

Gav-Yam Land Corporation Ltd.
Consolidated Financial Statements as at
December 31, 2021



**Report of the Independent Auditor to the Shareholders of Gav-Yam Land Corporation Ltd.
Regarding Audit of the Components of the Internal Control over Financial Reporting
In accordance with Section 9B(c) of the Israel Securities Regulations (Periodic and Immediate Reports), 1970**

We have audited components of internal control over financial reporting of Gav-Yam Land Corporation Ltd. and its subsidiaries (hereinafter, jointly - the "Company") as of December 31, 2021. The 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 the financial reporting and for their assessment of the effectiveness of these internal controls over the financial reports attached to the periodic report at this date. Our responsibility is to express an opinion of the internal controls over the Company's financial reporting based on our audit.

The components of internal control over financial reporting audited by us were defined in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, Audit of Internal Controls Over Financial Reporting (hereinafter - "Auditing Standard (Israel) 911"). These components are: (1) Entity-level controls, including controls over the preparation and closing of the financial reporting process and information technology general controls (ITGCs); (2) controls over the construction of investment property; (3) controls over revenues from investment property; (4) controls over the valuation of investment property; (5) controls over the management of the Group's liquid balances (hereinafter jointly: "Audited Control Components").

We conducted our audit in accordance with Auditing Standard (Israel) 911. The standard requires us to plan and perform the audit to identify the Audited Controls and obtain reasonable assurance that these controls have been implemented effectively in all material respects. Our audit included obtaining an understanding of the internal control over financial reporting, identifying the Audited Controls, assessing the risk for material weaknesses in the audited controls, and testing and evaluating the effectiveness of the planning and implementation of these controls based on the assessed risk. Our audit regarding these controls included performing other procedures, as we considered necessary under the circumstances. Our audit referred only to the Audited Controls, as opposed to internal control over all the significant processes regarding financial reporting, therefore our opinion refers to the Audited Controls only. Additionally, our audit did not cover the reciprocal effects between the Audited Controls and those that are unaudited; therefore, our opinion does not take into account such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Due to inherent limitations, internal control over financial reporting in general, and internal control components in particular, may not prevent or disclose misstatement. Moreover, drawing forward-looking conclusions based on any present assessment of effectiveness involves risks that the controls may become inadequate due to changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company has implemented effectively, in all material respects, the Audited Control Components as at December 31, 2021.

We also audited the Company's consolidated financial statements as of December 31 2021 and 2020 and for each of the three years in the period ended December 31 2021 in accordance with auditing standards generally accepted in Israel, and our report, dated January 31 2021, included an unqualified opinion on these financial statements based on our audit and the reports of the other independent auditors.

Haifa
_____, 2022

Kesselman & Kesselman
CPAs
A member firm of **PricewaterhouseCoopers International Limited**



Auditors' Report to the Shareholders of Gav-Yam Land Corporation Ltd

We have audited the accompanying consolidated statements of financial position of Gav-Yam Lands Corp. Ltd. ("the Company") as of December 31, 2021 and 2020, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2021. 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 audit.

We did not audit the financial statements of certain subsidiary, whose assets included in consolidation constitute approximately 4% and 5% of total consolidated assets as of December 31, 2021 and 2020, respectively, and whose revenues included in consolidation constitute approximately 1%, 4% and 5% of total consolidated revenues for the years ended December 31, 2021, 2020 and 2019, respectively. Furthermore, we did not audit the financial statements of equity accounted investee, the total investment amounted to approximately NIS 35,191 thousand as of December 31, 2020, and the Company's share in its profits amounted to approximately NIS 2,545 thousand and NIS 3,044 thousand for the years ended December 31, 2020 and 2019, respectively. The financial statements of those entities were audited by other auditor, whose reports have been furnished to us, and our opinion, insofar, as it relates to amounts included for those entities, is based solely on the reports of the other auditor.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditor's 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 Company's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiary as of December 31, 2021 and 2020, and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2021 in conformity with International Financial Reporting Standards (IFRS) and with the provisions of the Securities Regulations (Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "An Audit of Components of Internal Control over Financial Reporting", as amended, the Company's components of internal control over financial reporting as of December 31, 2021, and our report dated January 31, 2022 included an unqualified opinion on the effective maintenance of those components.

Haifa
January 31, 2022

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

Statements of Financial Position as at December 31

		2021	2020
	Note	NIS thousands	NIS thousands
Assets			
Cash and cash equivalents	5	463,933	1,715,381
Investments and short-term deposits	6	667,956	823,674
Trade receivables	7A	6,053	4,480
Other accounts receivables	7B	60,496	104,631
Current tax assets		13,088	427
Total current assets		1,211,526	2,648,593
Long term receivables and debit balances	7C	45,342	48,371
Investments and loans in equity-accounted investees	8	146,659	129,592*
Property, plant & equipment	9	54,284	48,852
Intangible and other assets		2,701	5,121
Inventory of land	8A	-	134,807
Investment property under construction	10	1,467,284	549,401
Investment property	10	8,878,352	7,686,017*
Total non-current assets		10,594,622	8,602,161
Total assets		11,806,148	11,250,754

Eldad Fresher
Chairman of the Board

Avi Jacobovitz
CEO

Mark Zack
CFO

Date of approval of the financial statements: January 31, 2022

* Reclassified

The notes to the consolidated financial statements form an integral part thereof.

Statements of Financial Position as at December 31

	<u>Note</u>	<u>2021</u> <u>NIS</u> <u>thousands</u>	<u>2020</u> <u>NIS</u> <u>thousands</u>
Liabilities			
Current maturities of debentures	13	611,093	722,557
Trade and other payables	11	177,685	157,431
Current tax liability		12,647	15,977
Liabilities for building services	12	173,331	146,566
Total current liabilities		974,756	1,042,531
Debentures	13	4,872,047	5,440,699
Liabilities for building services	12	67,656	127,689
Employee benefits, net	15	891	982
Lease liability		1,344	388*
Deferred Taxes	24E	1,309,371	1,022,480*
Total non-current liabilities		6,251,309	6,592,238
Total liabilities		7,226,065	7,634,769
Equity			
	16		
Share capital		169,585	169,578
Capital reserves		308,935	304,868
Retained earnings		3,132,469	2,300,008
Total equity attributable to the Company's owners		3,610,989	2,774,454
Non-controlling interests		969,094	841,531
Total equity		4,580,083	3,615,985
Total equity and liabilities		11,806,148	11,250,754

* Reclassified

The notes to the consolidated financial statements form an integral part thereof.

Consolidated Statements of Income for the Year Ended December 31, 2021

	2021	2020	2019
Note	NIS thousands	NIS thousands	NIS thousands
	(excluding net earnings per share data)		
Revenue			
From property rental	547,636	533,924	510,323
Increase in fair value of investment property	1,266,054	109,020	358,937
From management fees	11,230	11,793	10,496
Other	110,547	32,686	50,718
	1,935,467	687,423	930,474
Expenses			
Property maintenance	39,453	32,789	34,167
Sales and marketing	11,957	7,929	7,399
General and administrative	37,071	33,027	29,912
Other	42,507	38,276	26,598
	130,988	112,021	98,076
	1,804,479	575,402	832,398
Finance income (expenses)	7,333	(13,071)	35,851
Finance expenses	(219,375)	(142,569)	(153,588)
Finance expenses, net	(212,042)	(155,640)	(117,737)
Share in the profits of equity-accounted investees	23,322	14,609	10,559
	1,615,759	434,371	725,220
Profit before taxes on income	1,615,759	434,371	725,220
Taxes on income	355,848	103,752	161,559
Net profit for the period	1,259,911	330,619	563,661
Attributable to:			
Company owners	1,092,443	260,141	463,383
Non-controlling interests	167,468	70,478	100,278
Net profit for the period	1,259,911	330,619	563,661
Profit per share attributable to the Company's owners			
Basic earnings in NIS (see Note 16A(3))	5.10	1.22	2.17
Diluted earnings per share in NIS (see Note 16A(4))	5.09	1.21	2.17

The notes to the consolidated financial statements form an integral part thereof.

Statements of Comprehensive Income for the Years ended December 31, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>NIS</u>	<u>NIS</u>	<u>NIS</u>
	<u>thousands</u>	<u>thousands</u>	<u>thousands</u>
Net profit for the period	1,259,911	330,619	563,661
Items of other comprehensive income not transferred to profit and loss			
Losses on remeasurements of defined benefit plan	43	(269)	(123)
Tax benefit (tax) in respect of components of other comprehensive income	<u>(10)</u>	<u>62</u>	<u>28</u>
Other comprehensive loss for the period, net of tax	33	(207)	(95)
Total comprehensive income for the period	<u>1,259,944</u>	<u>330,412</u>	<u>563,566</u>
Attributable to:			
Company owners	1,092,461	259,948	463,280
Non-controlling interests	<u>167,483</u>	<u>70,464</u>	<u>100,286</u>
Total comprehensive income for the period	<u>1,259,944</u>	<u>330,412</u>	<u>563,566</u>

The notes to the consolidated financial statements form an integral part thereof.

Statements of Changes in Consolidated Equity

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Reserve from transactions with non-controlling interests and controlling shareholder	Revaluation reserve	Reserve for share-based payments	Retained earnings	Total		
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands		
For the year ended December 31, 2021									
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	-	-	-	-	-	1,092,443	1,092,443	167,468	1,259,911
Other comprehensive income for the period, net of tax	-	-	-	-	-	18	18	15	33
Realized securities convertible into shares	7	5,533	-	-	(5,540)	-	-	-	-
Share-based payment – imputation of benefit component	-	-	-	-	4,074	-	4,074	-	4,074
Dividend to non-controlling interests in subsidiary	-	-	-	-	-	-	-	(39,920)	(39,920)
Dividend to shareholders of the Company	-	-	-	-	-	(260,000)	(260,000)	-	(260,000)
Balance at December 31, 2021	169,585	264,669	9,730	29,462	5,074	3,132,469	3,610,989	969,094	4,580,083

The notes to the consolidated financial statements form an integral part thereof.

Statements of Changes in Consolidated Equity (cont.)

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Reserve from transactions with non-controlling interests and controlling shareholder	Revaluation reserve	Reserve for share-based payments	Retained earnings	Total		
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands		
For the year ended January 1, 2020									
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 loss for the period, net of tax	-	-	-	-	-	(193)	(193)	(14)	(207)
Realized securities convertible into shares	1	1,142	-	-	(1,143)	-	-	-	-
Share-based payment - imputation of benefit component	-	-	-	-	4,355	-	4,355	-	4,355
Dividend to non-controlling interests in a subsidiary	-	-	-	-	-	-	-	(114,770)	(114,770)
Dividend to shareholders of the Company	-	-	-	-	-	(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 notes to the consolidated financial statements form an integral part thereof.

Statements of Changes in Consolidated Equity (cont.)

	Attributable to owners of the Company						Non-controlling interests	Total equity	
	Share capital	Share premium	Reserve from transactions with non-controlling interests and controlling shareholder	Revaluation reserve	Reserve for share-based payments	Retained earnings			Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands			NIS thousands
For the year ended December 31, 2019									
Balance as at January 1, 2019	169,577	257,994	9,730	29,462	-	1,976,780	2,443,543	785,551	3,229,094
Net profit for the period	-	-	-	-	-	463,383	463,383	100,278	563,661
Other comprehensive income (loss), net of tax	-	-	-	-	-	(103)	(103)	8	(95)
Share-based payment - imputation of benefit component	-	-	-	-	3,328	-	3,328	-	3,328
Dividend to shareholders of the Company	-	-	-	-	-	(200,000)	(200,000)	-	(200,000)
Balance as at December 31, 2019	169,577	257,994	9,730	29,462	3,328	2,240,060	2,710,151	885,837	3,595,988

The notes to the consolidated financial statements form an integral part thereof.

Statements of Cash Flows for the Year Ended December 31, 2021

	2021	2020	2019
	NIS	NIS	NIS
	thousands	thousands	thousands
Cash flows from operating activities			
Net profit for the period	1,259,911	330,619	563,661
Adjustments:			
Depreciation and amortization	4,706	4,550	4,562
Net change in fair value of investment property	(1,266,054)	(109,020)	(358,937)
Finance expenses, net	203,778	154,778	117,077
Gain from revaluation to fair value of investment in associate in respect of gaining control		-	(22,817)
Share in profits of equity-accounted investees	(23,322)	(14,609)	(10,559)
Income tax expenses	355,848	103,752	161,559
Change in trade and other receivables	22,953	(32,867)	(50,102)
Change in other accounts payable	20,619	3,328	7,714
Change in inventory of land	134,807	10,208	6,170
Share-based payment	3,874	3,755	2,957
Change in employee benefits	(91)	(41)	65
	717,029	454,453	421,350
Dividend received	6,500	7,650	5,600
Income tax paid, net	(77,716)	(40,462)	(38,967)
Net cash from operating activities	645,813	421,641	387,983
Cash flows from investing activities			
Overpayment of advance on account of betterment levy	-	(13,399)	-
Interest received	7,297	9,469	14,462
Proceeds from disposal of investment property and property, plant and equipment	59,332	65,124	2,000
Tax paid on sale of investment property	(7,426)	(20,595)	-
Receipt from (payment) to institutions for sale of investment property	-	(10,336)	(6,324)
Purchase and construction of investment property	(910,766)	(412,570)	(392,202)
Purchase of property, plant and equipment and intangible assets	(4,204)	(1,634)	(7,519)
Purchase of marketable securities	(60,874)	(133,312)	(224,091)
Sale of marketable securities	368,377	305,980	248,490
Investment in and granting of loans to investees, net	-	4,489	(52,322)
Change in short-term deposits, net	(151,649)	(431,604)	71,098
Repayment of designated deposit, net	-	227	227
Net cash used for investing activities	(699,913)	(638,161)	(346,181)
Cash flow provided by financing activities			
Proceeds from issuance of debentures, net	-	1,911,811	487,190
Repayment of long-term loans from banks and financial institutions	-	-	(14,240)
Repayment of debentures	(725,618)	(377,843)	(261,007)
Interest paid	(170,547)	(175,864)	(163,896)
Dividend paid to non-controlling interests in a consolidated subsidiary	(39,920)	(114,770)	-
Dividend paid to the Company's shareholders	(260,000)	(200,000)	(200,000)
Payments for operating lease	(1,263)	(1,093)	(1,242)
Net cash from (used for) financing activities	(1,197,348)	1,042,241	(153,195)
Net increase (decrease) in cash and cash equivalents	(1,251,448)	825,721	(111,393)
Balance of cash and cash equivalents at beginning of period	1,715,381	889,660	1,001,053
Balance of cash and cash equivalents at end of period	463,933	1,715,381	889,660
Appendix - Non-Cash Activities			
Purchase of investment property by credit	4,856	19,986	73,950
Sale of investment property by credit	-	36,113	-
Real estate added against liability for building services	-	88,986	198,000

The notes to the consolidated financial statements form an integral part thereof.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 1 – GENERAL**A. The reporting entity**

Gav-Yam Land Corporation Ltd. (hereinafter - the “Company”) is an Israeli resident company incorporated in Israel, whose official address is 9 Andrey Saharov St., Haifa. The Group’s consolidated financial statements as at December 31, 2021 include the statements of the Company and its subsidiaries (hereinafter, jointly - the “Group”) and the Group’s interests in an associate and in companies under joint control. The Company, which operates in Israel, is engaged in the area of income-generating properties in initiating, planning, developing, building (through subcontractors), leasing, maintaining and managing industrial parks, high-tech parks, office buildings, retail spaces, and car parks. The Company is a public company, the shares and debentures of which are listed for trading on the Tel Aviv Stock Exchange Ltd. As of the report date, the Company is a company without a controlling shareholder, as this term is defined in the Law for Promotion of Competition and Reduction of Concentration, 2013.

B. Definitions

In these financial statements:

- (1) The Company - Gav-Yam Land Corporation Ltd.
- (2) The Group - Gav-Yam Land Corporation Ltd. and its subsidiaries.
- (3) Related party - As defined in IAS 24 (2009), Related Party Disclosures.

