000)	(200,000)	-	(200,000)
Balance as at June 30, 2020	169,577	257,994	9,730	29,462	6,656	2,164,833	2,638,252	887,476	3,525,728

The attached notes are an integral part of the condensed consolidated interim financial statements

Condensed Consolidated Interim Statement of Changes in Equity

	Share capital	Share premium	Reserve from transaction with non-controlling interests and with the controlling shareholder	Revaluation reserve	Stock-based payment fund	Retained earnings	Total	Non-controlling interests	Total equity
	NIS thousands								
Three months ended June 30, 2021 (Unaudited)									
Balance as at April 1, 2021	169,578	259,136	9,730	29,462	7,465	2,236,729	2,712,100	816,121	3,528,221
Net profit for the period	-	-	-	-	-	263,480	263,480	83,654	347,134
Dividends to non-controlling interests conferring control in a subsidiary	-	-	-	-	1,330	-	1,330	-	1,330
Balance as at June 30, 2021	169,578	259,136	9,730	29,462	8,795	2,500,209	2,976,910	899,775	3,876,685
Three months ended June 30, 2020 (Unaudited)									
Balance as at April 1, 2020	169,577	257,994	9,730	29,462	4,992	2,101,282	2,573,037	882,798	3,455,835
Net profit for the period	-	-	-	-	-	63,551	63,551	4,678	68,229
Share-based payment	-	-	-	-	1,664	-	1,664	-	1,664
Balance as at June 30, 2020	169,577	257,994	9,730	29,462	6,656	2,164,833	2,638,252	887,476	3,525,728
Year ended December 31, 2020 (audited)									
Balance as at January 1, 2020	169,577	257,994	9,730	29,462	3,328	2,240,060	2,710,151	885,837	3,595,988
Net profit for the period	-	-	-	-	-	260,141	260,141	70,478	330,619
Other comprehensive income for the period, net of tax	-	-	-	-	-	(193)	(193)	(14)	(207)
Maturity of share based payment	1	1,142	-	-	(1,143)	-	-	-	-
Share-based payment	-	-	-	-	4,355	-	4,355	-	4,355
Dividends to non-controlling interests conferring control in a subsidiary	-	-	-	-	-	-	-	(114,770)	(114,770)
Dividend to Company shareholders	-	-	-	-	-	(200,000)	(200,000)	-	(200,000)
Balance as at December 31, 2020	169,578	259,136	9,730	29,462	6,540	2,300,008	2,774,454	841,531	3,615,985

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

Condensed Consolidated Interim Statement of Cash Flows

	Six-months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flows from operating activities					
Net profit for the period	558,365	141,382	347,134	68,229	330,619
<u>Adjustments:</u>					
Depreciation and amortization	2,176	2,366	1,178	1,157	4,550
Net change in fair value of investment property	(573,031)	(23,357)	(374,767)	2,120	(109,020)
Financing expenses, net	111,873	73,241	72,265	27,387	154,778
Share in profits of equity accounted investees	(18,462)	(4,487)	(15,706)	(2,330)	(14,609)
Income tax expenses	150,699	49,812	87,553	22,458	103,752
Change in trade and other receivables	29,934	(29,048)	39,029	(14,427)	(32,867)
Change in other payables	(5,458)	(11,812)	8,717	(4,922)	3,328
Share-based payment	2,055	3,143	1,230	1,664	3,755
Change in employee benefits	-	-	-	-	(41)
Change in inventory	(2,051)	10,158	(1,501)	9,126	10,208
	256,100	211,398	165,132	110,462	454,453
Dividends received	4,000	5,900	4,000	2,800	7,650
Income tax paid, net	(27,932)	(19,312)	(18,525)	(11,231)	(40,462)
Net cash from operating activities	232,168	197,986	150,607	102,031	421,641
Cash flows from investment activities					
overpayment of betterment levies advance payment	-	-	-	-	(13,399)
Interest received	4,144	4,503	1,901	365	9,469
Proceeds from sale of investment property and fixed assets	32,375	51,595	30,375	-	65,124
Taxes paid on sale of investment property	-	(20,595)	-	-	(20,595)
Receipt to institutions for sale Investment property	-	(10,336)	-	-	(10,336)
Acquisition and construction of investment property	(174,908)	(211,522)	(88,267)	(109,183)	(412,570)
Purchase of property, plant and equipment and intangible assets	(2,563)	(1,370)	(1,856)	(771)	(1,634)
Purchase of marketable securities	(60,873)	(103,668)	(44,039)	(53,628)	(133,312)
Sale of marketable securities	286,482	277,397	267,340	220,610	305,980
Investments and loans to investees, net	-	4,489	341	-	4,489
Change in investments in short-term deposits, net	(496,906)	49,139	(920,446)	89,935	(431,604)
Repayment of a pledged deposit, net	(12,800)	(12,800)	(12,800)	(12,800)	227
Net cash used in investing activities	(425,049)	26,822	(767,451)	134,528	(638,161)