NOTE 2 – THE COVID-19 PANDEMIC

In 2021, the global and Israeli economies were still affected by the Covid-19 pandemic, which sparked a public-health and economic crisis like no other.

In accordance with the directives enacted by the Ministry of Health as part of Emergency Regulations, which are published from time to time, over the course of the year the activity of businesses was forbidden or restricted, attendance of employees in work places was restricted significantly, the education system was shut-down and restrictions were placed on leaving one’s home, including a full lockdown at the beginning of the year.

During the year, Israel experienced two very serious Covid-19 waves, due to the emergence of the Alpha variant in the first quarter, and the Delta variant at the end of the second quarter. Towards the end of the year, Israel started experiencing another Covid-19 wave due to the Omicron variant; as of the approval date of this report, this wave is at its peak. Despite the fact that hundreds of thousands of people got infected with Omicron, the variant did not cause severe disease, and the government did not place restrictions in respect thereof. It is expected that the current Covid-19 wave will end within the next few weeks.

During the year, the government took steps to inoculate the entire population against the virus (people aged five and over), including a booster jab and even a fourth jab. Despite the high inoculation rates and in view of the emergence of various variants of the Covid-19 virus, as mentioned above, levels of infections are high as of the date of this report.

In 2021, the Israeli economy rebounded after it shrank in the previous year; however, as of the report date, the duration of the crisis and its full impact on business activity in Israel cannot be predicted. Current forecasts predict continued recovery of the Israeli economy in 2022; however, it is impossible to predict if and when other Covid-19 variants will emerge, and whether economic restrictions will be placed in view of their spread.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 3 - BASIS OF PREPARATION**A. Statement of compliance with International Financial Reporting Standards (IFRS)**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter - "IFRS").

The financial statements have also been prepared in accordance with the Securities Regulations (Annual Financial Statements), 2010.

The Company's Board of Directors approved the consolidated financial statements on January 31, 2022.

B. Functional and presentation currency

The consolidated financial statements are presented in NIS, which is the functional currency of the Company and of its subsidiaries, rounded to the nearest thousand.

The NIS is the currency that represents the principal economic environment in which the Company and all Group companies operate.

C. Measurement basis

The financial statements have been prepared using the historical cost basis except for the following assets and liabilities: Investment property and investment property under construction, financial instruments at fair value through profit and loss, non-current assets held for sale, deferred tax assets and liabilities, provisions, inventories measured at the lower of cost or net realizable value, assets and liabilities for employee benefits and investments in companies accounted for using the equity method. For further information about the measurement of these assets and liabilities, see Note 4, Significant Accounting Policies.

D. Operating cycle

The Group has two operating cycles. The Company's operating cycle for all its activities except for the construction of buildings for sale is one year; the operating cycle for construction of buildings for sale is two and a half years.

E. Classification of expenses recognized in the statement of income

The classification of expenses recognized in the statement of income is based on the function of the expense. This classification is appropriate for understanding the Company's business. Additional information regarding the nature of the expense is included, where relevant, in the notes to the financial statements.

F. Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires that management of the Group Company 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 preparation of accounting estimates used in the preparation of the Group's financial statements requires the Company's management to make assumptions regarding circumstances and events that involve considerable uncertainty.

In applying judgment to its estimates, the Company's management relies on past experience, various facts, external factors, and reasonable assumptions according to the pertinent circumstances of each estimate.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 3 - BASIS OF PREPARATION (CONT.)****F. Use of estimates and judgments (cont.)**

The underlying estimates and assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Set forth below is a description of the critical accounting estimates that were used in the preparation of the Company's financial statements, which required the managements of the Company and the consolidated companies to make assumptions regarding circumstances and events that involve considerable uncertainty:

Estimate	Main assumptions	Possible effects	Reference
Measuring the fair value of investment property and investment property under construction.	The expected rate of return on the investment property. Estimated expected rent in respect of the investment property.	Profit or loss in respect of a change in the fair value of investment property and investment property under construction.	For more information about the fair value of investment property, see Note 10.

G. Determining fair value

In order to prepare its financial statements, the Group is required to determine the fair value of certain assets and liabilities. Additional information about the assumptions that were used to determine the fair value is included in the following notes:

- Note 10, Investment Property.
- Note 27, Financial Instruments.

When determining the fair value of an asset or liability, the Group uses observable market inputs as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the inputs used in the measurement, as follows:

- Level 1: quoted prices (unadjusted) in an active market for identical assets or liabilities.
- Level 2: observable market inputs, either directly or indirectly, that are not included within Level 1 above.
- Level 3: inputs that are not based on observable market inputs.

NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements.

A. Basis of consolidation**(1) Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date of loss of control. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(2) Non-controlling interests

Non-controlling interests represent the equity of a subsidiary that cannot be attributed, directly or indirectly, to the parent company. Non-controlling interests, which are instruments that convey a present ownership right and that grant to their holder a share in the net assets in a case of liquidation (e.g., ordinary shares) are measured on the date of the business combination at fair value or based on their relative share in the identified assets and liabilities of the entity acquired, on a transaction-by-transaction basis.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)**A. Basis of consolidation (cont.)****(2) Non-controlling interests (cont.)**

Allocation of profit or loss and other comprehensive income to the shareholders
Profit or loss and any component of other comprehensive income are attributed to the owners of the Company and to non-controlling interests. Total profit or loss and other comprehensive income are attributed to the owners of the Company and to non-controlling interests even if the result is a negative balance of non-controlling interests.

Transactions with non-controlling interests while maintaining control
Transactions with non-controlling interests that do not result in change of control are accounted for as equity transactions. Any difference between the consideration paid or received and the change in the non-controlling interests is recorded to the share of the Company's owners directly in a capital reserve.

The adjustment to non-controlling interest is calculated as follows:

When the interest increases, according to the acquired proportionate share of the non-controlling interests balance in the financial statements prior to the transaction.

When the interest decreases, according to the sold proportionate share of the subsidiary's owners in the net assets of the subsidiary, including goodwill.

(3) Investment in associates and joint ventures (equity-accounted)

Associates are entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. There is a rebuttable presumption whereby a stake of 20% to 50% in the investee confers significant influence.

Joint ventures are joint arrangements in which the Group has rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for using the equity method and are initially recognized at cost. The investment cost includes transaction costs. Transaction costs that are directly attributable to an expected acquisition of an associate or a joint venture are recognized as an asset under the deferred expenses line item in the statement of financial position. These costs are added to the investment cost on the acquisition date. The consolidated financial statements include the Group's share in income and expenses, profit or loss, and other comprehensive income of equity-accounted investees, after adjustments to reconcile the accounting policies to those of the Group, from the date on which significant influence or joint control is achieved until the date on which significant influence or joint control ceases.

When the Group's share in the losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments that constitute part of the investment account in the investee, is written-down to zero. When the Group's share in long-term loans that constitute a part of the investment in the investee is different from its share in the investee's equity, the Group continues to recognize its share of the investee's losses, after the equity investment is written-down to zero, in accordance with its economic interest in the long-term investment, after the aforesaid interests are written-down to zero as aforesaid. The Group recognizes additional losses only if it has an obligation to support the investee or if it made payments on its behalf.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)**A. Basis of consolidation (cont.)****(4) Acquisition of a single asset entity**

When it purchases a single asset entity, the Group exercises judgment in order to assess whether it acquired a business or an asset in order to determine the accounting treatment that will be applied to the transaction. When it assesses whether the single asset entity is a business the Group considers, among other things, the nature of the single asset entity's existing processes, including the scope and nature of management, security, cleaning and maintenance services rendered to tenants. Where the purchased company is a business, the transaction is accounted for as a business combination. However, where the purchased company is not a business, the transactions are accounted for as an acquisition of a group of assets and liabilities. In such transactions, the overall cost of acquisition is allocated on a proportionate basis to the identifiable assets and liabilities purchased, based on their proportionate fair value on acquisition date. In the latter case, goodwill is not recognized and neither are deferred taxes in respect of temporary differences existing as of acquisition date.

(5) Joint operation

When the Group has rights in assets and obligations in respect of liabilities attributed to joint arrangements, it recognizes the assets, liabilities, revenues and expenses of the joint operation based on its rights in these items, including its share in the items held or incurred jointly. Gains or losses from transactions with joint operations are recognized only at the amount of the other parties' share in the joint operation.

(6) Transactions eliminated in the consolidation

Intra-group balances, any unrealized income and expenses, and profits arising from intra-group transactions with consolidated companies, were eliminated in the preparation of the consolidated financial statements. Unrealized gains arising from transactions with associates and entities under joint control were eliminated against the investment account based on the Group's interests in these investments. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(7) Business combinations

The Group implements the acquisition method for all business combinations.

The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Group is exposed, or has rights to variable returns from its involvement with the acquiree and has the ability to affect those returns through its power over the acquiree. When testing for control, substantive rights held by the Group and others are taken into account. The Group recognizes goodwill as of acquisition date at the fair value of the consideration transferred and the acquisition-date fair value of any previously held equity interest of the Group in the acquiree, net of the net amount of identifiable assets acquired and liabilities assumed. The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, the liabilities incurred by the acquirer to the previous owners of the acquiree as well as equity interests issued by the Group. In a business combination achieved in stages, the difference between the acquisition-date fair value of the Group's previously held equity interest in the acquiree and the carrying amount as of that date is carried to the statement of income under the other revenues or the other expenses item.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)****B. Financial instruments****(1) Non-derivative financial assets****Initial recognition of financial assets**

The Group initially recognizes loans and receivables and deposits on the date that they are created. All other financial assets acquired in a regular way purchase are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument, i.e. - the date on which the Group undertook to purchase or sell the asset. Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit and loss, then the initial measurement includes transaction costs that are directly attributable to the asset acquisition or creation. Following initial recognition, the Group measures financial assets at either fair value or amortized cost, as described below.

Classification of financial assets into classes

At the date of initial recognition, the Group classifies financial assets to one of the following measurement categories: amortized cost, fair value through other comprehensive income, or fair value through profit and loss.

Financial assets are only reclassified in subsequent periods if and only when the Group changes its business model for the management of financial debt assets, in which case financial debt assets that are impacted are reclassified at the beginning of the reporting period that follows the change in the business model.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it cumulatively meets the two cumulative conditions below and is not intended for measurement at fair value through profit and loss:

- Held as part of a business model whose purpose is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset provide entitlement at defined dates to cash flows that are only payments of principal and interest for the outstanding principal amount.

A debt instrument is measured at fair value through other comprehensive income if it cumulatively meets the two conditions below and is not intended for measurement at fair value through profit and loss:

- Held as part of a business model whose purpose is achieved both through collection of contractual cash flows and through the sale of financial assets; and
- The contractual terms of the debt instrument provide entitlement at defined times to cash flows that are only payments of principal and interest for the outstanding principal amount.

All financial assets that are not classified for measurement at amortized cost or at fair value through other comprehensive income as described above are measured at fair value through profit and loss. On initial recognition the Group designates financial assets at fair value through profit and loss when the said designation cancels or substantially reduces accounting mismatch. The Group has other customer receivables and deposits held as part of a business model whose purpose is to collect contractual cash flows. The contractual cash flows for these financial assets include solely payments of principal and interest that reflect consideration for the time value of money and credit risk. Accordingly, these financial assets are measured at amortized cost.

Valuation of business model for financial assets

The Group estimates the purpose of the business model in which the financial asset is held at the portfolio level, since this best reflects the manner in which the business is managed and provides information to management. When determining the Group's business model, the following considerations were taken into account:

- The policy and declared purposes of the portfolio and implementation of the policy in practice, including whether management's strategy focuses on receipt of contractual interest, by retaining a certain interest profile, by adjusting the life of the financial assets to the life of any associated liabilities or forecast cash flows, or realization of cash flows by selling the assets;

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)****B Financial instruments (cont.)****(1) Non-derivative financial assets (cont.)**

- The manner in which the performance of the business model and of the financial assets that are held under this model are evaluated and reported to key members of management;
 - The risks that affect performance of the business model (and of the financial assets held under that business model) and how to manage those risks; and
 - Frequency, value and timing of sales of financial assets in previous periods, the reasons for the sales and expectations for future sales activity.
- Transfers of financial assets to third parties in transactions that are not qualified for derecognition are not considered sales for the purpose of evaluating the business model, consistently with the Group's subsequent recognition of those financial assets.
- Financial assets held for trading or managed and whose performance is evaluated based on fair value are measured at fair value through profit and loss.

Assessment as to whether the cash flows include solely principal and interest

For the purpose of assessing whether cash flows include only principal and interest, "principal" is the fair value of the financial asset at the date of initial recognition. "Interest" is made up of the consideration for the time value of money, for the credit risk attributed to the amount of principal not yet paid during a given time period and for other loan risks and costs, such as profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument, which includes assessing whether the financial asset contains a contractual term or condition that could change the timing or amount of contractual cash flows such that it would not meet this term or condition.

In carrying out this assessment, the Group takes into account the following considerations:

- Any contingent events that would change the timing or amount of the cash flows;
- Terms and conditions that may change the nominal interest rate, including variable interest;
- Characteristics of extension or early repayment; and
- Terms and conditions that limit the Group's entitlement to cash flows from hedged assets.

Early repayment characteristic is consistent with the criterion of principal and interest only if the amount of the early repayment substantively represents outstanding amounts of principal and interest for an outstanding principal amount, which may include reasonable compensation, received or paid due to early termination of the contract.

In addition, for a financial asset that was purchased at a material premium or discount relative to the nominal contract value is a characteristic that facilitates or requires early repayment of an amount that substantively reflects the nominal contractual value and contractual interest that has accrued but has not yet been paid (that may include reasonable compensation, received or paid for early termination), is consistent with the criterion of principal and interest only if the fair value of the early repayment characteristic is not material at initial recognition.

Subsequent measurement

Financial assets at amortized cost

These assets are measured in subsequent periods at amortized cost using the effective interest method and less impairment losses. Interest income and impairment are recognized in profit and loss. Any profit or loss arising from derecognition is also recognized in profit and loss.

Financial assets at fair value through profit and loss

In subsequent periods, these assets are measured at fair value. Net profits and losses, including interest income or dividends, are recognized in profit and loss.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B Financial instruments (cont.)

(1) Non-derivative financial assets (cont.)

Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows arising from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are substantially transferred.

Regular way sales of financial assets are recognized on the trade date, i.e., on the date on which the Group undertook to sell the asset.

(2) Non-derivative financial liabilities

Non-derivative financial liabilities include: Loans and credit from banks and other credit providers, debt instruments issued by the Group, supplier payables, other creditors and liabilities for finance leases.

The Group initially recognizes debt instruments as they are incurred. Other financial liabilities are initially recognized at the trade date when the Group becomes party to the contractual provisions of the instrument.

Financial liabilities are initially recognized at fair value net of any attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Transaction costs directly attributable to an expected issuance of an instrument that will be classified as a financial liability are recognized as an asset under deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon its initial recognition, or are amortized as finance expenses in the statement of income when the issuance is no longer expected to occur.

Change in terms and conditions of debt instruments

An exchange of debt instruments having substantially different terms and conditions, between an existing borrower and lender, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. Furthermore, a substantial modification of the terms and conditions of the existing financial liability or part thereof, is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

In such cases, the entire difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit and loss as finance income or expense.

If the discounted present value of the cash flows according to the new terms and conditions, including any fees and commissions paid, less any fees and commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability, the terms and conditions are substantively different.

In addition to this quantitative test, the Group also assesses qualitative considerations in order to determine whether it is a matter of exchange of debt instruments with materially different terms and conditions, and as part of this all the characteristics of the exchanged debt instruments are examined and their inherent economic parameters, which if indeed are materially different from each other, may give rise to a different economic risk for the holder of the debt instrument when they are exchanged. These economic parameters are, inter alia, over an average duration of the exchanged debt instruments and the degree of impact of the debt terms (such as linkage to the CPI, linkage to foreign currency, variable interest) on the instruments' cash flows.

Offset of financial instruments

Financial assets and liabilities are netted and the net amount is presented in the statement of financial position when the Group currently has a legal right to offset the amounts and intends either to settle the asset and liability on a net basis or to dispose of the asset and settle the liability simultaneously.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)
B Financial instruments (cont.)
(3) CPI-linked assets and liabilities not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is remeasured every period in accordance with the actual rate of change in the CPI.

amount of income recognized according to the principles of IFRS 15. Any update of liability according to the foregoing is allocated to profit and loss.

(4) Financial guarantees

The Company initially recognizes a liability for a financial guarantee at its fair value. In subsequent periods, the guarantee is measured at the higher of the provision to losses determined according to the provisions of IFRS 9 and the amount initially recognized, as applicable, of the cumulative amount of income recognized according to the principles of IFRS 15. Any update of liability according to the foregoing is allocated to profit and loss.

(5) Share capital - ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary share capital are recognized as a deduction from equity.

C. Cash and cash equivalents

Cash and cash equivalent balances in the consolidated statements of cash flow include: cash in hand, short-term deposits with banks and other highly liquid short-term investments whose term to maturity does not exceed 3 months.

D. Property, plant & equipment
(1) Recognition and measurement

Property, plant & equipment items are measured at cost net of any accumulated depreciation, accumulated impairment losses and investment grants. Cost includes expenditures directly attributable to the purchase of the asset. The cost of self-constructed assets includes the cost of materials, direct labor costs, and any other costs directly attributable to bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.

profit or loss on disposal of a property, plant & equipment item is measured by comparing the net consideration from disposal of the asset to its carrying amount, and recognized on a net basis under the other income or other expenses item in the statement of income, as applicable.

(2) Reclassification to the investment property line item

When a real estate asset is no longer an owner-occupied property, and becomes an investment property, which is measured at fair value, the asset is remeasured at fair value and classified as investment property. Any gains arising from the remeasurement (net of tax) are carried to other comprehensive income (under the revaluation reserve), unless the gains reverse a previously-recorded impairment loss in respect of the real estate, in which case the gains are first carried to profit and loss. Any loss is carried directly to profit and loss.

(3) Subsequent costs

The cost of replacing part of an item of property, plant and equipment and other subsequent expenses are recognized as part of the carrying value of the property, plant and equipment line item if it is expected that the future economic benefits embodied in them will flow to the Group and if their cost can be measured reliably. The carrying amount of the replaced part of a property, plant and equipment line item is derecognized. The costs of ongoing servicing of property, plant and equipment are recognized in profit and loss as incurred.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)****D. Property, plant & equipment (cont.)****(4) Depreciation**

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation is recognized in the statement of income on a straight-line basis over the estimated useful life of the property, plant and equipment components, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Properties under finance leases, including land, are depreciated over the shorter of the lease term and the useful life of the assets, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated.

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

- | | |
|---------------------------------------|-------------------------------|
| – Buildings | 50 |
| – Machinery, facilities and equipment | 10-15 years (mainly 10 years) |
| – Other property, plant and equipment | 3-14 years |

Estimates as to the depreciation method and useful life are reviewed at least at the end of each reporting year and adjusted as needed.

E. Investment property

Investment property is a real estate asset (land or building – or part of a building – or both) held either to earn rental income or for capital appreciation or both, but not for:

1. The production or supply of goods or services by the owners or for administrative purposes; or
2. Sale in the ordinary course of business.

Investment property is initially measured at cost, including capitalized borrowing costs. Cost includes expenses that is directly attributable to the purchase of the investment property. The cost of self-constructed investment property under construction includes the cost of materials, direct labor costs, and any other costs that are directly attributable to bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. In subsequent periods investment property is measured at fair value, and changes in fair value are carried to the income statement. Real estate properties under construction for future use as investment property is measured as follows:

- (1) At fair value, with the possibility of reliably estimating the fair value of investment property under construction; and
- (2) When the fair value cannot be reliably measured, investment property under construction is measured at the fair value of the land plus construction costs until the earlier of the completion of construction work and the date on which the fair value of the property can be reliably measured.

Borrowing costs are not capitalized to investment property under construction which is measured at fair value.

When the classification of an asset changes from investment property, which is measured at fair value, to property, plant & equipment (real estate used by the owners) or inventory, the fair value as of that date is fixed as the cost of the property, plant & equipment item for purposes of subsequent accounting treatment.

Profit or loss on disposal of investment property is measured by comparing the net consideration from disposal of the property to its carrying amount as of the latest financial reporting date, and recognized in the increase (decrease) in fair value of investment property item in the statement of income, as applicable. When an investment property that was previously classified as a property, plant & equipment item is sold, the revaluation reserve included in equity in respect of investment property is carried directly to retained earnings.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)**F. Intangible assets**

Intangible assets are recognized in respect of the costs of software purchased by the Company with finite useful life, stated at cost net of accumulated amortization and accumulated impairment losses, if any.

Amortization is recognized in the income statement on a straight-line basis, over the estimated useful lives of the intangible assets from the date they are available for use, since these methods most closely reflect the expected pattern of consumption of the future economic benefits best embodied in each asset. The estimates regarding the amortization method and useful life are reviewed at least at the end of each fiscal year and adjusted as needed.

G. Leases

The Company leases land, buildings and vehicles. The lease agreements are for different periods and may include an extension option.

The Company estimates, at the time of entering into a contract, whether the contract is a lease or includes a lease. A contract is a lease or contains a lease if the contract transfers the right to control use of an identifiable asset for a period of time in exchange for consideration. The Group reassesses whether a contract is a lease or if it contains a lease only if the terms of the contract have changed.

For lease contracts that include components that are not lease components - such as services or maintenance - related to the lease component, the Company has chosen to separate the lease components and to handle the lease component separately.

At the date of initial recognition, the Group recognizes a lease liability at the present value of the future lease payments, which include, inter alia, the exercise price of the extension options that it is reasonably certain will be exercised.

At the same time, the Group recognizes a right-of-use asset at the lease liability amount, adjusted for any lease payments made at the effective date or prior, less any lease incentives received, plus any initial direct costs that will have been incurred by the Group.

Variable lease payments linked to the CPI are initially measured by using the CPI existing at the lease commencement date, and are included in the calculation of the lease liability. When there occurs a change in the cash flows of the lease as a result of a change in the CPI, the Group remeasures the lease liability based on updated contractual cash flows, adjusted for the right-of-use asset.

Variable lease payments that are not dependent on the CPI or exchange rate are not included in the calculation of the lease liability, and are recognized in profit or loss in the period in which the event or condition that triggered these payments materialized.

Since the interest rate embodied in the lease cannot be easily determined, use is made of the Company's incremental interest rate. This interest rate is the rate the Group would have been required to pay in order to borrow for a similar period, with similar collateral, the amounts required to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

The lease term is the period in which the lease cannot be terminated, including terms covered by an option to extend the lease if it is reasonably certain that the Group will exercise this option, and for terms covered by an option to terminate the lease if it is reasonably certain that the Group will exercise this option.

After the lease commencement date, the Group measures right-of-use assets that do not meet the definition of investment property, less accumulated depreciation and accumulated impairment losses, adjusted for any remeasurement of the lease liability.

Depreciation of a right-of-use asset that is not an investment property is calculated on a straight line basis, based on estimate of the useful life of the leased assets or lease term, whichever is the shorter. As stated above, right-of-use assets that meet the definition of investment property are presented in the statement of financial position as investment property.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)**H. Inventory of land**

Land inventory is recognized at the lowest of cost net of any accumulated amounts recognized in profit and loss pursuant to IFRS 15 and net realizable value. The cost of inventory includes expenditure incurred in acquiring the inventory (including pre-paid lease fees) and the costs incurred in bringing the inventory to its existing location and condition. In the case of inventory of buildings under construction and inventory of finished buildings, the cost includes an appropriate allocation of construction overheads. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs required for the sale.

Land inventory purchased by the Group in a combined transaction in consideration for the provision of construction services to the seller of the land, is recognized at its fair value at the time of the land's delivery, in parallel to recognition of the obligation to provide construction services.

When a property is transferred from inventory item to the investment property item (measured at fair value), the difference between the property's fair value on that date and its carrying amount is carried directly to profit and loss.

I. Capitalization of borrowing costs

Borrowing costs were capitalized to qualifying assets throughout the period required for completion and construction until they are ready for their intended use (see Section D above). Non-specific borrowing costs are capitalized in the same manner to the same investment in qualifying assets, or portion thereof, which was not financed with specific credit by means of a rate which is the weighted-average cost of the credit sources which were not specifically capitalized. Other borrowing costs are expensed in profit and loss as incurred. In the event of a delay in development of a qualified asset, capitalization of borrowing costs is suspended during that period.

In the inventory of buildings, in which control of the assets sold is transferred over time, the Company ceases to capitalize borrowing costs at the date of the actual construction of the project and its sale, which is the date when all actions required for sale are materially ceased.

J. Impairment**(1) Non-derivative financial assets**

The Group recognizes a provision for loss for expected credit losses on financial assets that are debt instruments measured at amortized cost, receivables for a lease and assets for contracts with trade receivables arising from transactions under the scope of IFRS 15.

The Group examines, at each reporting date, whether there has been a significant increase in the credit risk of the financial asset from the date of its initial recognition, on a specific or collective basis. To this end, the Group compares the risk of the occurrence of default in a financial instrument at reporting date with the risk of the occurrence of default in a financial instrument at initial recognition date, taking into account all reasonable, well-based information, including forward looking information.

For financial assets that have had a material increase in credit risk from the date of initial recognition, the Group measures the provision for loss in an amount equal to expected credit losses over the entire life of the instrument. Otherwise, the provision for loss will be measured as an amount equal to expected credit losses over a period of 12 months. The expected credit provision amount (or reversal) is recognized in profit and loss.

For low credit risk financial instruments, the Group assumes that the credit risk has not materially risen from the date of initial recognition.

Notwithstanding the foregoing, the Group always measures the provision for loss at an amount equal to expected credit losses over the entire life of the instrument for customers or assets for contracts with customers arising from transactions under the scope of IFRS 15, and for receivables for leases arising from transactions under the scope of IAS 16.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)**J. Impairment (cont.)****Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than investment property, apartments for sale inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If such indications exist, the estimated recoverable amount of the asset is calculated.

The recoverable amount of an asset is the higher of its value in use and its fair value less costs to sell. When determining the value in use, the Group discounts the projected future cash flows according to a pre-tax discount rate that reflects the assessments of market participants regarding the time value of money and the specific risks relating to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount, and are recognized in profit and loss.

Previously-recognized impairment losses are reassessed on each reporting date in order to determine whether there are indications that the losses have decreased or no longer exist. An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount, until the carrying amount of the asset, after reversal of the impairment loss, is the same as the carrying amount, after deduction of depreciation or amortization, that would have been determined if the impairment loss had not been recognized.

(2) Investment in associates and joint ventures

An investment in an associate or joint venture is tested for impairment when objective evidence indicates that impairment has occurred.

Where there is objective evidence that the value of the investment may have been impaired, the Group estimates the investment's recoverable amount, which is the higher of its value in use and its net selling price. When determining the value in use of an investment in an associate or a joint venture, the Group estimates its share in the present value of the estimated future cash flows that are expected to be generated by the associate or joint venture, including cash flows from operations of the associate or joint venture and the consideration from the ultimate disposal of the investment, or the present value of the estimated future cash flows that are expected to be generated from dividends that will be received and from the ultimate disposal.

An impairment loss is recognized when the investment's carrying amount after implementation of the equity method exceeds the recoverable amount and is imputed to profit and loss. Impairment losses are not allocated to any asset.

An impairment loss of an asset is reversed only if there have been changes in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognized.

The investment's carrying amount after the reversal of an impairment loss shall not exceed the investment's carrying amount that would have been determined by applying the equity method, had an impairment loss not been recognized.

K. Non-current assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through a sale transaction rather than through continuing use. Immediately prior to their classification as held for sale, the assets are measured in accordance with the Group's accounting policy. Subsequently, the assets - excluding investment property and inventory - are measured according to the lowest of the carrying amount and fair value, net of costs to sell. Losses from impairment at initial classification of an asset as held for sale and subsequent profits or losses as a result remeasurement are imputed to profit and loss. Recognized profits up to the cumulative amount of impairment loss recorded in the past.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)**L. Employee benefits**

The Group has a number of post-employment benefit plans. The plans are usually financed by contributions with insurance companies and are classified as defined benefit plans.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or when the benefit is not accumulated (such as maternity leave) - due to actual absence.

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits determined when the Group expects the benefits to be wholly-settled.

Share-based compensation transactions

The fair value on the grant date of share-based payment is recognized as a salary expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the options. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting vesting conditions, i.e. service conditions and non-market performance conditions, is adjusted to reflect the number of grants that are expected to vest. For share-based payment awards with non-vesting conditions or with market performance vesting conditions, the fair value of the awarded equity instruments is measured to reflect such conditions, and therefore the Group recognizes an expense in respect of these awards regardless of whether these conditions have been met.

M. Provisions

A provision is recognized when the Group has a present legal or constructive obligation due to past event, that can be estimated reliably, and it is probable that an outflow will be required to settle the obligation.

Lawsuits

A provision for lawsuits is recognized if, as a result of a past event, the Group has a current legal or constructive obligation and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be estimated reliably. When the value of time is material, the provision is measured at its present value.

N. Revenues**(1) Revenue from rental fees**

Rental fees from investment property are recognized in profit and loss using the straight line method, over the rental period. Rental incentives granted are recognized as an integral part of revenue from rental, over the rental period.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)**N. Revenues (cont.)****(2) Sale of residential apartments and land inventory**

Identification of the contract

The Group treats a contract with a customer only where all of the following terms and conditions are met:

- (A) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying their obligations thereunder;
- (B) The Group is able to identify the rights of each party in relation to the goods or services that are to be transferred;
- (C) The Group is able to identify the payment terms for the goods or services that are to be transferred;
- (D) The contract has commercial substance (i.e., the entity's risk, timing and amount of future cash flows are expected to change as a result of the contract); and
- (E) It is probable that the consideration to which the Group is entitled to in exchange for the goods or services transferred to the customer will be collected.

If a contract with a customer does not meet these criteria, the consideration received from the customer is recognized as a liability until the above terms and conditions are met or until one of the following events takes place: The Group no longer has obligations to transfer goods or services to the customer and all the consideration promised by the customer has been received and cannot be refunded, or the contract is terminated and the consideration received from the customer is not refundable.

Identification of performance obligations

The Group estimates, at inception date of the contract, the goods or services promised in the contract with the customer and identifies as a performance obligation every undertaking to transfer to the customer one of the following two:

- (A) Goods or services (or a bundle of goods or services) that are distinct; or
- (B) A series of distinct goods or services that are in fact identical and share the same pattern of transfer to the customer.

The Group identifies goods or services promised to the customer as being distinct when the customer can benefit from the goods or services on their own or in conjunction with other readily available resources and the Group's promise to transfer the goods or services to the customer is distinctly identifiable from other promises in the contract. In order to examine whether a promise to transfer goods or services is distinctly identifiable, the Group examines whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into one integrated outcome that is the purpose of the contract.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)**N. Revenues (cont.)****(2) Sale of residential apartments and land inventory (cont.)**

Fulfilment of performance obligations

The Company is required to estimate for every contract with a customer if its is fulfilling its performance obligations over time or at one point in time (at time of handover) in order to determine the appropriate method for recognition of the revenue.

The Company fulfils its performance and sales obligations in revenues over time, if one of the following criteria is met:

1. The customer receives and consumes at the same time the benefits provided by the Group's performance if the Group is the performing party.
2. The Group's performance creates or enhances an asset (for example, work in process) that the customer controls as the asset is created or improved.
3. The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Determining the transaction price

The Company is required to determine the transaction price separately for each contract with a customer. The Company estimates the effect of any variable consideration in the contract, taking into account penalties, changes, claims, the existence of a substantial financing component in the contract as well as non-cash consideration.

In determining the transaction price, the Company adjusts the consideration amount promised for impacts of the time value of money if the timing of the payments agreed by the parties to the contract (whether explicitly or implicitly) provides the customer or the Company a material finance benefit in transfer of the real estate asset. In these circumstances, the contract includes a material financing component. In cases where the gap between the date of receipt of payment and the date of transfer of the goods or service to the customer is one year or less, the Company implements the practical expedient stipulated in the standard and does not separate a material financing component.