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

Condensed Consolidated Interim Statement of Cash Flows

	Six-months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cash flow from financing activities					
Proceeds from issue of debentures, net	-	769,309	-	-	1,911,811
Repayment of debentures	(712,809)	(365,043)	(330,760)	(365,043)	(377,843)
Interest paid	(91,195)	(85,773)	(32,206)	(27,281)	(175,864)
Repayment of lease obligations	(535)	(594)	(306)	(296)	(1,093)
Dividends to non-controlling interests conferring control in a subsidiary	(39,920)	(14,970)	-	-	(114,770)
Dividend paid to company shareholders	(260,000)	(200,000)	-	-	(200,000)
Net cash derive from (used in) finance activities	(1,104,459)	102,929	(363,272)	(392,620)	1,042,241
Increase (decrease) in cash and cash equivalents	(1,297,340)	327,747	(980,116)	(156,061)	825,721
Cash and cash equivalents at the beginning of the period:	1,715,381	889,660	1,398,157	1,373,468	889,660
Balance of cash and cash equivalents at the end of the period	418,041	1,217,407	418,041	1,217,407	1,715,381
Appendix - Non-cash transactions					
Acquisition of investment property on credit	-	30,647	-	30,647	19,986
Sale of investment property on credit	4,625	50,496	4,625	-	36,113
Reclassification from fixed assets to investment property	-	88,986	-	88,986	88,986

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

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2021

NOTE 1 – REPORTING ENTITY

Gav-Yam Land Corporation Ltd. ("the Company") is an Israeli resident company. The consolidated financial statements of the Group as at June 30, 2021 include those of the Company and its subsidiaries (together referred to as "the Group") and the Group's interests in associates and jointly controlled companies. The Company is a directly held subsidiary of Property and Building Corporation Ltd. The Group is involved in income-producing property, initiating, planning, developing, constructing (through subcontractors), leasing, maintaining and managing industrial parks, high-tech parks, office buildings, retail areas, logistics and parking lots. The Company is a public company and its securities are traded on the Tel Aviv Stock Exchange.

NOTE 2 - CORONA EPIDEMIC

The corona crisis which began in 2020 also continued into the first quarter of 2021.

The third lockdown, which lasted about a month, ended in February 2021 and the economy opened gradually, although still under various restrictions, as set by the Israeli government. These restrictions were also lifted over time until on June 1, 2021, they were lifted completely and the economy continued a process of recovery from the crisis. However, in recent weeks, another wave of morbidity with the Delta variant of the Covid-19 virus broke out, and with the increase in the number of positive cases and hospitalized individuals, it is impossible to know whether the government will impose new restrictions on the economy and/or at all.

The Company continues its day-to-day operations, subject to all government restrictions and guidelines, including continued initiation, planning, construction, marketing and maintenance. This, while balancing the company's commitment to maintaining the health of all its employees and tenants in its properties with the need for business continuity.

As of the date of this report, the Company's management estimates that in light of its financial strength, which is reflected, among other things, in its cash and high cash equivalents, low leverage rate, the debt's and its spread, the fact that all its assets are unencumbered, Of the company's assets, their location, location, occupancy levels and the fact that the vast majority of them are assets used for high-tech, offices, industry and logistics (and not for trade or retail), as well as the quality of tenants, reduced exposure of the company's business The Company estimates that all of the above will enable it to continue to finance its activities and meet its obligations.

As stated in Note 3 to the Financial Report for 2020, the fair value of the Company's income-producing real estate is affected by two critical estimates - the appropriate rent and the discount rate. Logistics, the company estimates that the damage to the rent, insofar as it is such, will be relatively low, in the short term. The Company believes, based on the opinion of the external appraisers with whom it operates, that the discount rates at which its assets were valued are adequate discount rates, as of the date of the report.