The Company has come to the conclusion that in its sales contracts with its customers in real estate development projects in Israel - based on the law and applicable regulations in Israel, and based legal opinions received - an asset with alternative use has not been created for the Group, and it is entitled to enforce compliance with the contract. In these circumstances, the Group will recognize the revenue over time. When these conditions do not exist, the revenue is recognized at one point in time.

The Company recognizes the revenue in respect of the entire contract separately subject to the percentage of amounts received by the Company as of the reporting date for the contract is greater than 15% of the total contract amount. The Company determines the level of revenue from the entire contract in accordance with the transaction price with each customer separately.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)**N. Revenues (cont.)****(2) Sale of residential apartments and land inventory (cont.)**

Existence of a significant financing component in a contract

In determining the transaction price, the Company adjusts the consideration amount promised for effects of the time value of money if the timing of the payments agreed on by the parties to the contract (whether explicitly or implicitly) provides the customer or the Company a material finance benefit in the transfer of the real estate property. Under these circumstances, the contract includes a material financing component. In cases where the difference between the date of receipt of payment and the date of transfer of the goods or service to the customer is one year or less, the Group implements the practical expedient stipulated in the standard and does not separate a significant financing component.

Recognition of revenue from combined transactions

Land inventory or income-generating land purchased by the Group in consideration for the provision of construction services to the seller of the land, is recognized at fair value when there is a contractual obligation to provide construction services, concurrently with the recognition of a liability to provide construction services to the owner of the land. In subsequent periods, the said obligation is adjusted in order to reflect the material financing component embodied in the transaction. The liability to provide construction services and the land inventory are carried to income from construction services and to expenses in respect of construction services, respectively, in accordance with the percentage of completion of the inventory in its entirety.

(3) Management fees

Revenue from management fees is recognized in profit and loss in accordance with the transaction's stage of completion as of the reporting date.

O. Finance income and expenses

Finance income include interest income in respect of invested amounts, dividend income and changes in the fair value of financial assets stated at fair value through profit and loss. Interest income is recognized as it accrues using the effective interest method. Dividend income is recognized on the date on which the right to receive the payment is conferred upon the Group. If the dividend is received in respect of marketable shares, the Group recognizes the dividend income on the ex-date.

Finance expenses include interest expenses and linkage differences on loans and debentures issued by the Company. All uncapitalized borrowing costs on qualifying assets are charged to profit and loss using the effective interest method. In the statement of cash flow, interest received is presented under cash flow from investing activities, dividends received are presented under cash flow from operating activities, and interest and dividend paid are presented under cash flow from financing activities.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)**P. Income tax expenses**

Taxes on income include current and deferred taxes. Current and deferred taxes are recognized in the statement of income, unless the tax stems from a transaction or event recognized directly in equity or other comprehensive income.

The current tax is the amount of tax expected to be paid (or received) in respect of the taxable income for the year, calculated using the tax rates applicable under the tax laws enacted, or substantively enacted, as of statement of financial position date; this amount includes changes in previous years taxes.

The Group offsets deferred tax assets and liabilities if there is a legally enforceable right to offset current tax liabilities and assets, and they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A provision for uncertain tax positions, including additional tax and interest expenses is recognized when it is more probable than not that the Group will have to use its economic resources to pay the obligation.

Deferred taxes

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their values for tax purposes. The Group does not recognize deferred taxes for the following temporary differences: initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither the accounting profit nor the profit for tax purposes; and differences that stem from an investment in subsidiaries, joint arrangements and associates, if the Group controls the reversal date of the difference and it is expected that they will not reverse in the foreseeable future, whether by means of disposal of the investment or through distribution of dividends for the investment. The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Group expects to recover or settle the carrying amount of its assets and liabilities at the end of the reporting period. For investment property measured using the fair value model, there is a rebuttable presumption whereby the carrying amount of the investment property shall be recovered by way of sale. Deferred taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for carryforward losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets that were not recognized are revalued on each reporting date and recognized if it is expected that future taxable income will be available against which they can be utilized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle deferred tax liabilities and assets on a net basis or their tax assets and liabilities will be settled simultaneously.

Q. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, after adjustment for treasury shares and for the effects of any dilutive potential ordinary shares, which include share options and restricted stock units awarded to employees.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)****R. Transactions with the controlling shareholder**

Assets and liabilities in respect of which a transaction was carried out with a controlling shareholder are measured at fair value as of transaction date. Where there is a difference between the fair value and the consideration from the transaction, such difference is recognized in equity due to the fact that the transaction in question is an equity transaction.

S. Accounting standards and interpretations not yet adopted**1. Amendment to IAS 1 - Presentation of Financial Statements: Classification of a Liability as Current or Non-Current**

The Amendment supersedes certain classification requirements of current or non-current liabilities. For example, pursuant to the Amendment, a liability will be classified as non-current if an entity has the right to defer the payment for a period of at least 12 months after the reporting period, which is “substantive” and exists at the end of the reporting period, in lieu of the “unconditional” right requirement. Under the Amendment, a right exists as at the reporting date only if an entity is in compliance with the terms and conditions for deferment of the payment as at that date. In addition, the Amendment clarifies that the right of conversion of the liability will only impact the classification of the entire instrument as current or non-current if the conversion component is equity.

The Amendment will be implemented from the reporting periods commencing on January 1, 2024, with the possibility of earlier application. The Amendment will be implemented retrospectively, including amendment of comparative figures.

The Group has yet to assess the implications of adoption of the Amendment on the financial statements.

First time implementation for the amendment to IAS 1 is not expected to have material impact on the Group’s financial statements.

2. Amendment to IAS 37, Provisions, Contingent Liabilities and Contingent Assets

According to the Amendment, an examination whether a contract is onerous, the costs of fulfilling a contract that need to be taken into account are costs directly related to the contract, which include the following costs:

- Incremental costs; and
- Allocation of other costs directly related to fulfilment of the contract (such as depreciation costs of property, plant, and equipment that are used in fulfilment of this contract and other additional contracts).

The Amendment is to be applied retrospectively, commencing on January 1 2022, in respect of contracts for which the entity has not yet completed its obligations, with a possibility for earlier application. Upon application of the amendment, the entity shall not restate the comparative figures but rather - shall adjust the opening balance of the retained earnings on first-time application, in the amount of the cumulative impact of the amendment.

First time application of the amendment to IAS 37 is not expected to have a material effect on the Group’s consolidated financial statements.

3. Amendment to International Financial Reporting Standard 3, Business Combinations (hereinafter - Amendment to IFRS 3)

The Amendment revised IFRS 3 such that it refers to the Conceptual Framework for Financial Reporting published in 2018, for the purpose of determining which assets purchased and liabilities assumed meet the definitions of assets and liabilities. Prior to the Amendment, the reference was to the Conceptual Framework for Financial Reporting published in 2001.

The Amendment also adds to IFRS 3 a requirement that, for events under the scope of IAS 37 or IFRIC 21, an acquirer applies the provisions of IAS 37 to determine whether on acquisition date there is a present obligation as a result of past events, or the provisions of IFRIC 21 to determine whether the binding event gives rise to an obligation to pay the levy occurred up to acquisition date (respectively) rather than the provisions of the Conceptual Framework.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 4 — SIGNIFICANT ACCOUNTING POLICIES (CONT.)****S. Accounting standards and interpretations not yet adopted (cont.)**

In addition, the Amendment clarifies and adds to IFRS 3 an explicit statement whereby an acquirer shall not recognize contingent assets, as defined in IAS 37, on acquisition date.

The Amendment to IFRS 3 shall be applied to annual periods commencing January 1, 2022 or thereafter. The Amendment shall be applied to business combinations whose acquisition date occurs subsequent to annual reporting periods commencing January 1, 2022 or thereafter. In accordance with the provisions of the Amendment, its early application is possible, provided that the entity has applied on first-time application of the Amendment or prior, all other amendments to IFRSs referring to the 2018 version of the Conceptual Framework

First-time application of the Amendment to IFRS 3 is not expected to have material effect on the Company's financial statements.

4. Amendment to IAS 12, Income Taxes

The amendment to IAS 12 clarifies that the exemption from creating deferred taxes arising from initial recognition of an asset or a liability in a transaction which is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss (initial recognition exemption) does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

Such transactions include, for example, lease transactions, upon initial recognition of which the lessee recognizes a right-of-use asset at an amount equal to the balance of lease liability; as well as recognition of dismantling, removing and restoring liability against the cost of the property, plant & equipment; the amendment to IAS 12 was applied to annual periods starting on January 1 2023 or thereafter. In accordance with the provisions of the Amendment, earlier application is possible. The amendment will be applied for all transactions starting with the earliest reporting period presented in the financial statements in which the amendment was applied for the first time. Furthermore, as part of the financial statements in which the amendment was applied for the first time, an entity should recognize at the beginning of the earliest reporting period presented:

- (A) A deferred tax asset, up to the amount of the expected taxable income against which the deductible temporary difference may be utilized, and a deferred tax liability, in respect of all deductible and taxable temporary differences in connection with:
- Right-of-use assets and lease liabilities; and –
 - Liabilities in respect of dismantling, removing and restoring and similar liabilities, and the corresponding amount that was recognized as part of the cost of the asset in question.
- (B) The cumulative effect of the first-time application as an adjustment to the opening balance of the retained earnings (or other capital component, as applicable).

First time application of the amendment to IAS 12 is not expected to have material effect on the Group's consolidated financial statements.

NOTE 5 - CASH AND CASH EQUIVALENTS

	As at December 31	
	2021	2020
	NIS thousands	NIS thousands
Balances in banks	161,411	34,398
Deposits *	302,522	1,680,983
	463,933	1,715,381

* The deposits are not linked to the CPI and bear - as of December 31 2021 - annual interest of 0.05%-0.2% (December 31 2020 - 0.04%-0.2%).

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 6 - SHORT-TERM INVESTMENTS AND DEPOSITS**

	As at December 31	
	2021	2020
	NIS thousands	NIS thousands
Designated deposits (A)	5,000	5,226
Short-term deposits**	652,835	624,402
Investments in securities (B)	10,121	194,046
	667,956	823,674

* The deposits are not linked to the CPI and bear - as of December 31 2021 - annual interest of 0.11%-0.41% (December 31 2020 - 0.18%-0.65%).

(A) In 2020-2021 a consolidated company designated deposits and current accounts for the purpose of securing debentures received by the consolidated company and for the purpose of securing payments to institutions.

(B) Composition:	As at December 31	
	2021	2020
	NIS thousands	NIS thousands
Debentures	10,121	194,046

NOTE 7 – TRADE AND OTHER RECEIVABLES

	As at December 31	
	2021	2020
	NIS thousands	NIS thousands
A. Trade receivables		
Open debts	8,286	6,589
Checks for collection	216	340
Less provision for doubtful debts	(2,449)	(2,449)
	6,053	4,480
B. Other accounts receivables		
Receivables in respect of betterment payment (see also Note 28C)	-	13,399
Value Added Tax authorities	26,331	8,012
Income receivable and prepaid expenses	15,210	11,125
Receivables on sale of investment property and construction work	14,861	70,424
Misc.	4,094	1,671
	60,496	104,631

Trade and other receivables will be disposed of during the Group's operating cycle. For information regarding the linkage of the above balances, see Note 27 regarding financial instruments.

	As at December 31	
	2021	2020
	NIS thousands	NIS thousands
C. Long-term receivables		
Income receivable in respect of rental fees on a straight-line basis	45,342	35,090
Receivables on sale of investment property	-	13,281
	45,342	48,371

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 8 - INVESTMENTS IN INVESTEE AND CONSOLIDATED COMPANIES

	As at December 31	
	2021	2020
	NIS thousands	NIS thousands
Composition of investments in equity-accounted entities		
Original cost	10,854	10,854
Group's share in profits from acquisition date	124,868	108,046
Loans and debit balances	10,937	10,692
	146,659	129,592

Movement in investments in equity-accounted entities

	As at December 31	
	2021	2020
	NIS thousands	NIS thousands
Balance as at January 1		
Company's share in profits	129,592	128,257
Dividends received	23,322	9,201
Changes in loans, debt balances and other, net*	(6,500)	(7,650)
Gaining control of an associate	245	(216)
	-	-
Balance as at December 31	146,659	129,592

A. In July 2021, Ramat Hanasi Gav Yam Ltd. and a third party entered into an agreement for the sale of all land reserves and building rights remaining in the Ramat Hanasi residential project in Haifa (hereinafter - the "Sold Asset"). The Sold Asset comprises 350 residential units that have a building permit under the existing Urban Building Plan, and the potential to build several hundreds of additional residential units, subject to approval of reliefs and future Urban Building Plans that fall within the remit of the planning committees. In consideration for the Sold Asset, the buyer will pay the Company a total of NIS 215 million plus VAT as required by law, and additional contingent consideration in respect of utilization of building rights in excess of what was agreed between the parties, and in respect of the approval of future building rights, if any, at varying rates, based on tiers agreed upon by the parties. Following the sale, the Company recorded in the reporting period a profit of NIS 52 million (after tax).

B. An immaterial company under joint control accounted for by the equity method

	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Carrying amount of investments as at December 31	107,468	94,479	95,533
Loan to an entity under joint control	10,244	10,014	10,073
Group's share in profits of continuing operations	19,248	6,656	8,002
Group share in total comprehensive income	19,248	6,656	8,002

In 2021 and 2020, the Company received dividends totaling NIS 6.5 million and NIS 7.7 million, respectively, from a company under joint control, which is accounted for by the equity method.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 8 - INVESTMENTS IN INVESTEE AND CONSOLIDATED COMPANIES (CONT.)****C. Non-material associates**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Carrying amount of investments as at December 31	39,191	35,113	32,724
Group's share in profits of continuing operations	4,074	7,953	2,968
Group share in total comprehensive income	4,074	7,953	2,968

- (1) In 2015 the Group provided a NIS 25 million financial guarantee in respect of a loan taken by an associate (in accordance with Gav Yam's proportionate stake in the borrowing company). All other shareholders of the borrowing company also provided guarantees in accordance with their proportionate stakes in that company. As of December 31 2021, the Company's share in the loan's balance is NIS 17 million.

D. Information regarding consolidated companies incorporated in Israel and held directly by the Company

	<u>Holding rates in voting and share capital</u>	<u>Holding rates in voting and share capital</u>
	<u>December 31</u>	<u>December 31</u>
	<u>2021</u>	<u>2020</u>
	<u>%</u>	<u>%</u>
Consolidated companies **		
Standard Industrial Pavilions (Haifa Bay 6) Ltd.	100.00	100.00
Gav-Yam High-Tec Ltd.	100.00	100.00
Gav-Yam Caesarea Ltd.	100.00	100.00
Gav-Yam Management Services and Properties Maintenance Ltd.	100.00	100.00
Dorm Company in Israel Ltd. *	100.00	100.00
MATAM - Haifa Science Industries Center Ltd. (hereinafter - MATAM)	50.10	50.10
Gav-Yam Negev Ltd.	73.25	73.25
Givat Gav-Yam Ltd. *	75.00	75.00
Ramat Hanasi Ltd.	100.00	100.00

* Inactive company

** The consolidated companies operate in Israel.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 8 - INVESTMENTS IN INVESTEE AND CONSOLIDATED COMPANIES (CONT.)****E. Non-controlling interests in subsidiaries**

The following table contains summary information regarding MATAM, in which there are holders of non-controlling interests that are material to the Group (before elimination of intra-group transactions):

	As at December 31	
	2021	2020
	NIS thousands	NIS thousands
The rate of ownership interests held by non-controlling interests	49.9%	49.9%
Current assets	209,962	384,681
Non-current assets	2,925,918	2,468,285
Current liabilities	(87,094)	(85,220)
Non-current liabilities	(1,214,390)	(1,192,724)
Total assets, net	1,834,396	1,575,022
Carrying amount of non-controlling interests	915,364	785,936

	For the year ended December 31		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Income (including income from investment property appreciation)	484,657	223,470	289,204
Net profit	339,396	137,325	192,481
Other comprehensive income (loss), net	(22)	(51)	(7)
Total comprehensive income	339,374	137,274	192,474
Profit allocated to non-controlling interests	169,359	68,525	96,047
Cash flows from operating activities	126,918	132,569	141,853
Cash flows used in investing activities	(90,777)	(74,440)	(156,830)
Cash flow from financing activities excluding dividend to non-controlling interests	(119,188)	73,151	(59,078)
Dividend paid to non-controlling interests	(39,920)	(114,770)	-
Total increase (decrease) in cash and cash equivalents	(122,967)	16,510	(74,055)

For information regarding restrictions, see Note 13A.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 8 - INVESTMENTS IN INVESTEE AND CONSOLIDATED COMPANIES (CONT.)