During the first and second quarters, the Company conducted, through independent external appraisers, valuations of all of the Company's income-producing assets. See also Note 7 below.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2021

NOTE 3 - BASIS OF PREPARATION

A. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all of the information required for full annual financial statements. They should be read together with the financial statements for the year ended December 31, 2019 ("the Annual Statements"). Additionally, these statements have been prepared in accordance with the provisions in Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed consolidated interim financial statements were approved by the Company's board of directors on July 26, 2021.

B. Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The judgments made by management, when applying the Group's accounting policies and the key assumptions used in assessments that involve uncertainty, are consistent with those applied the preparation of the Annual Financial Statements.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES

- A. The accounting policies applied by the Group in these condensed consolidated interim statements are the same as those applied by the Group in its annual financial statement.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2021
NOTE 5 – OPERATING SEGMENTS

The Group has two main business segments:

- Income producing properties
- Residential construction

	Income producing properties *		Other operations		Consolidated	
	Six months ended June 30 (unaudited)					
	2021	2020	2021	2020	2021	2020
	NIS thousands		NIS thousands		NIS thousands	
Total segment revenues	849,134	296,344	12,586	26,158	861,720	322,502
Segment profit	826,931	280,689	1,019	695	827,950	281,384
Selling and marketing expenses					(4,345)	(4,330)
General and administrative expenses					(18,058)	(17,084)
Financing expenses, net					(114,945)	(73,263)
Share in earnings of equity-accounted companies					18,462	4,487
Consolidated profit before income tax					709,064	191,194

* Includes income from appreciation of investment property.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2021

NOTE 5 – OPERATING SEGMENTS (CONTD.)

	Income producing properties *		Other operations		Consolidated	
	Three months ended June 30 (unaudited)					
	2021	2020	2021	2020	2021	2020
	NIS thousands		NIS thousands		NIS thousands	
Total segment revenues	514,159	133,395	7,765	20,428	521,924	153,823
Segment profit	504,197	126,766	311	287	504,508	127,053
Selling and marketing expenses					(2,181)	(1,941)
General and administrative expenses					(9,575)	(9,117)
Financing expenses, net					(73,771)	(27,638)
Share in earnings of equity-accounted companies					15,706	2,330
Consolidated profit before taxes on income					434,687	90,687

* Includes income from appreciation of investment property.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2021

NOTE 5 – OPERATING SEGMENTS (CONTD.)

	Income producing assets*	Other operations	Consolidated
	<u> </u>	<u> </u>	<u> </u>
Total segment revenues	655,677	31,746	687,423
Segment profit	<u>619,049</u>	<u>(2,691)</u>	616,358
Selling and marketing expenses			(7,929)
General and administrative expenses			(33,027)
Financing expenses, net			(155,640)
Share in earnings of equity accounted investees			<u>14,609</u>
Consolidated profit before taxes on income			<u>434,371</u>

* Includes income from appreciation of investment property.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2021**NOTE 6 – EQUITY**

- A. On January 31, 2021, the Company's Board of Directors announced on distribution of a dividend in the amount of NIS 260 million (NIS 1.2 per ordinary share). The dividend was paid on February 21, 2021.
- B. On January 21, 2021, the Company's Board of Directors declared the distribution of a dividend in the amount of 80 NIS million. The dividend was paid on February 4, 2021

NOTE 7 - INVESTMENT PROPERTY

- A. In the first half of 2021, the Company conducted valuations of all its income-producing properties. The increase in fair value is mainly due to a reduction in the discount rates used by the external evaluator in the valuations for most of the Company's properties, a real increase in rent collected in the Company's different properties and an increase in CPI, since the previous valuation. In properties zoned for logistics and industry, the discount rate used by the evaluator was decreased by 0.75%-1% in most properties. In properties zoned for offices and high-tech, the discount rate used by the evaluator was decreased by an average of 0.35%. The updated valuations as at May 31, 2021 were conducted by external evaluators. The valuations were determined using the expected future discounted cash flow method from the properties. The discount rates used by the evaluators are mainly in the range of 6%-9%, determined taking into consideration the type and zoning of the property, its location, the rent against the market price and the quality of the tenants. In determining the value of office buildings, buildings zoned for the high-tech industry and commercial buildings (located mainly in central areas and high-tech industrial parks with high quality tenants), mainly discount rates of 6.3%-9% were used, whereas workshops, warehouses and industrial buildings (mostly located in outlying areas) were estimated mainly based on discount rates of 6.5%-7.5%. As a result of the updated valuations as specified above, the Company recognized revenues for an increase in fair value of investment property as follows:

	Six months ended June 30	Three months ended June 30
	2021 ¹	2021
	(Unaudited)	(Unaudited)
	NIS thousands	NIS thousands
Income (loss) before tax	573,031	374,767
Income (loss) after tax	441,234	288,571

- 1 Including impairment of approximately NIS 12 million and 6 million (loss after tax of approximately NIS 9 million and NIS 5 million) for six months and for the three months ended June 30, 2021, respectively, due to the valuation of real estate for investment in construction.