F. Consolidated companies

1. Information regarding consolidated companies incorporated in Israel and held directly by the Company

	Loans provided by the Company to a consolidated subsidiary	Investments and loans to the consolidated companies (A)
	<u>NIS thousands</u>	<u>NIS thousands</u>
December 31, 2021		
Consolidated companies		
Standard Industrial Pavilions (Haifa Bay 6) Ltd.	20,047	61,532
Gav-Yam High-Tec Ltd.	227,910	515,285
Gav-Yam Caesarea Ltd.	3,134	99,394
Gav-Yam Management Services and Properties Maintenance Ltd.	-	-
Dorm Company in Israel Ltd. (B)	-	-
MATAM - Haifa Science Industries Center Ltd.	-	914,431
Givat Gav-Yam Ltd.	225	233
Gav-Yam Negev Ltd. (C)	36,786	146,990
Ramat Hanasi Ltd.	-	202,836

December 31, 2020**Consolidated companies**

Standard Industrial Pavilions (Haifa Bay 6) Ltd.	-	50,500
Gav-Yam High-Tec Ltd.	218,147	414,013
Gav-Yam Caesarea Ltd.	2,733	83,401
Gav-Yam Management Services and Properties Maintenance Ltd.	-	-
Dorm Company in Israel Ltd. (B)	-	-
MATAM - Haifa Science Industries Center Ltd.	-	786,628
Givat Gav-Yam Ltd.	225	233
Gav-Yam Negev Ltd. (C)	42,075	154,025
Ramat Hanasi Ltd.	35,586	126,804

(A) Represents the Company's share in assets of consolidated companies, net of their undertakings to third parties.

(B) The company is inactive.

(C) Includes a total of NIS 36,786 thousand in respect of a convertible capital note (2020 - NIS 40,218 thousand).

2. Details regarding dividends received from consolidated companies

	For the year ended December 31		
	2021	2020	2019
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
From a consolidated subsidiary	<u>40,080</u>	<u>115,230</u>	<u>-</u>

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and land	Machines, facilities and equipment	Other property, plant and equipment	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Cost				
Balance as at January 1, 2020	31,748	68,989	28,262	128,999
Additions	735	30	690	1,455
Transfer from investment property to property, plant, and equipment	2,229	-	-	2,229
Balance as at December 31, 2020	34,712	69,019	28,952	132,683
Additions	2,021	55	1,908	3,984
Transfer from investment property to property, plant, and equipment	5,515	-	-	5,515
Balance at December 31, 2021	42,248	69,074	30,860	142,182
Depreciation and accumulated impairment losses				
Balance as at January 1, 2020	13,026	42,160	25,394	80,580
Depreciation for the year	1,806	974	471	3,251
Balance as at December 31, 2020	14,832	43,134	25,865	83,831
Depreciation for the year	1,664	885	771	3,320
Impairment loss	747	-	-	747
Balance at December 31, 2021	17,243	44,019	26,636	87,898
Carrying amount as at December 31, 2021	25,005	25,055	4,224	54,284
Carrying amount as at December 31, 2020	19,880	25,885	3,087	48,852

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 10 - INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER CONSTRUCTION**

Set forth below are the changes in investment property and investment property under construction during the year:

	Investment property			Investment property under construction	
	Land	Income-generating assets	Total	Total	
	NIS thousands	NIS thousands	NIS thousands	NIS thousands	NIS thousands
2021					
Balance as at beginning of year	441,418*	7,244,599	7,686,017	549,401	8,235,418
<u>Additions during the year:</u>					
Investments	300,661	249,938	550,599	330,736	881,335
Increase in fair value (unsold assets)	237,485	1,007,162	1,244,647	24,751	1,269,398
Transfer to real estate properties under construction	-	(63,956)	(63,956)	63,956	-
Transfer from real estate properties under construction to investment property	(498,440)	-	(498,440)	498,440	-
Total additions	39,706	1,193,144	1,232,850	917,883	2,150,733
<u>Derecognitions during the year:</u>					
Disposals	-	(35,000)	(35,000)	-	(35,000)
Transfer to a property, plant and equipment	-	(5,515)	(5,515)	-	(5,515)
Balance at end of year	481,124	8,397,228	8,878,352	1,467,284	10,345,636
2020					
Balance as at beginning of year	514,070	6,896,111	7,410,181	258,727	7,668,908
<u>Additions during the year:</u>					
Investments	91,964	78,103	170,067	289,652	459,719
Increase in fair value (sold assets)					
Increase in fair value (unsold assets)	(32,963)	80,037	47,074	61,946	109,020
Transfer to real estate properties under construction	(131,653)	1,003	(130,650)	130,650	-
Transfer from real estate properties under construction to investment property	-	189,345	189,345	(189,345)	-
Total additions	(72,652)	348,488	275,836	292,903	568,739
<u>Derecognitions during the year:</u>					
Transfer to assets held for sale	-	-	-	(2,229)	(2,229)
Balance at end of year	441,418	7,244,599	7,686,017	549,401	8,235,418

* Reclassified

The above table presents investment property measured at fair value using a valuation technique in accordance with Level 3, excluding assets held for sale. For the definition of the different levels of the fair value measurement hierarchy, see Note 3G, Basis of Preparation.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 10 - INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER CONSTRUCTION (CONT.)****A. Data regarding fair value measurements of investment property classified to Level 3****Available land**

The fair value is estimated by using the comparison technique, and the valuation model is based on a price per m² of comparable properties, stemming from observable transactions in an active market, including various adjustments, such as adjustments in respect of size, location, etc.

Buildings for lease

During 2021, the Company performed appraisals in respect of all of its income-generating properties. The increase in fair value stemmed mainly from a decrease in the discount rates used by external appraisers as part of the appraisals of most of the Company's properties, from a real increase in rental fees collected in respect of the Company's various properties, and from an increase in the CPI since the last appraisal. The fair value was estimated using the discounted cash flow technique. The valuation model is based on the present value of the estimated NOI expected to stem from the property. The valuation of the real estate is based on the net annual cash flows, discounted at a discount rate reflecting the specific risks embodied therein. When actual rental agreements include rental fees that vary from prevailing market rates, adjustments are made to reflect the actual rental fees paid in the contract period.

The appraisals take into account the type of tenants occupying the rented property, or those who are responsible for fulfilling the rental obligations, or those who may occupy the rented property after the renting-out of an unoccupied property, and the remaining useful life of the property, where those parameters are relevant.

The market rent is based on a wide range in all regions and all uses, and stems, among other things, from the variance in the quality, age and finish level of the rented property. The average rental fees payable for office and high-tech spaces in the different regions range between NIS 54 to NIS 85 per m² per month; industry and logistics - between NIS 29 to NIS 44 per m² per month. In determining the value of office buildings, buildings intended for hi-tech and commercial buildings (located mainly in the center and in hi-tech parks with high quality tenants), use is made mainly of discount rates of 9%-5.75%, while buildings for workshops, storage and industry (mainly located in outlying areas) are largely valued on the basis of discount rates of 7%-5.5%.

The estimated fair value will increase if:

- The market rent will increase.
- The discount rate of cash flows will decrease.

Investment property under construction

Investment property under construction is presented at fair value as from the date on which the fair value can be measured reliably.

The valuation is based on estimating the fair value of investment property following its completion, less the present value of estimated construction costs expected to arise for its completion, considering the discount rate that is adjusted for the relevant risks and characteristics of the property and during the completion of construction. Construction costs per m² vary between the different projects in accordance with the designated use of the property; construction costs range mainly between NIS 3,500 to NIS 6,500 per m² of building shell.

The estimated fair value will increase if:

- The construction costs per m² will decrease.
- The market rent will increase.
- The discount rate of cash flows will decrease.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 10 - INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER CONSTRUCTION (CONT.)
A. Data regarding fair value measurements of investment property classified to Level 3 (cont.)
Appraisal processes applied in the Company

The fair value of investment property is measured at least once a year or when there are indications for changes in value (the earlier of the two); appraisals are carried out by an appraiser possessing the qualifications and experience relevant to the type of property being appraised and its location. External appraisals are carried out in different periods for different properties comprising the investment property portfolio. In all other reporting periods, the Group conducts an internal assessment in order to verify that there were no material changes in the value of the investment property portfolio. All appraisals are delivered to the Company's CFO.

The key unobservable market data are in respect of the following factors:

- The rate of return on investment property, which is based on professional publications in the relevant markets and a comparison to similar transactions.
- Premium (discount) in respect of the quality of the building and the terms of the lease, based on comparison to similar transactions.
- The market rent, which is based on professional publications in the relevant markets and a comparison to similar transactions.

B. During 2020, the detailed Urban Building Plan ("Taba") was validated and the combination agreement between the Company and Shufersal Real Estate Ltd. came into effect. In the light of the foregoing, the Company has included in its financial statements NIS 89 million in the investment property line item for acquired land against a liability for construction services (see also Note 29E).

C. As to direct operating expenses stemming from income-generating real estate, which generates rental fees, see Note 19. Furthermore, the Company's direct operating expenses stemming from income-generating real estate, which did not generate rental fees, are immaterial.

The value of the income-generating properties and available land owned by the Company and its consolidated companies is NIS 2,589 million. The value of the properties and available land, whose leasing rights are owned by the Company is NIS 6,289 million, of which NIS 6,282 million in leasing rights capitalized for a periods of 49 years, most of which end in 2029 to 2061, with a right to extend the lease by 49 further years. Some of the land has not yet been registered with the Land Registry in the name of the Company, mainly since the rights to the land in the area in which this portion of the land is located have not yet been settled. Most of the land is registered with the Land Registry in the name of the Company and its consolidated companies.

D. During the first quarter of 2021, Gav Yam and Rav Bariach entered into a joint venture for the construction of a plant in Ashkelon at the total area of 41 thousand m², on a 5.5 hectares plot of land in the Ashkelon industrial park; the land is owned by Rav Bariach. As part of the partnership, Gav Yam shall manage and fund the construction of the project. Rav Bariach will fund and perform the works required to adapt the plant to its needs, and it will lease the property for a period of 25 years. Upon completion of the construction of the plant, Gav Yam will have a 70% share in the property and Rav Bariach will have a 30% share. The transfer of the rights to Gav Yam is subject to the fulfilment of a number of conditions and the receipt of approvals. As mentioned above, Gav Yam will fund the construction of the plant against collateral to be provided by Rav Bariach until the transfer of rights in the land.

E. During the second quarter of 2021, the Company and an unrelated third party entered into an agreement for the sale of all of the Company's rights in a commercial center in Haifa with an overall built-up area of 3,500 m² (the Company's share - 1,750 m²); all areas in the center are rented out. In consideration for the rights, the buyer will pay the Company a total of NIS 35 million plus VAT. As a result of the sale, the Company recorded NIS 6 million in net income (after tax). The buildings were delivered to the buyer.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 10 - INVESTMENT PROPERTY AND INVESTMENT PROPERTY UNDER CONSTRUCTION (CONT.)**

- F. During the third quarter of 2021, the Company purchased a building located at 14 HaMada St. in the Herzliya Pituach industrial park; the privately-owned building is adjacent to the Gav-Yam Park Herzliya North. The building, whose area totals 3,600 m², was built on a 0.11 hectare plot, and has potential for further building rights of 3,000 m² designated for employment use. In consideration for the property, Gav Yam paid a total of NIS 60.5 million, plus VAT.
- G. The Company's real estate assets are not subject to any specific charges.

NOTE 11 - OTHER PAYABLES

	As at December 31	
	2021	2020
	NIS thousands	NIS thousands
Trade payables in respect of residential construction work and investment property	35,611	46,663
Accrued interest	23,397	27,417
Deposits from tenants	13,296	12,255
Other accrued expenses	30,364	23,581
Accumulated lease fees and municipal taxes	920	3,375
Institutions	5,400	5,400
Prepaid revenues	13,857	20,401
Employees and employees institutions	4,458	3,326
Trade payables	30,955	10,676
Legal and other claims (see a below)	3,000	1,808
Balance in respect of purchase of land	14,569	-
Value Added Tax authorities	119	55
Misc.	1,739	2,474
	177,685	157,431

- A. **Legal and other claims** - the Company included in its accounts a NIS 3 million provision (December 31 2020 - NIS 2 million), which the Company believes is necessary based on its legal counsels' opinion with regard to the Company's chances of prevailing in the lawsuits outstanding against it and consolidated companies as of the report date - 21 lawsuits at a total amount of NIS 4 million, of which 18 lawsuits in respect of building defects and 3 lawsuits filed by tenants.
- B. In June 2020 a subsidiary, MATAM (hereinafter - "MATAM"), received a demand for payment of municipal taxes from the Haifa Municipality for the years 2014 - 2020 of NIS 28 million, for the area of land taken up in Park MATAM. NIS 26 million of the payment demand amount constitutes a payment for previous years, and NIS 2 million relate to the current year. The Company has issued an administrative petition against the retroactive charge and an objection to the current charge. In February 2021, the Court approved a compromise between the parties for the settlement of the municipal tax assessment in respect of the period through December 31, 2020, whereby the MATAM paid NIS 4.6 million.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 12 - LIABILITIES FOR CONSTRUCTION SERVICES**

As of December 31, 2021 the amount presented in the Statement of Financial Position is:

- (1) A liability for construction services for Stage A in the combination agreement with the Hebrew University, (approximately NIS 117 million for the short-term and NIS 68 million long-term).
- (2) A liability for construction services for Stage A in the combination agreement with Shufersal Real Estate in Raanana as stipulated in Note 10B above (approximately NIS 56 million for the short-term).

NOTE 13 – DEBENTURES

This Note includes information about the contractual terms and conditions of the Group's interest-bearing loans and borrowings, measured at amortized cost. Additional information about the Group's exposure to interest and liquidity risks appears in Note 26 – Financial Instruments.

	As at December 31	
	2021	2020
	NIS thousands	NIS thousands
Current liabilities		
Current maturities of debentures	611,093	722,557
Total current liabilities	<u>611,093</u>	<u>722,557</u>

	As at December 31	
	2021	2020
	NIS thousands	NIS thousands
Non-current liabilities		
Debentures	5,483,140	6,163,256
Less current maturities	(611,093)	(722,557)
Total non-current liabilities	<u>4,872,047</u>	<u>5,440,699</u>

A. Details on interest

	As at December 31		
	2020-2021	2021	2020
	Effective interest	Carrying amount	Carrying amount
	%	NIS thousands	NIS thousands
Debentures			
	(1)	<u>5,483,140</u>	<u>6,163,256</u>

(1) See Section B below.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 13 – DEBENTURES (CONT.)

B. Composition of debentures (in NIS thousand)

Issuer and series	Original date of issue	Linkage basis	Interest repayment date	Date of principal repayment	Rating agency	Rating as at December 31 2021	Value on the TASE as at December 31 2021	Par value as at December 31 2021	Interest rate %	Effective interest rate %	December 31, 2021		2020	
							NIS thousands	NIS thousands			Balance	Current maturities	Balance net of current maturities	Balance net of current maturities
Gav-Yam Series F (6)	22.3.07	CPI	September and March 07-26	March 21-26	Midroog S&P	Aa2 (stable) iLAA (stable)	2,269,433	1,954,226	4.75	3.46	2,003,099	390,845	1,612,254	1,978,304
Gav-Yam Series H (1) (3) (6)	11.9.17	Unlinked	December and June 17-34	June 19-34	S&P	iLAA (stable)	1,523,643	1,463,828	2.55	2.55	1,464,832	50,477	1,414,355	1,465,067
Gav-Yam Series I (1) (2) (6)	23.2.20	CPI	June and December 20-33	June 21-33	Midroog S&P	Aa2 (stable) iLAA (stable)	982,213	913,156	0.5	0.5	913,415	102,730	810,685	893,864
MATAM Series A (5) (6)	11.8.16	Unlinked	September, December, March and June 16-27	June 17-27	Midroog	Aa2 (stable)	N.A.	813,613	3.1	2.89	821,084	54,241	766,843	823,050
Gev-Yam Negev Series A (4)	29.7.18	Unlinked	December and June 18-24	December 19-24	S&P	iLA+ (stable)	N.A.	281,600	3.55	3.7	280,710	12,800	267,910	280,414
											5,483,140	611,093	4,872,047	5,440,699

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 13 – DEBENTURES (CONT.)

B. Composition of debentures (in NIS thousand) (cont.)

Financial covenants

(1) Regarding Debentures (Series I), the Company undertook to meet the following financial covenants:

- Equity attributable to the Company's owners shall not fall below NIS 1,150 million.
- The ratio of net financial debt to net CAP in the Company's consolidated financial statements shall not exceed 71%.
- The ratio of net financial debt to the annual net EBITDA of the Company shall not exceed 17.

The Company meets the above financial covenants as of December 31, 2021 and to the best of its knowledge, this is also true as of the publication date of this report.

Set forth below are the results of the calculation of the financial covenants as of December 31 2021:

- Equity attributable to the Company's owners - NIS 3,611 million.
- The ratio of net financial debt to net CAP in the Company's consolidated financial statements shall not exceed 47%.
- The ratio of net financial debt to the annual net EBITDA - 8.

Grounds to call for immediate repayment of the debentures.

In addition to standard grounds to call for immediate repayment of the debentures (including, among other things, insolvency events and various execution office actions, a deterioration in the Company's business, a real concern of default, delisting, merger subject to exceptions, changes in the Company's area of activity and more), the immediate repayment of Series I debentures will be called in the following instances:

- Failure to comply with the above financial covenants over two consecutive quarters.
- Cross default - if the balance of another series of Company debentures or one or more bank loans exceeds 5% of total consolidated assets of the Company as per the latest consolidated financial statements it published prior to a relevant case.
- Downgrading of the Company's credit rating below BBB minus or termination of rating of the debentures by a rating agency.

Additional restrictions

The Company has undertaken not to distribute a dividend;

- In the event shareholders' equity drops below NIS 1.35 billion.
- The ratio of net financial debt to net CAP in the Company's consolidated financial statements shall be higher than 68%.

(2) Regarding Debentures (Series H) issued by the Company, the Company undertook to meet the following financial covenants:

- Equity attributable to the Company's owners shall not fall below NIS 900 million.
- The ratio of net financial debt to net CAP in the Company's consolidated financial statements shall not exceed 71%.
- The ratio of net financial debt to the annual net EBITDA of the Company shall not exceed 17.

The financial covenants are reviewed every calendar quarter based on the Company's audited or reviewed consolidated financial statements. The Company meets the above financial covenants as of December 31, 2021 and to the best of its knowledge, this is also true as of the publication date of this report.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 13 – DEBENTURES (CONT.)
B. Composition of debentures (in NIS thousand) (cont.)
Financial covenants (cont.)

(2) (cont.)

Following are the results of calculating the financial covenants as of December 31, 2021:

- Equity attributable to the Company's owners - NIS 3,611 million.
- The ratio of net financial debt to net CAP in the Company's consolidated financial statements - 47%.
- The ratio of net financial debt to the annual net EBITDA - 8

Additional restrictions

The Company has undertaken not to distribute a dividend;

- In the event shareholders' equity drops below NIS 1.1 billion.
- The ratio of net financial debt to net CAP in the Company's consolidated financial statements shall be higher than 68%.

(3) Regarding Debentures (Series A), Gav-Yam Negev Ltd. (hereinafter - "Gav-Yam Negev") undertook to meet the following financial covenants:

- The consolidated company's equity shall not fall below NIS 100 million.
- The consolidated company's equity to asset ratio will not fall below 25%;
- The ratio of net financial debt to net CAP of the consolidated company shall not exceed 70%.

The financial covenants are reviewed every calendar quarter based on Gav-Yam Negev's audited or reviewed consolidated financial statements. The Company meets the above financial covenants as of December 31, 2021 and to the best of its knowledge, this is also true as of the publication date of this report.

Following are the results of calculating the financial covenants as of December 31, 2021:

- The consolidated Company's shareholders' equity - NIS 188 million.
- The consolidated company's equity to asset ratio - 34%
- The ratio between the consolidated company's net financial debt to net CAP - 54%

Regarding the fair value of the non-marketable debentures, see Note 27F.

Additional restrictions

Gav-Yam Negev has undertaken not to distribute a dividend;

- If its share capital less the distribution amount does not exceed NIS 125 million.
- If the ratio between the Company's equity net of the distribution amount and total balance sheet will fall below 40%.
- The ratio between net financial debt to CAP net of the distribution amount will exceed 60%.
- The ratio between net financial debt and NOI will be greater than 9.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 13 – DEBENTURES (CONT.)**B. Composition of debentures (in NIS thousand) (cont.)**Financial covenants (cont.)

(4) Regarding Debentures (Series A) issued by MATAM, MATAM undertook to meet the following financial covenants:

- MATAM's equity shall not fall below NIS 700 million.
- The ratio of MATAM's equity to total assets shall not fall below 30%.
- The ratio between MATAM's net financial debt and NOI will be greater than 8.

The financial covenants are reviewed every calendar quarter based on MATAM's audited or reviewed consolidated financial statements. As of December 31 2021, MATAM complies with the above financial covenants, and to the best of its knowledge, this is also true as of the publication date of this report.

Following are the results of calculating the financial covenants as of December 31, 2021:

- MATAM's shareholders' equity - NIS 1,834 million.
- The ratio of MATAM shareholders' equity to total assets - 58%.
- The ratio between MATAM's net financial debt and NOI - 3.8.

Regarding the fair value of the non-marketable debentures, see Note 27F.

Additional restrictions

MATAM has undertaken not to distribute a dividend;

- In the event shareholders' equity drops below NIS 800 million.
- The ratio of shareholders' equity to total assets will be less than 40%.
- The ratio between net financial debt and NOI will be greater than 8.
- The balance of cash and/or cash equivalents including securities held by MATAM will be less than NIS 40 million after the distribution.

(5) The debentures are not pledged by any liens.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 14 - SHARE-BASED PAYMENTS

On July 7, 2019 the Extraordinary General Meeting of the Company's shareholders, following approval by the Company's Compensation Committee and Board of Directors on May 23, 2019, approved as follows:

- (1) The Company's updated Compensation Policy, which includes, inter alia, a limit on equity compensation, an update of ceilings of terms of employment for senior officers of the Company, and a framework for the terms of tenure of the acting Chairman.
- (2) The equity compensation program includes the possibility of granting options convertible to the Company's shares and restricted stock units (hereinafter - the "Equity Compensation Program") by the Company to its managers and officers, in three taxation tracks: (1) Capital gain track through a trustee; (2) Work income track through a trustee; (3) Allocation in track without a trustee.
- (3) The grant of options and restricted share units to officers of the Company. The total fair value of the options and restricted share units whose grant was approved at the resolution date was NIS 6.9 million. In addition, at the said date the grant to the CEO of options convertible to the Company's shares and restricted share units (without an exercise price were approved, at total fair value at the date of resolution of NIS 4.0 million.

On July 8, 2019 the Company allocated options to the CEO and other officers in accordance with approved Equity Compensation Program.

The ordinary shares allocated following exercise of the options will have all the identical rights of the Company's ordinary shares, immediately upon allocation. As part of the program, 14,932 options were awarded to officers (after the shares split - 1,493,200 options, see Note 16 below), and 8,671 options were awarded to the Company's CEO (after the shares split - 867,100 options); furthermore, 1,392 restricted shares were awarded to officers (after the shares split - 139,200 restricted shares), and 809 restricted shares were awarded to the Company's CEO (after the shares split - 80,900 restricted shares); the options will be exercisable at the end of the vesting periods, as follows: 33% at the end of a year from the allocation date, 33% at the end of two years from the allocation date, and the balance at the end of 3 years from the allocation date.

The options are exercisable until July 7, 2024. An option that has not been exercised by that date will expire. On February 28 2021, an extraordinary meeting of the Company's shareholders approved an equity-based compensation to the Chairman of the Board of Directors of options convertible to the Company's shares and restricted share units at total fair value at the date of resolution of NIS 3.6 million.

As part of the program, 460,185 options and 50,703 restricted share units were awarded to the Company's Chairman of the Board of Directors. The options will be exercisable at the end of the vesting periods, as follows: 33% at the end of a year from the allocation date, 33% at the end of two years from the allocation date, and the balance at the end of 3 years from the allocation date. see Note 29E(6).

The expense amounts recognized in the Company's income statements in 2021, and in 2020 - in respect of the granting of options and restricted shares to employees total NIS 4,074 thousand and NIS 4,355 thousand, respectively.

During 2021, 583 restricted share units vested (after the shares split - 58,300 restricted share units).

In accordance with the track selected by the Company and based upon these rules, the Company is not entitled to claim as an expense for tax purposes amounts credited to employees as a benefit, including amounts recorded as a salary benefit in the Company's books, for options that employees received as part of the program, excluding the component of profit benefit, if any, set at the allocation date.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 15 - EMPLOYEE BENEFITS, NET**

Employee benefits include post-employment benefits, severance pay benefits and short-term benefits. As for post-employment employee benefits, the Group has defined benefits plans for which it makes contributions to central severance pay funds, in qualifying insurance policies. The defined benefit plans entitle eligible retiring employees with a one-off payment based on their latest salary and years of service in the Company.

NOTE 16 - EQUITY AND CAPITAL RESERVES**A. The share capital is composed as follows:**

	Number of shares and their amounts as at December 31, 2021, 2020			
	Authorized		Issued and paid-up	
	December 31		December 31	
	2021	2020	2021	2020
Ordinary shares of NIS 0.01 par value	285,000,000	285,000,000	214,480,436	213,757,100

Main rights attached to shares:

- Each of the ordinary shares confers upon its owner the right to receive dividends and the right to a share in excess assets upon liquidation of the Company, proportionately to the par value of each share without taking into account any premium paid in respect thereof, all subject to the provisions of the regulations.
- Each of the ordinary shares confers upon its owner the right to participate in meetings of the Company's general meeting and one vote at such meetings.
The shares (registered) are listed on the Tel Aviv Stock Exchange. As of December 31 2021, the quoted price of the Company's share of NIS 0.01 par value is NIS 38.4.
- In October 2020, an extraordinary meeting of the Company's shareholders approved the splitting of the Company's share capital such that each share of NIS 1.00 par value shall become a hundred ordinary shares of NIS 0.01 par value.
- The number of shares used to calculate the diluted earnings per share in 2021 is 214,658,096 (2020 - 214,878,325; 2019 - 2,136,754).

B. Dividends

Set forth below are the dividends declared and paid by the Company:

	For the year ended December 31		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
NIS 1.2 per ordinary share (NIS 93.6 per ordinary share for 2020 and 2019, respectively)	260,000	200,000	200,000

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

On January 21, 2021, the Board of Directors of subsidiary MATAM approved a dividend distribution of NIS 80 million. The dividend was paid on February 4, 2021.

Subsequent to the report date, on January 31, 2022, the Company's Board of Directors announced a dividend distribution of NIS 400 million (approximately NIS1.9 per share).

C. Revaluation reserve

The revaluation reserve relates to the revaluation of property, plant & equipment before its classification as investment property.

D. On May 24, 2019, the Company published a shelf prospectus.

Notes to the Consolidated Financial Statements as at December 31, 2021
NOTE 17 — SEGMENT REPORTING
Business segments

The Group is composed of the following main business segment:

Income-generating properties.

Segment earnings are measured based on the gross profit, which is calculated in accordance with the Company's revenues net of property maintenance expenses.

- A.** Information about the activity of the reportable segment is presented in the following table, in accordance with information included in the reports reviewed by the operating decision makers.

	Income-generating properties*			Other activities			Consolidated		
				For the year ended December 31					
	2021	2020	2019	2021	2020	2019	2021	2020	2019
	NIS thousands			NIS thousands			NIS thousands		
Total segment revenue	1,831,265	655,677	881,202	104,202	31,746	49,272	1,935,467	687,423	930,474
Segment profit	1,783,989	619,049	845,618	69,518	(2,691)	24,091	1,853,507	616,358	869,709
Selling and marketing expenses							(11,957)	(7,929)	(7,399)
General and administrative expenses							(37,071)	(33,027)	(29,912)
Finance expenses, net							(212,042)	(155,640)	(117,737)
Share in profits of equity-accounted investees							23,322	14,609	10,559
Consolidated profit before taxes on income							1,615,759	434,371	725,220
Depreciation and amortization	2,779	2,308	2,881	1,927	1,771	1,681	4,706	4,550	4,562

* Including income from appreciation of investment property.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 17 – SEGMENT REPORTING (CONT.)****C. Information on products and services**

Rental income from external parties by categories of use:

	For the year ended December 31		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
High-tech and offices	348,644	340,139	319,898
Industry and logistics	99,563	96,361	91,217
Trade and trade shows	38,507	35,015	41,484
Parking lots and service areas	60,922	62,409	57,724
	547,636	533,924	510,323

NOTE 18 – OTHER INCOME

	For the year ended December 31		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Construction services (see Note 10B).	33,269	31,746	26,635
Revenues on disposal of land inventory	70,933	-	-
Management fees	-	-	171
Profit as a result of gaining control of an associate (see Note 8A)	-	-	22,467
Other	6,345	940	1,445
	110,547	32,686	50,718

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 19 - PROPERTY MAINTENANCE EXPENSES

	For the year ended December 31		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Salaries and related expenses	4,456	4,960	5,063
Municipal taxes and lease payments	12,288	8,276	9,517
Depreciation	3,355	2,779	2,881
Maintenance and other	19,354	16,774	16,706
	39,453	32,789	34,167

NOTE 20 - SELLING AND MARKETING EXPENSES

	For the year ended December 31		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Salaries and related expenses	6,554	4,821	4,868
Advertising and other	5,403	3,108	2,531
	11,957	7,929	7,399

NOTE 21 - GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended December 31		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Salaries and related expenses	17,655	18,166	17,828
Professional services	3,605	3,321	2,960
Office maintenance and IT services	3,592	3,252	2,572
Depreciation and amortization	992	1,386	1,309
Donations	2,262	2,435	1,953
Directors' pay	5,669	2,697	2,001
Officers' liability insurance	1,247	558	250
Other	2,049	1,212	1,039
	37,071	33,027	29,912

NOTE 22 - OTHER EXPENSES

	For the year ended December 31		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Construction services (see Note 10B).	30,950	31,157	24,568
Other (see also Note 11B, 11C)	11,557	7,119	2,030
	42,507	38,276	26,598

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 23 - FINANCE INCOME AND EXPENSES

A. Charged to profit and loss

	For the year ended December 31		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Finance income			
Interest income	7,198	10,995	17,156
Net change in fair value of financial instruments through profit and loss	135	(24,066)	18,695
Finance income charged to profit and loss	7,333	(13,071)	35,851
Finance expenses			
Interest expenses on financial liabilities measured at amortized cost	152,434	156,250	147,199
Expenses (income) in respect of linkage differences on debentures	69,512	(14,615)	7,013
Other finance expenses	5,478	6,103	1,566
Provision for doubtful debts	-	34	704
Less capitalized borrowing costs *	(8,049)	(5,203)	(2,894)
Finance expenses charged to profit and loss	219,375	142,569	153,588
Net finance expenses charged to profit and loss	212,042	155,640	117,737

* The interest rate used to calculate the borrowing costs that may be capitalized in 2021 is 3%-3.5% (2020 - 3%-3.5%).