- B. In the second quarter of 2021, the Company signed an agreement with an independent third party for the sale of all of its interests in a commercial center in Haifa with a GLA of 3,500 square meters (the Company's share 1,750 sq.m), which is fully leased. In return, the buyer will pay the Company an amount of NIS 35 million plus VAT. Due to the sale of the property, the Company recorded a net profit (after tax) of NIS 6 million. The buildings have been handed over to the buyer.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2021**NOTE 7 - INVESTMENT PROPERTY (CONTD.)**

- C. During the first quarter of 2021, Gav-Yam and Rav Briach entered into a joint transaction for the construction of a factory in Ashkelon, with a total area of approximately 41,000 square meters, on a land division of Rav Briach in an area of approximately 55 dunams in the Ashkelon industrial zone. Gav-Yam will manage and finance the construction of the project the adjustment work in the factory will be carried out by Rav Briach and at its expense, and it will lease the property for a period of about 25 years. Upon completion of the establishment of the factory, Gav-Yam's share in the property will be - 70% and Rav Briach's share - 30%.
The transfer of the rights to Gav-Yam is subject to the fulfilment of a number of conditions and the receipt of permits.
The financing of the establishment of the said plant will be carried out by Gav-Yam against receipt of collateral from Rav Briach until the date of transfer of the rights in the land.

NOTE 8- LONG-TERM CREDITCovenants

In connection with the debentures (Series IX), the Company undertook to meet the following covenants:

- Capital attributed to the Company's shareholders not be less than NIS 1,150 million.
- The ratio of net financial debt to CAP should not exceed 71%.
- The ratio of net financial debt to the Company's annual EBITDA shall not exceed 17.

The Company complies with the above covenants as of June 30, 2021 and to the best of its knowledge the same is true as of the date of publication of this report.

Here are the results of the financial covenants calculation as of June 30, 2021:

- Capital attributed to the company's owners - NIS 2,977 million
- Consolidated net financial debt to CAP ratio - 49%
- Ratio of net financial debt to annual EBITDA - 8

Grounds for placing the bonds for immediate repayment.

In addition to standard immediate repayment grounds (including, inter alia, insolvency and various R&D actions against the Company, attributable to the Company's business, real fear of insolvency, deletion of trading, merger subject to exceptions. Changes in the Company's activities and more) The debentures (Series IX) will be repaid immediately in the following cases:

- Failure to comply with the above financial benchmarks in two consecutive quarters.
- CROSSDEFAULT - If any other series of debentures of the company or one or more bank loans whose balance or balance exceeds 5% of the total consolidated assets of the company according to the consolidated financial statements of the company that the company issued before a relevant case.
- Lowering the Company's credit rating below BBB minus or terminating the bond rating by a rating company.

In connection with the debentures (Series H) Issued by the Company, the Company undertook to comply with the following financial covenants:

- The capital attributable to the owners of the Company will not fall below NIS 900 million.
- The ratio of the consolidated net financial debt to total net assets will not exceed 71%.
- The ratio between the annual net financial debt and EBITDA of the Company will not exceed 17.

Below are the results of calculating the financial covenants as of June 30, 2021:

- Capital attributable to owners of the Company- NIS 2,977 million.
- Ratio between the consolidated net financial debt and net CAP- 49%
- Ratio between the annual net financial debt and EBITDA- 8

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2021

NOTE 8- LONG-TERM CREDIT (CONTD.)

In connection with the Series A debentures issued by a subsidiary, the subsidiary undertook to comply with the following financial covenants:

- The subsidiary's equity will not decrease below NIS 700 million.
- The ratio of the subsidiary's equity to total assets will not decrease below 30%.
- The ratio between the net financial debt to the NOI of the subsidiary shall not exceed 8.

Below are the results of calculating the financial covenants as of June 30, 2021:

- The subsidiary's equity - NIS 1,687 million.
- The ratio of the subsidiary's equity to total assets - 57%.
- The ratio between the net financial debt to the NOI of the subsidiary - 4.

In connection with the Series A bonds issued by the Negev subsidiary, the subsidiary undertook to comply with the following financial covenants:

- The capital of the subsidiary shall not be less than NIS 100 million.
- The ratio between the equity of the subsidiary and the balance sheet shall not be less than 25%.
- The ratio between the net financial debt and net CAP of the subsidiary shall not exceed 70%.

The following are the results of calculating the financial covenants as of June 30, 2021:

- The shareholders' equity of the subsidiary - NIS 204 million.
- The ratio of the shareholders' equity to total assets of the subsidiary - 37%
- The ratio between the net financial debt and the net CAP of the subsidiary - 52%

The financial covenants are reviewed on a quarterly basis, based on the audited or reviewed financial statements of the subsidiary. The subsidiary complies with the aforementioned financial covenants as of June 30, 2021.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2021**NOTE 9 – FINANCIAL INSTRUMENTS****Financial instruments at fair value for disclosure purposes only**

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, short-term investments and deposits, borrowings and short-term loans and borrowings, trade payables and other payables are the same or proximate to their fair value.

The fair values of financial liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	June 30, 2021		June 30, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Total liabilities:				
Listed debentures	4,363,340	4,727,781	4,108,982	4,269,893
None listed debentures	1,115,395	1,171,203	935,302	971,150
	5,478,735	5,898,984	5,044,284	5,241,043

For information about the valuation technique, see Note 27 to the Annual Statements.

Fair value hierarchy of instruments measured at fair value

The Company measures its marketable securities portfolio at fair value based on quoted prices in an active market. Accordingly, the fair value measurement is classified on Level 1 of the fair value hierarchy.

Notes to the Condensed Consolidated Interim Financial Statements as at June 30, 2021

NOTE 10 - ADDITIONAL EVENTS DURING THE REPORTING PERIOD AND SUBSEQUENT EVENTS

- A. In June 2020, the Matam subsidiary (hereinafter - "Matam") received a demand for the payment of property taxes from the Haifa Municipality for the years 2014-2020 in the amount of NIS 28 million in respect of the land occupied by Matam Park.
Of the amount of the demand, approximately NIS 26 million constitutes a charge in respect of previous years and a total of approximately NIS 2 million constitutes a charge in respect of the current year. The Company filed an administrative petition against the retroactive charge as well as an action against the current charge. During the month of February, the court approved a compromise between the parties for the settlement of the property tax assessment debts for the period up to December 31, 2020, according to which Matam paid an amount of NIS 4.6 million.
- B. Remuneration of the Chairman of the Board of Directors - On February 28, 2021, a special meeting of the Company's shareholders approved, after approval by the Remuneration Committee and the Company's Board of Directors, the Company's contract with the Chairman of the Board in a 65% position. In return, the company will pay the chairman, a monthly salary (gross) in the amount of NIS 100,000 and related conditions; Annual grant (target grant) of up to 8 monthly salaries, subject to meeting the objectives specified in the Company's amended remuneration policy (the target grant can reach 150% upon presentation of overperformance) and a capital reward worth NIS 1.2 million per year, including up to 55,773 Blocked stock units and 460,185 options. The options and blocked shares will mature in three equal installments over 3 years, the exercise price of the options will be NIS 26.27, all in accordance with the company's approved capital compensation plan.
- C. Subsequent to the date of the financial statements, Ramat Hanasi Gav Yam Ltd. (a wholly-owned subsidiary of the Company) signed an agreement with an independent third party for the sale of all remaining land reserves and building rights in the Ramat Hanasi residential project in Haifa ("Object of the Sale"). The Object of the Sale, which includes 350 residential units approved for construction under the existing master plan as well as the potential for the construction of hundreds of additional residential units, and future master plans, is being sold for NIS 215 million plus VAT and another future consideration, subject to approval of additional housing units and in respect of the utilization of building rights in excess of the amount agreed between the parties and in respect of the approval of future building rights, insofar as to be approved, in different rates, according to steps agreed between the parties. Following the sale, the Company will recognize a net profit of NIS 55 million in the third quarter. In light of the above, on June 30, 2021, the Company classified lands inventory in the amount of approximately NIS 140 million for current assets held for sale and liabilities relating to this inventory in the amount of approximately NIS 11 million for current liabilities.