B. Additional details

Details of finance expenses for financial liabilities measured at amortized cost

	For the year ended December 31		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Debentures	221,946	141,635	154,107
Loans from banks and financial institutions	-	-	105
	221,946	141,635	154,212

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 24 - INCOME TAXES

A. Information regarding the Group's tax environment

(1) Rate of corporate tax

(A) The tax rate for 2019-2021 is 23%;

Current taxes for the reported periods are calculated according to the tax rates presented in the table above.

(B) Amendment No. 188 to the Income Tax Ordinance (New Version), 1961 (hereinafter - the "Ordinance") was published in the Official Gazette on January 12 2012; this amendment amended Section 87A to the Ordinance such that according to a Temporary Order Accounting Standard No. 29 - "Adoption of International Financial Reporting Standards (IFRS)" - issued by the Israel Accounting Standard Board would not apply upon determining the taxable income in respect of tax years 2010-2011; this would be the case even if the said accounting standard was applied for the said tax years in the financial statements (hereinafter - the "Temporary Order"). Amendment 202 to the Ordinance was published on July 31 2014; this amendment extended the term of the Temporary Order such that it applies to tax years 2012 and 2013. On account of the non-completion of the legislative processes concerning the Memorandum of Law, the Company's management estimates that the Temporary Orders that were issued for 2007 to 2013 will eventually also be extended for 2014 to 2018. In view of the above, Company's management expects that the new legislation will not apply to tax years preceding tax year 2020.

Taking into account the Temporary Orders that apply to 2007 to 2013 and the Company's assessment that they will be extended for 2014 to 2019, as stated above, the Company has calculated its taxable income for 2007 to 2019, based upon Israeli accounting standards which applied until the adoption of IFRS standards in Israel, subject to certain adjustments.

B. Components of income tax expenses

	For the year ended December 31		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Current tax expenses			
For the current period (1) (2) (3)	68,967	53,216	62,391
Deferred tax expenses			
Creation and reversal of temporary differences (3)	286,881	50,536	99,168
Total tax expenses	355,848	103,752	161,559

C. Tax benefit in respect of other comprehensive income components

	For the year ended December 31		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Actuarial losses from a defined benefit plan	(10)	62	28
	(10)	62	28

(1) in 2021 includes NIS 37 million in respect of land betterment.

(2) In 2019 includes NIS 19 million in respect of land betterment.

(3) In 2020 - includes NIS 8 million in respect of classification from deferred to current taxes due to tax assessments proceedings.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 24 - TAXES ON INCOME (CONT.)

D. Reconciliation of the theoretical tax on the pre-tax income and the tax expenses

	For the year ended December 31		
	2021	2020	2019
	NIS thousands	NIS thousands	NIS thousands
Profit before taxes on income	1,615,759	434,371	725,220
The Company's primary statutory tax rate	23%	23%	23%
Tax is calculated according to the Company's primary tax rate	371,625	99,905	166,801
Addition to (savings on) tax liability for:			
Less - tax calculated in respect of Company's share in profits of equity-accounted investees	(5,364)	(3,360)	(2,429)
Non-allowable expenses and tax-exempt income, net	67	20	(5,147)
Difference between the measurement basis of income as reported for tax purposes and the basis of measurement of income as reported in the financial statements, net	(12,029)	7,433	493
Share-based payment	891	864	765
Other differences, net	658	(1,110)	1,076
Total taxes on income	355,848	103,752	161,559

E. Deferred tax assets and liabilities

(1) Recognized deferred tax assets and liabilities

Deferred taxes in respect of the companies in Israel are calculated according to the tax rate expected to be in effect on the date of reversal as stated above.

Deferred tax assets and liabilities are attributed to the following items:

	Investment property	Carryforward losses for tax purposes	Other	Total
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Deferred tax liability (asset) as of December 31 2019	961,676	(5,150)	15,480	972,006
Changes carried to profit and loss	60,839	(4,067)	(6,236)	50,536
Changes carried to other comprehensive income	-	-	(62)	(62)
Deferred tax liability (asset) as of December 31 2020	1,022,515	(9,217)	9,182	1,022,480
Changes carried to profit and loss	297,456	(252)	(10,323)	286,881
Changes carried to other comprehensive income	-	-	10	10
Deferred tax liability (asset) as of December 31 2021	1,319,971	(9,469)	(1,131)	1,309,371

(2) Deferred tax liabilities not recognized

A deferred tax liability amounting to NIS 39 million (2020 - NIS 29 million) in respect of temporary differences totaling NIS 168 million (2020 - NIS 127 million), which relate to investment in investees, was not recognized since the decision whether to sell those companies lies with the Group, which has no intention of disposing of them in the foreseeable future.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 24 - TAXES ON INCOME (CONT.)****E. Deferred tax assets and liabilities (cont.)****(3) Losses and deductions carried forward to future years**

The Company and its consolidated companies have business losses and capital losses for tax purposes, which are carried forward to the next year; as of the statement of financial position date, the said losses amount to NIS 46 million (2020 - NIS 41 million), of which deferred taxes were not created in respect of losses totaling NIS 5 million (2020 - NIS 1 million).

F. Tax assessments

The Company received final tax assessments through the year ended December 31 2018; assessments issued to certain subsidiaries through the years ended December 31 2016-2018 (tax years 2016-2018) are considered to be final.

NOTE 25 - OPERATING LEASES**A. Leases in which the Group is the lessor - lease of assets**

Renewal of the lease contracts at the end of their term is subject to the consent of the Group and the lessees.

Set forth below are the minimum lease fees payable in respect of lease contracts (excluding lease fees in respect of options to extend such contracts):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>NIS thousands</u>	<u>NIS thousands</u>	<u>NIS thousands</u>
Up to one year	554	516	514
From one year to five years	1,649	1,417	1,286
More than five years	1,350	725	601
	<u>3,553</u>	<u>2,658</u>	<u>2,401</u>

* The minimum rental fees include only the Company's share in the expected revenues from Gav Yam Maman Ltd. - a company under joint control accounted for by the equity method, in which the Company has a 50% stake.

For more information about revenues recognized in respect of investment property and operating expenses arising therefrom, see the statement of income.

NOTE 26 - FINANCIAL RISK MANAGEMENT**A. General**

The Group has exposure to the following risks stemming from use of financial instruments:

- (1) Credit risk
- (2) Liquidity risk
- (3) Market risk

This note provides information on the Group's exposure to each of the above risks, the Group's objectives, policies and processes regarding risk measurement and management. Additional quantitative disclosure is included throughout the financial statements above and below.

The overall responsibility for establishing and monitoring the Group's risk management framework lies with the Board of Directors.

The Group's risk management policy was drawn up to identify and analyze the risk that the Group faces, set appropriate restrictions in respect of risks as well as controls, and supervise the risks and compliance with the restrictions. The policy and risk management methods are reviewed in order to ensure that changes in market conditions and in the Group's activity are properly reflected therein.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 26 - FINANCIAL RISK MANAGEMENT (CONT.)**B. Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations; this risk stems mainly from customer debts, accounts receivable and the Company's securities portfolio.

In the field of income-generating properties, the rental agreements set the payment terms. According to the rental agreements, tenants are required to pay the rent in advance. Furthermore, in most cases the Group receives from tenants collateral such as checks given in advance, bank guarantees, security checks or personal guarantees. The Group monitors the aging of customer debts on an ongoing basis. The diversity of the Group's customer base significantly mitigates the credit risk.

The Group recognizes a provision for doubtful accounts, which reflects its estimates as to losses due to customers. The key components of this provision are specific loss components relating to specific significant exposures.

As to surplus cash, it is the Company's policy to invest such cash for short periods, mainly in conservative investment channels, such as deposits and marketable securities (mainly government bonds). The deposits are deposited with a number of leading Israeli financial institutions. For composition, see Notes 5 and 6B.

C. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due.

The Group ensures it has sufficient cash available on demand to meet expected operational expenses, including the amounts required to meet its financial obligations.

D. Market risks

Market risk is the risk that changes in market prices, due to, among other things, changes in the CPI, the Cost of Building Index and interest rates, will impact the Group's revenues or the value of its holdings in financial instruments. The purpose of market risk management is to mitigate and monitor the exposure to market risks within generally accepted parameters.

Fluctuations in the CPI and the base interest rate in Israel

The Group finances part of its operations through debentures linked to the Israeli CPI. All of the Group's revenues from rental fees are linked to the CPI. Accordingly, the Group is exposed to changes in the CPI.

Fluctuations in the Cost of Building Index

The Group's engagements with construction contractors during the projects' construction stages are linked to the changes in the Cost of Building Index. Changes in the Cost of Building Index impact the cost of the Company's construction work in connection with the building of income-generating properties and residential units.

Interest rate risks

The Group is exposed to changes in fair value as a result of changes in interest rates, since it holds fixed-interest instruments, which are measured at fair value.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 27 – FINANCIAL INSTRUMENTS

A. Credit risk

Exposure to credit risk

The carrying amount of the financial assets represents the maximum credit exposure.

B. Liquidity risk

The following are the contractual repayment dates of financial liabilities, including estimated interest payments.

	As at December 31, 2021					
	Carrying amount	Contractual cash flows	0-1	1-2	2-5	More than
			Years	Years	Years	five years
NIS thousands						
Non-derivative financial liabilities						
Other payables	149,931	149,931	149,931	-	-	-
Debentures	5,483,140	6,102,995	770,007	747,505	2,623,648	1,961,835
Total	5,633,071	6,252,926	919,938	747,505	2,623,648	1,961,835

	As at December 31, 2020					
	Carrying amount	Contractual cash flows	0-1	1-2	2-5	More than
			Years	Years	Years	five years
NIS thousands						
Non-derivative financial liabilities						
Other payables	124,699	124,699	124,699	-	-	-
Debentures	6,163,256	6,933,260	901,778	756,561	2,519,322	2,755,598
Total	6,287,955	7,057,959	1,026,477	756,561	2,519,322	2,755,598

- C. Changes in financial liabilities, the cash flow in respect of which are classified as cash flow from financing activities:

	Debentures and other long-term financial liabilities	Total
	NIS thousands	
Balance as at January 1, 2021	6,190,673	6,190,673
Changes during 2021:		
Paid cash flows	(896,165)	(896,165)
Amounts carried to profit or loss	212,029	212,029
Balance at December 31, 2021, including accrued interest	5,506,573	5,506,573

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 27 - FINANCIAL INSTRUMENTS (CONT.)

D. Risk of CPI and Cost of Building Index

(1) Exposure to risk of CPI and Cost of Building Index

The Group's exposure to the risk of CPI and Cost of Building Index, which is based on stated values, is as follows:

	As at December 31, 2021				Total
	Non-linked	CPI-linked	Linked to the Cost of Building Index	Non-financial assets / liabilities	
	NIS thousands				
Current assets:					
Cash and cash equivalents	463,933	-	-	-	463,933
Investment and short-term deposits	667,956	-	-	-	667,956
Trade receivables	6,053	-	-	-	6,053
Other accounts receivables	30,594	-	-	29,902	60,496
Current tax assets	-	-	-	13,088	13,088
Non-current assets:					
Investments and loans in equity-accounted investees	-	10,932	-	135,727	146,659
Long term receivables and debit balances	45,342	-	-	-	45,342
Property, plant, and equipment, net	-	-	-	54,284	54,284
Intangible and other assets	-	-	-	2,701	2,701
Investment property	-	-	-	10,345,636	10,345,636
Total assets	1,213,878	10,932	-	10,581,338	11,806,148
Current liabilities:					
Loans and borrowings	(117,518)	(493,575)	-	-	(611,093)
Other payables	(76,978)	(37,342)	(35,611)	(27,754)	(177,685)
Liabilities for building services	-	-	-	(173,331)	(173,331)
Current tax liabilities	-	-	-	(12,647)	(12,647)
Non-current liabilities:					
Debentures	(2,449,108)	(2,422,939)	-	-	(4,872,047)
Liabilities for building services	-	-	-	(67,656)	(67,656)
Lease liability	(1,344)	-	-	-	(1,344)
Employee benefits, net	-	-	-	(891)	(891)
Deferred tax liability	-	-	-	(1,309,371)	(1,309,371)
Total liabilities	(2,644,948)	(2,953,856)	(35,611)	(1,591,650)	(7,226,065)
	(1,431,070)	(2,942,923)	(35,611)	8,898,688	4,580,383

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 27 - FINANCIAL INSTRUMENTS (CONT.)

D. Risk of CPI and Cost of Building Index (cont.)

(1) Exposure to risk of CPI and Cost of Building Index (cont.)

	As at December 31, 2020				Total
	Non-linked	CPI-linked	Linked to the Cost of Building Index	Non-financial assets / liabilities	
	NIS thousands				
Current assets:					
Cash and cash equivalents	1,715,381	-	-	-	1,715,381
Investment and short-term deposits	745,409	78,265	-	-	823,674
Trade receivables	4,480	-	-	-	4,480
Other accounts receivables	93,781	-	-	10,850	104,631
Inventory of land	-	-	-	-	-
Current tax assets	-	-	-	427	427
Assets held for sale	-	-	-	-	-
Non-current assets:					
Investments and loans in equity-accounted investees	-	10,692	-	118,900	129,592
Long term receivables and debit balances	48,371	-	-	-	48,371
Inventory of land	-	-	-	134,807	134,807
Property, plant, and equipment, net	-	-	-	48,852	48,852
Intangible and other assets	-	-	-	5,121	5,121
Investment property	-	-	-	8,235,418	8,235,418
Total assets	2,607,422	88,957	-	8,554,375	11,250,754
Current liabilities:					
Loans and borrowings	(117,518)	(605,039)	-	-	(722,557)
Other payables	(35,977)	(40,426)	(48,296)	(32,732)	(157,431)
Short-term liability for building services	-	-	-	(146,566)	(146,566)
Current tax liabilities	-	-	-	(15,977)	(15,977)
Non-current liabilities:					
Debentures	(2,568,531)	(2,872,168)	-	-	(5,440,699)
Liabilities for building services	-	-	-	(127,689)	(127,689)
Lease liability	(388)	-	-	-	(388)
Employee benefits, net	-	-	-	(982)	(982)
Deferred tax liability	-	-	-	(1,022,480)	(1,022,480)
Total liabilities	(2,722,414)	(3,517,633)	(48,296)	(1,346,426)	(7,634,769)
	(114,992)	(3,428,676)	(48,296)	7,207,949	3,615,985

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 27 - FINANCIAL INSTRUMENTS (CONT.)

D. Risk of CPI and Cost of Building Index (cont.)

(1) Exposure to risk of CPI and Cost of Building Index (cont.)

Set forth below are data regarding the CPI and the Cost of Building Index:

	As at December 31		2021 % of change	2020 % of change
	2021	2020		
	In points	In points		
CPI in respect of	127.7	124.2	2.8	(0.7)
Known Consumer Price Index	127.3	124.3	2.4	(0.6)
Cost of Building Index	160.3	151.6	5.8	0.3

(2) Sensitivity analysis

An increase in the CPI and the Cost of Building Index as of December 31 would have decreased equity and profit (after tax) by the amounts shown below: This analysis assumes that all other variables, in particular interest rates, remain constant.

	As at December 31, 2021	
	Equity	(Loss)
	NIS thousands	NIS thousands
1% increase in the Consumer Price Index	(22,661)	(22,661)
1% increase in the Cost of Building Index	(274)	(274)

	As at December 31, 2020	
	Equity	(Loss)
	NIS thousands	NIS thousands
1% increase in the Consumer Price Index	(26,401)	(26,401)
1% increase in the Cost of Building Index	(372)	(372)

A similar decrease in the CPI and the Cost of Building Index as of December 31, would have had a similar but opposite effect by the same amounts, with all other variables remaining constant.

E. Interest rate risk

(1) Type of interest

Most of the Group's interest-bearing financial instruments bear fixed interest.

(2) Fair value sensitivity analysis regarding instruments bearing fixed interest

The Group's fixed-interest liabilities are not measured at fair value through profit and loss. Therefore, changes in the interest rates as of the reporting date are not expected to impact the profit or loss in respect of changes in the value of fixed-interest liabilities.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 27 - FINANCIAL INSTRUMENTS (CONT.)

F. Fair value

(1) Financial instruments measured at fair value for disclosure purposes only

The carrying amount of certain financial assets and liabilities including cash and cash equivalents, trade receivable, other receivables, short-term investments and deposits, short-term loans and credit facilities, trade payable and other payables, is equal to or approximates their fair value. The fair value of all other financial assets and liabilities and the carrying amounts presented in the statement of financial position are as follows:

	As at December 31			
	2021		2020	
	Carrying amount	Fair value (Level 2)	Carrying amount	Fair value (Level 2)
	NIS thousands	NIS thousands	NIS thousands	NIS thousands
Non-marketable debentures (2)	<u>1,101,794</u>	<u>1,150,606</u>	<u>1,170,505</u>	<u>1,228,257</u>

For information about the fair value of Series F and Series H debentures, which are listed on the Tel Aviv Stock Exchange, see Note 13B.

See Note 3G regarding the basis for determining the fair value.

(2) The interest rates used in determining the fair value

The interest rates used to discount the projected estimated cash flow, where applicable, are based on the government yield curve as of reporting date, plus an appropriate fixed credit spread, as follows:

	As at December 31	
	2021	2020
	%	%
Non-marketable debentures	1.73-1.76	1.67-2.01

(3) Valuation technique for determining the fair value of non-derivative financial liabilities

The fair value set for disclosure purposes is determined by reference to their quoted closing asking price on reporting date. If such a quoted price is not available, the fair value is calculated based on the present value of future cash flows in respect of the principal and interest component, discounted at the prevailing interest rates as of reporting date.

(4) Fair value hierarchy of financial instruments measured at fair value

Short-term investments are measured periodically at fair value while using a valuation method in accordance with an active market (Level 1).

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 28 - COMMITMENTS AND GUARANTEES**

- A.** As of December 31 2021, commitments regarding the development and construction of investment property aggregate NIS 589 million.
- B.** Guarantees - as of December 31 2021, the Company provided NIS 202 million in guarantees in respect of performance obligation for development and construction of investment property.
- C.** On July 14, 2020 subsidiary MATAM signed a compromise agreement with the Haifa municipality, Gav-Yam Land Corporation Ltd, the Company's controlling shareholder and the Haifa Economic Corporation Ltd, a shareholder of MATAM, which includes accords on the following main points:
1. Dividend - pursuant to the agreement, on July 22 2020, MATAM's Board of Directors approved the distribution of a dividend and the adoption of a dividend distribution policy according to which, subject to the provisions of each law and the decision of Matam's Board of Directors, Matam will distribute a dividend of NIS 80 million each year.
 2. Betterment levies - at the end of October 2020, MATAM received a NIS 202 million betterment levy assessment from the Haifa Municipality following the approval of an urban planning plan covering the entire area of Park MATAM (hereinafter - the "Assessment" and "Betterment Levy", respectively), and in accordance with the compromise agreement signed between the Haifa Municipality and MATAM. In November 2021, a deciding appraisal process was completed pursuant to the Third Addendum to the Planning and Construction Law; the said process was agreed upon by the parties under the compromise agreement; the deciding appraiser determined that the betterment levy amounts to NIS 83 million (hereinafter - the "Deciding Appraisal"). Following the Deciding Appraisal and taking it into account, MATAM revalued the land it owns, and recorded NIS 88 million in revenues from the increase in the fair value of investment property in the fourth quarter of the year.

NOTE 29 – RELATED AND INTERESTED PARTIES**A. Subsidiaries**

As to subsidiaries, see Note 8 regarding investments in investees.

B. Benefits for key management personnel (including directors)

In addition to their salaries, the Group's senior executives are entitled to non-cash benefits (such as cars, medical insurance, etc.). The Group deposits monies for them in a defined benefit plan for post-employment benefits.

Benefits in respect of employment of key management personnel include

	For the year ended December 31		
	Amount	Amount	Amount
	NIS thousands	NIS thousands	NIS thousands
Short-term employee benefits	4,710	5,031	5,087
Post-employment benefits	391	384	344
Number of individuals to whom the benefit applies	1	1	1

Benefits for directors not employed by the Company:

	For the year ended December 31					
	2021		2020		2019	
	No. of people*	Amount NIS thousands	No. of people	Amount NIS thousands	No. of people	Amount NIS thousands
Total benefits for non-employee director	10	5,669	8	2,697	7	2,001

* As of December 31, 2021, the Company has 7 directors.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 29 – RELATED AND INTERESTED PARTIES(CONT.)

C. Transactions with interested party and other related parties

	For the year ended December 31		
	Amount	Amount	Amount
	NIS thousands	NIS thousands	NIS thousands
Income from lease of buildings and management fees	3,398	8,906	11,530
Income from management fees from equity-accounted investees	500	500	500
Property maintenance expenses (mainly insurance expenses)	-	-	6,215
General and administrative expenses	1,628	2,283	1,555
Issuance expenses for debentures	-	4,077	2,291
Finance income	-	422	1,667
Finance expenses	780	4,410	7,583

D. Transactions with interested and related parties

	As at December 31	
	2021	2020
	Balance in the statement of financial position	
	NIS thousands	
Assets		
Investments in investees	10,244	10,014
Liabilities		
Other payables	477	446

E. Transactions according to Section 270(4) of the Companies Law, 1999 (hereinafter - the "Companies Law")

For the purpose of this section, a "controlling shareholder" - as defined in Section 268 to the Companies Law.

- (1) **Dividend policy in a subsidiary** - In July 2020 the Board of subsidiary MATAM approved the adoption of a dividend distribution policy of NIS 80 million per annum, for 3 years, commencing from 2021.
- (2) **Officers' insurance** - On August 12, 2021 the Company's Board approved, pursuant to approval by the Compensation Committee, that the Company contract for an Officers' insurance policy, with Clal Insurance Company Ltd. for an insurance period of 12 months (until August 12, 2022). Under the terms of the policy, the liability limits are USD 50 million per claim and cumulative, and the Company's deductible is USD 50 thousand per claim, except for claims concerning securities laws and claims in the USA and Canada, where the deductibles will be higher. The Company has paid a premium for the annual policy of USD 300 thousand. On November 16 2021, the Company's Board of Directors approved the expansion of the said insurance policy to a liability limit of up to USD 75 million, in consideration for additional annual premium of USD 120 thousand (total annual premium of USD 420 thousand), after receiving approval to that effect from the Compensation Committee.

Notes to the Consolidated Financial Statements as at December 31, 2021

NOTE 29 – RELATED AND INTERESTED PARTIES(CONT.)

E. Transactions according to Section 270(4) of the Companies Law, 1999 (hereinafter - the “Companies Law”) (cont.

- (3) **Indemnification and exemption** - on May 31 2001 the Company’s general meeting approved exemption and indemnification in advance for the Company’s directors and officers, after receiving approval to that effect from the Company’s Audit Committee and Board of Directors.

Indemnification - on February 13 2012, the Company’s general meeting approved the provision of indemnity letters to directors currently serving in the Company and/or directors who may serve in the Company from time to time, and to Company officers, controlling shareholders of which may be considered as having a vested interest in providing them with such letters of indemnity, which currently serve in the Company and/or who may serve in the Company from time to time, in respect of their actions while serving the Company, and in respect of actions while serving - at the Company’s request - as officers in another company, whose shares are held (directly or indirectly) by the Company, or in which the Company holds any interests, pursuant to the Companies Law and other laws and the terms of indemnity (hereinafter - the “**New Indemnity Letter**”). The New Indemnity Letter was approved mainly due to changes in the Companies Law and other legislation pertaining to indemnification of company officers. In accordance with Section 2 of the New Indemnity Letter, the maximum indemnity amount (as defined in that section) is equivalent to 25% of the equity attributed to Company’s shareholders as per its latest financial statements published prior to actual payment of indemnity. However, as stated in that section, the total insurance benefits that the Company may receive from time to time, if any, under the officers’ professional liability insurance policy in respect of one or more of the events described in the addendum to the New Indemnity Letter, are not included in the maximum indemnity amount. Accordingly, where insurance benefits are paid to the Company under the officers’ professional liability insurance policy and transferred by the Company to an officer thereof, those amounts will not reduce the said maximum indemnity amount.

Exemption - subject to the provisions of the law, the Company has undertaken to exempt its directors and officers in advance from any liability towards the Company in respect of any damage it may suffer due to breach of duty of care towards the Company as a result of actions carried out in good faith in their capacity as directors and officers. On February 23 2012, the Company’s Audit Committee decided to limit the period of the exemption given to Company officers, where controlling shareholders thereof may be considered as having a vested interest in exempting them from liability. The Audit Committee decided to end on December 31 2021 the period during which events will be subject to exemption arrangements that were and will be in place from time to time under the existing decision on this matter, in relation to officers in the Company, controlling shareholders of which may be considered as having a vested interest in exempting them from liability, those currently serving and/or those who may serve from time to time.

- (4) **Officers’ compensation** - on July 7, 2019 the Extraordinary Meeting of shareholders approved an update and amendment to the Company’s Compensation Policy; update of compensation and application of a system of bonuses in the Policy to the Company’s serving CEO. As part of the revised Compensation Policy, the Special General Meeting approved the allocation of options and restricted share units to the Company’s CEO and six other officers in the Company (who are not directors). For additional details – see Note 14 to the Report. On February 28, 2021, an extraordinary general meeting of the Company’s shareholders approved an update of the Company’s Compensation Policy, whereby the Chairman of the Board will be entitled to compensation for this period, as detailed in sub-section (6) below.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 29 – RELATED AND INTERESTED PARTIES(CONT.)****E. Transactions according to Section 270(4) of the Companies Law, 1999 (hereinafter - the “Companies Law”) (cont.**

- (5) **Compensation of directors** - On March 18, 2019 the Company's Board approved, following approval by the Company's Compensation Committee, in accordance with the provisions of the Companies Law and with Regulations 1B(3) and 1A(2) of the Companies Regulations (Dispensations in Transactions with Controlling Shareholders), 2000 (hereinafter - the “Dispensations Regulations”), the grant of compensation to all the Company's directors serving and/or who will serve from time to time in the Company, including a serving director and/or who will serve from time to time who is a controlling shareholder of the Company, as shall be from time to time, and/or his relative (in the meaning of this term in the Companies Law the Companies Law) or that the controlling shareholder has a vested interest in the grant of this compensation. Directors' compensation that will be paid to each director for his service is annual compensation and attendance compensation is for attendance at meetings of the Company's Board and its committees, in the 'fixed amount' in its meaning in the Compensation Regulations in accordance with the classification of each director as an Expert Director or Director who is not an Expert and according to the classification of the Company, as shall be applicable in that period of time in accordance with the Compensation Regulations.
- (6) Compensation to the Chairman of the Board of Directors - on February 28 2021, an extraordinary meeting of Gav Yam's shareholders approved the Company's engagement with the Chairman of the Board of Directors in an employment agreement for a 65% full-time equivalent. The compensation term include a monthly salary (gross) of NIS 100,000; an annual bonus (target bonus) of up to 8 monthly salaries, subject to meeting the targets stipulated in the Company's amended Compensation Policy (the target bonus can amount to, for exceptional performance, 150%) and equity compensation equivalent to NIS 1.2 million, including options and restricted performance stock units, As detailed in Note 14 above, (PSUs) - all in accordance with the Company's approved Equity Compensation Program.

F. Other transactions that are not-negligible and not listed in Section 270(4) of the Companies Law -

- (1) In 2021, the Company and consolidated companies were engaged in 2 rental agreements where under the said companies rent out, in the ordinary course of business and at market terms, income-generating assets with a total area of approx. 3,000 thousand m², to tenants from the Discount Investment Ltd. Group (hereinafter - “DIC”), which is considered, for the purpose of this chapter, the Company's (indirect) controlling shareholder, or in which the Company's (indirect) controlling shareholders have a vested interest. The terms of the said rental agreements are expected to end in 2022-2034 (unless an option to extend the term is exercised). In 2021, a total of NIS 3 million was included in the financial statements in respect of the said rental agreements. The engagements in the said rental agreements were approved by the board of directors of the company that owns the rented property and/or by the company's CEO, shortly before the rental agreements were signed.
- (2) In December 2018, the Company's Audit Committee approved the Company's engagement, jointly with Amot Investments Ltd., in a lease agreement with DIC (hereinafter - the “Lessee”), in the ToHa project in Tel Aviv. The Lessee is leasing an area of 2,700 sq. m. in the project for a period of 15 years.
- (3) In September 2019, the Company's Audit Committee approved the Company contracting with DIC and other companies in the IDB/DIC Group in an agreement for the division of uses of the area DIC has leased in the ToHa Project, Tel Aviv (hereinafter - the “Leased Premises”), whereby an area in the Leased Premises was allocated to the Company for its exclusive use for a period of 15 years. Under the agreement, all the companies making use of the floor will share the leasing costs (rental fees, management fees, insurance etc) back to back with the costs applicable to DIC for the lease agreement. Accordingly, as from August 2019, the Company pays DIC a monthly total of NIS 50 thousand.

Notes to the Consolidated Financial Statements as at December 31, 2021**NOTE 29 – RELATED AND INTERESTED PARTIES(CONT.)****G. Negligible transactions**

During the ordinary course of business, the Company and its consolidated and associated companies carry out or are likely to carry out Transactions with Interested Parties, and they have or are likely to have obligations to carry out such transactions, including transactions of types and natures as detailed below: Transactions for buying, selling, leasing, renting out and managing real estate; transactions for the purchase of services such as: communications and mobile telephony, tourism, car rental, insurance, legal, management of the Company's investment portfolio, investment advice and other financial services; purchase of goods to meet the Company's needs; transactions related to marketing or advertising offers together with interested parties in the Company or related to products of interested parties in the Company; transactions for providing and receiving various management and advisory services.

In the absence of special qualitative considerations arising under the circumstances, an interested party transaction that is not an extraordinary transaction (as this term is defined in the Companies Law) shall be considered a negligible transaction for the above purposes if the relevant criteria calculated for the transaction is less than 0.5% as set out below and the transaction value does not exceed NIS 5 million (adjusted to reflect the periodic increase in the known CPI in respect of January 2014).

In any Transaction with an Interested Party that is classified as a negligible transaction, one or more of the applicable criteria will be considered on the basis of the Company's audited or reviewed consolidated financial statements:

- (A) Purchase of a property, plant & equipment ("non-current asset") - the transaction amount out of total assets in the statement of financial position included in the Company's latest consolidated financial statements;
- (B) Sale of a property, plant and equipment ("non-current asset") - the profit/loss from the transaction in relation to the average annual profit (i.e., for 4 quarters) for the last 12 quarters for which consolidated financial statements of the Company have been published. For that purpose, the profit/loss from the transaction and the profit/loss in each quarter will be included at their absolute values; and so will the amount of the transaction out of total assets in the statement of financial position included in the Company's latest consolidated financial statements;
- (C) Assuming a financial liability - the amount of the transaction out of total liabilities in the statement of financial position included in the Company's latest consolidated financial statements;
- (D) Purchase/sale of products (other than property, plant & equipment) or services, including renting out of income-generating properties - the transaction amount out of the total expenses/income from the purchases/sales of products or services or out of the total revenue from renting out income-generating properties, in the last 4 quarters for which consolidated financial statements of the Company were published.

In cases where, based on the Company's judgment, all of the above quantitative criteria are irrelevant, the transaction shall be considered a negligible transaction in accordance with another relevant criterion that will be set by the Company, so long as the relevant criterion calculated for the transaction shall be less than 0.5% and the transaction amount shall not exceed NIS 5 million (adjusted to reflect the periodic increase in the known CPI in respect of January 2014). Such an assessment may result in the classification of the transaction as a non-negligible transaction despite what is stated above. In respect of multi-year transactions, the size of the transaction shall be calculated for test of negligibility on an annual basis. Related party transactions that are interconnected, so that they are effectively part and parcel of the same transaction (for example, centralized negotiations for a group of transactions) shall be considered a single transaction.

- H. As to guarantees provided to an associate - see Note 8.
- I. All of the above-listed transactions were carried out at market terms.